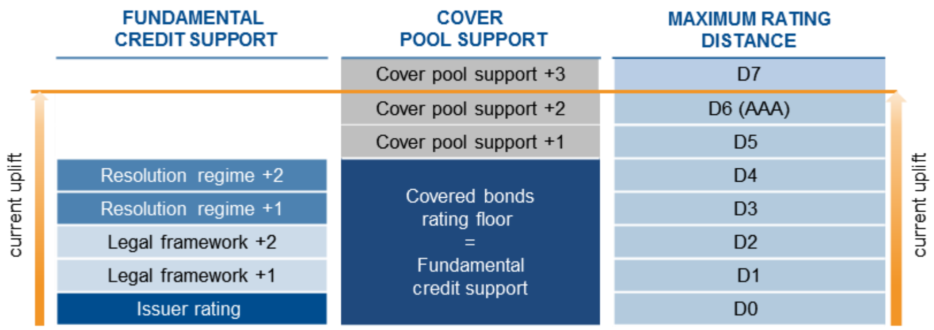
Bank Burgenland
Austrian Hypothekenpfandbriefe – Performance Update

Rating rationale (summary)

The AAA ratings with a Stable Outlook on the Austrian mortgage-covered bonds (Hypothekenpfandbriefe) issued by Hypo-Bank Burgenland AG (Bank Burgenland) are based on the bank's sound credit quality, enhanced by up to seven notches of cover pool support. The rating could remain stable upon a moderate deterioration of the issuer rating as only six notches are currently needed.

Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
30 September 2019	EUR 891m	Residential and commercial mortgage loans	EUR 339m	AAA/Stable

Bank Burgenland's covered bond ratings are supported by a strong cover pool. An overcollateralisation (OC) of 163.1%, on an eligible loan basis, as of 30 September 2019 shields the covered bonds from market and credit risks. Available OC is well above the minimum level of 22.0% that supports the two-notch cover pool-based uplift needed to achieve the highest ratings. The cover pool continues to be of good credit quality, reflecting the domestic, relatively granular mortgage cover assets. The programme's structural mismatch rate and interest risks remain the main risk drivers.



Stable Outlook

The Stable Outlook on the covered bonds reflects: i) the continuous availability of high OC which provides a one-notch buffer against a downgrade of the bank and against a rise in credit and market risks; ii) our view that European covered bond harmonisation will not negatively impact the fundamental support factors relevant for the issuer and Austrian mortgage-covered bonds in general; and iii) the Stable Outlook on the issuer's credit quality.

Changes since the last performance update

'AAA' supporting OC has decreased to 22.0% from 28.0%, mainly reflecting our improved view on the issuer's credit strength and thus its higher ability to shield the covered bonds from losses. Our improved credit view on the bank reflects its improved profitability built on its conservative and integrated business model. In 2018/19, Bank Burgenland continued to take advantage of the low interest rate environment by issuing relatively long fixed-rate covered bonds at very low costs. Available OC has decreased to 163.1%, which is still very high. The volume of outstanding covered bonds increased by almost 50%, while eligible cover assets only increased by around 10%. The cover pool composition and asset-liability mismatches have remained stable.

Ratings & Outlook

Issuer rating	N/D-
Outlook	N/D
Covered bond rating	**AAA**
Outlook	Stable
Rating action	Affirmation
Last rating action date	19.11.19

*N/D – Not disclosed; Scope has assigned a private, monitored issuer rating to the bank. The issuer has solicited the assigned rating and participated in the rating process.

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Related research

Covered Bond Framework Analysis Analytical Considerations: Austria
1 August 2016

Scope Ratings affirms at AAA/Stable the mortgage-covered bonds issued by Bank Burgenland
19 November 2019

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The issuer

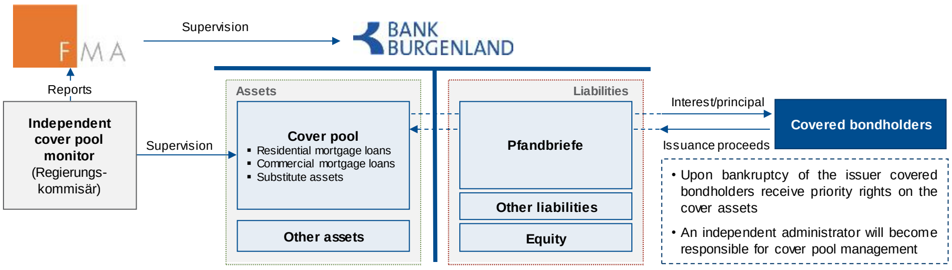
Bank Burgenland is fully owned by Grazer Wechselseitige Versicherung AG (Graz Mutual Insurance Company, GRAWE). It sits at the apex of the 'GRAWE banking group' and consolidates the group's other financial subsidiaries. The bank does not benefit from a formalised guarantee, but all group members are integrated into the GRAWE group's risk control strategy. In accordance with its overall strategy, the group's management is strongly focused on capital preservation and building up intrinsic strength via early provisioning. This focus is reflected in its own prudential metrics and also in the wider management of other group entities.

For a more detailed credit view on the bank see Appendix I.

Programme structure

Bank Burgenland issues covered bonds using an on-balance sheet structure. As a former Landeshypothekenbank, its issuances of mortgage-covered bonds are governed by the German Pfandbrief Act (the Pfandbriefgesetz), and supervised by Austria's Financial Market Authority (FMA).

Issuance structure



Source: Scope Ratings

Fundamental credit support analysis

The Austrian covered bond framework combined with our positive view on the resolution regime, provides the covered bonds with a fundamental analysis-based credit differentiation of four notches above our view on the issuer's credit strength.

Two notches of uplift based on legal framework analysis

Our analysis of the Pfandbriefgesetz confirms that the Austrian framework just meets the criteria to assign the maximum credit differentiation under our methodology. The provisions of the framework ensure that: the cover pool is segregated from the issuer's insolvency estate; bond payments continue after insolvency; and identified risks can be mitigated by OC, which generally remains available after insolvency. Austrian covered bonds also benefit from specific regulatory oversight. However, we recognise the framework's lack of clarity on liquidity or risk management for covered bonds. We believe ongoing industry efforts will improve and consolidate the three existing frameworks. These efforts should be reinforced by the upcoming European covered bond directive, which we expect will reduce complexity and improve credit protection for covered bond investors.

Two out of four notches of uplift based on resolution regime

Bank Burgenland's covered bonds benefit from an additional two-notch uplift, which reflects the exclusion of covered bonds from bail-in, our view on the resolvability and likely maintenance of Bank Burgenland in the hypothetical scenario of regulatory intervention in the bank, and the moderate importance of covered bonds in Austria. In our opinion, Bank Burgenland is not a systemically important covered bond issuer and Austrian covered bond stakeholders are not sufficiently supportive or cohesive to justify an additional uplift.

For more information on our legal framework and resolution regime analysis, see related research.

Programme characteristics

Cover pool balance (EUR m)	891
Residential cover assets	68.1%
Commercial cover assets	31.0%
Substitute collateral	0.9%
WA LTV	48.9%
WA seasoning (months)	59
WA RTM (months)	130

Amortisation type

Annuity	78.7%
Bullet	21.3%

Debtor information

Number of debtors	2,906
Inverse Herfindahl Index	166
Top 10 exposures	12.8%
SMEs	20.1%
Residential housing corp.	52.5%
Private individuals	27.4%

Property type information

Residential – private use	47.6%
Residential – commercial use	21.1%
Office	3.6%
Industry	2.9%
Agriculture	1.3%
Retail	1.0%
Other	22.4%

Cover pool analysis

Bank Burgenland's mortgage-covered bond ratings are cover pool supported, with six out of seven possible notches currently needed to achieve the highest rating. Fundamental credit support provides for a four-notch rating uplift and, effectively, a floor against a deterioration in cover pool credit quality.

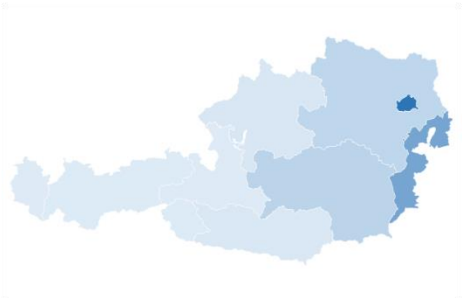
Since our last review in 2018, the minimum supporting OC needed to achieve the highest rating has decreased to 22.0% from 28.0%, mainly reflecting our improved view on the issuer's credit strength and thus its higher ability to shield the covered bonds from losses.

Cover pool composition

The cover pool comprises well-seasoned, domestic commercial and residential mortgage loans, located in the eastern part of Austria. The low weighted average loan-to-value (LTV) of 48.9% on an eligible-loan basis indicates high protection against credit losses in the event of borrower default. The Austrian Mortgage Bond Act does not stipulate an maximum LTV for cover pool assets. However, Bank Burgenland voluntarily limits its eligible LTV to 60%. Accordingly, if a mortgage loan with a higher LTV is granted, the whole loan becomes part of the cover pool and the LTV limit effectively establishes the issuance limit.

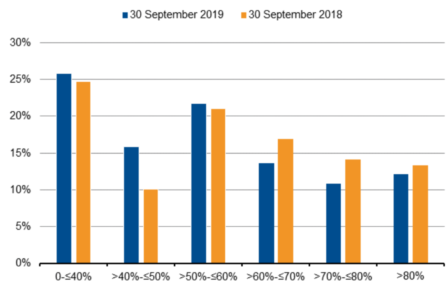
Commercial debtors are SMEs (20.1%) or larger housing corporations (52.5%). Non-recourse or special purpose vehicle structures are rare. By property type, 68.7% of the pool is secured by residential properties. Multifamily houses and flats account for most of the portfolio, at 24.5% each, and are largely located in Vienna. They are followed by single-family houses (16.8%).

Regional distribution



Source: Scope Ratings, Bank Burgenland

LTV distribution (whole-loan basis)



Source: Scope Ratings, Bank Burgenland

Asset risk analysis

The residential sub-pool is highly granular, allowing analysis with an inverse Gaussian distribution. We established a mean default rate of 12.5% and a coefficient of variation of 60%. The parameters for the default distribution were derived using the bank's loan-by-loan risk assessments and benchmarking.

For the commercial sub-pool, our projections of default in the cover pool used a non-parametric default distribution, which can be approximated with a mean default rate of 8.8% and a coefficient of variation of 74.9%. We used a correlation framework together with the bank's loan-by-loan risk assessments to incorporate the impact of geographical, industry and issuer concentrations.

We estimated weighted average recovery rates under a base-case scenario (D0) of 98.3% for the residential pool and 94.7% for the commercial pool. In the most stressful scenario (D7), we estimated 89.5% for the residential pool and 61.9% for the commercial pool. Our recovery rate calculations reflect rating-distance-dependent market value declines as well assumptions regarding the Austrian housing market and its unique characteristics. Stressed security value haircuts range between 40.0% and 70.0%, depending on the property's location.

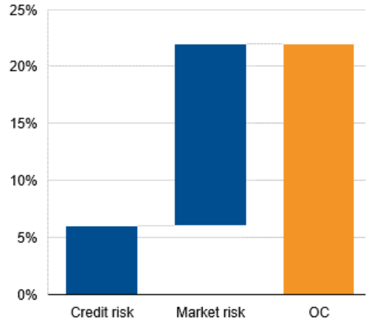
Cash flow risk analysis

The rating-supporting OC of 22.0% mainly reflects the programme's sensitivity to high prepayments in combination with a stressed lower-for-longer interest rate scenario. Combined, these factors result in significant costs of carry for the programme. Market risks account for 16 pp of the supporting OC of 22.0%.

As of Q3 2019, the weighted-average life (WAL) of the outstanding covered bonds is 9.6 years, when accounting for potential call rights which may be exercised by the issuer. In comparison, the WAL of the scheduled cover pool is 7.0 years. In a high prepayment scenario, the WAL of the assets further reduces to around three years, thereby further increasing the gap between the cover assets and the covered bonds. Typically for Austrian mortgage covered bonds, there is structural interest rate risk. 75% of the cover assets pay a variable rate, while all of the covered bonds pay fixed rates.

In total, credit risk accounts for 6 pp of the supporting OC. This is moderate, reflecting the mean default rate of 10.1%, a coefficient of variation of 68.0% and a stressed recovery rate of 73.7%. It also reflects the high prepayment scenario that drives the results, reducing the lifetime of the assets and thereby the allocation of defaults.

Supporting OC breakdown

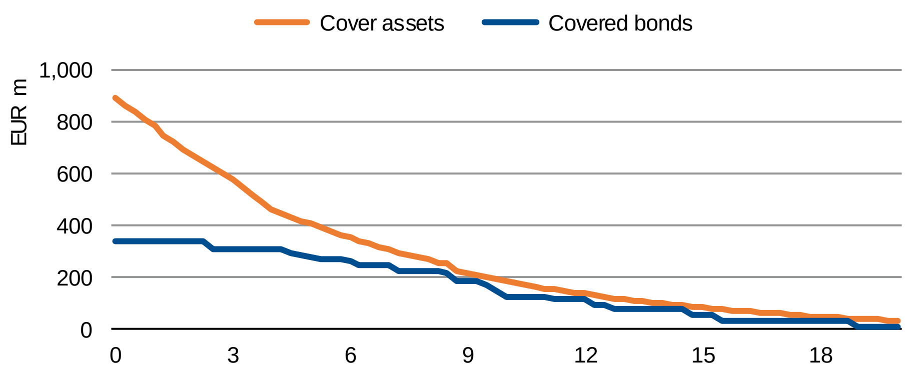


Source: Scope Ratings

Asset-liability-mismatches

	Assets	Liabilities
EUR	100.0%	100.0%
Fixed	24.6%	100.0%
loating	75.4%	0.0%
WAL (years)	7.0	9.6

Amortisation profile

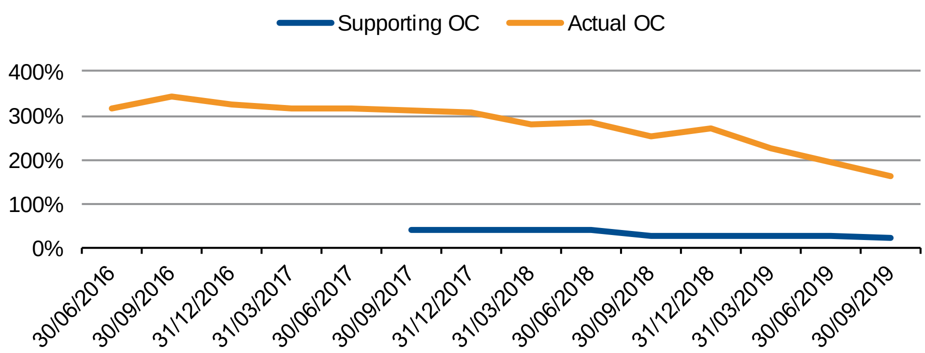


Source: Scope Ratings, Bank Burgenland

Availability of overcollateralisation

The credit strength of Bank Burgenland allows us to fully account for the provided OC of 163.1%. We are not aware of plans that would significantly change the risk profile or reduce available OC to levels that would no longer support the current rating uplift.

OC development



Source: Scope Ratings, Bank Burgenland

Other risk considerations

Main counterparty exposure relates to Bank Burgenland

The rated bonds are exposed to Bank Burgenland's roles as originator, servicer, account provider and paying agent. No documented replacement mechanisms would automatically shield the covered bonds from a credit deterioration of, for instance, the counterparties providing bank accounts. However, in such a scenario we believe the strong alignment of interests between the bank and the covered bond holders would prevent negative impacts before a regulator intervenes. As part of its risk management process, the bank regularly monitors its accounts to ensure that any remedial action required is taken at an early stage.

In addition, we expect any regulatory intervention in Bank Burgenland to involve the use of available resolution tools with the aim of maintaining the issuer. We do not expect the active management and servicing of the cover pool to be severely impacted in such a scenario.

Country risk does not affect the ratings

Sovereign risk does not limit the ratings of Bank Burgenland's mortgage-covered bonds. We believe the risks of an institutional framework meltdown, legal insecurity or currency-convertibility problems are slight.

No impact from ESG

We have not included ESG aspects in our assessment of the mortgage-covered bonds issued by Bank Burgenland. The issuer has not provided us with additional information, such as specific ESG underwriting guidelines that provide for positive adjustments to the terms and conditions of a loan if certain minimum ESG conditions are met. Furthermore, we were unable to identify any effects on the credit performance of cover pool assets produced by their degree of ESG compliance.

Sensitivity analysis

One-notch buffer against potential change in issuer rating

Bank Burgenland's mortgage-covered bond ratings benefit from a buffer against an issuer downgrade of up to one notch. The level of the rating-supporting OC is both a function of the programme's risk profile but also of the issuer rating. The lower the issuer rating, the higher the reliance on cover pool support becomes.

Assuming the issuer's willingness to support the highest ratings as well as a stable covered bond programme risk profile, a one-notch downgrade would increase the rating-supporting OC to 26.0%.

If the issuer rating were upgraded, the covered bond rating would not change, but the minimum rating-supporting OC would fall to 18.0%. This reflects the issuer's improved ability to shield the covered bonds from higher losses.

Constraint through rating-supporting OC unlikely

The current OC of 163.1% greatly exceeds the 22.0% level needed to support the AAA rating. We do not expect rating-supporting OC to constrain the rating in the short to medium term. This assumption reflects the issuer's stable underwriting criteria and the fact that the cover pool's credit quality does not materially differ from the additional, available eligible assets or the bank's loan book.

Appendix I: Hypo-Bank Burgenland AG – Issuer credit view

Highlights

✓ Bank Burgenland's credit strength reflects a well-established, profitable, regionally-focused banking franchise in the Austrian state of Burgenland and bordering areas in eastern Austria, with access to real estate markets in the greater Vienna area and Styria as well as a branch network in Western Hungary.

✓ Bank Burgenland has been an integral part of GRAWE, an Austrian multiline insurance company, since 2006. The bank is managed on an arm's length basis though the bank and its subsidiaries are also integrated into the GRAWE group's overall risk control process. Due to the mutual ownership structure management is strongly focused on internal capital generation and conservative reserve building that is also reflected in the banking subsidiaries.

✓ Bank Burgenland comprises several banks and financial service companies within Austria and Hungary. Although the group pursues a multi-brand strategy with the aim to have access to a wider diversified customer base, the entities are managed as part of an integrated business model, allowing various specialized financial services to complement each other as well as providing access points to funding. In this context, the bank entered a cooperation agreement with the Austrian Post in 2019, which invested in Bruell Kallmus with the view to expand its product offering together with Burgenland.

✓ Bank Burgenland displays adequate asset-quality and showed improved profitability over the past years. We do not expect that the addition of a small capital markets operation in Vienna will radically change the risk profile. Profits are mostly retained or up-streamed to the parent company where they are used to strengthen capital reserves.

Credit drivers (summary)

The credit strength drivers, in decreasing order of importance in the credit analysis, are:

- Regionally focused bank with an improving profitability build on a conservative and mutually defined business model.
- Conservative funding and liquidity profile, as well as prudent capitalisation.
- Adequate asset quality metrics.

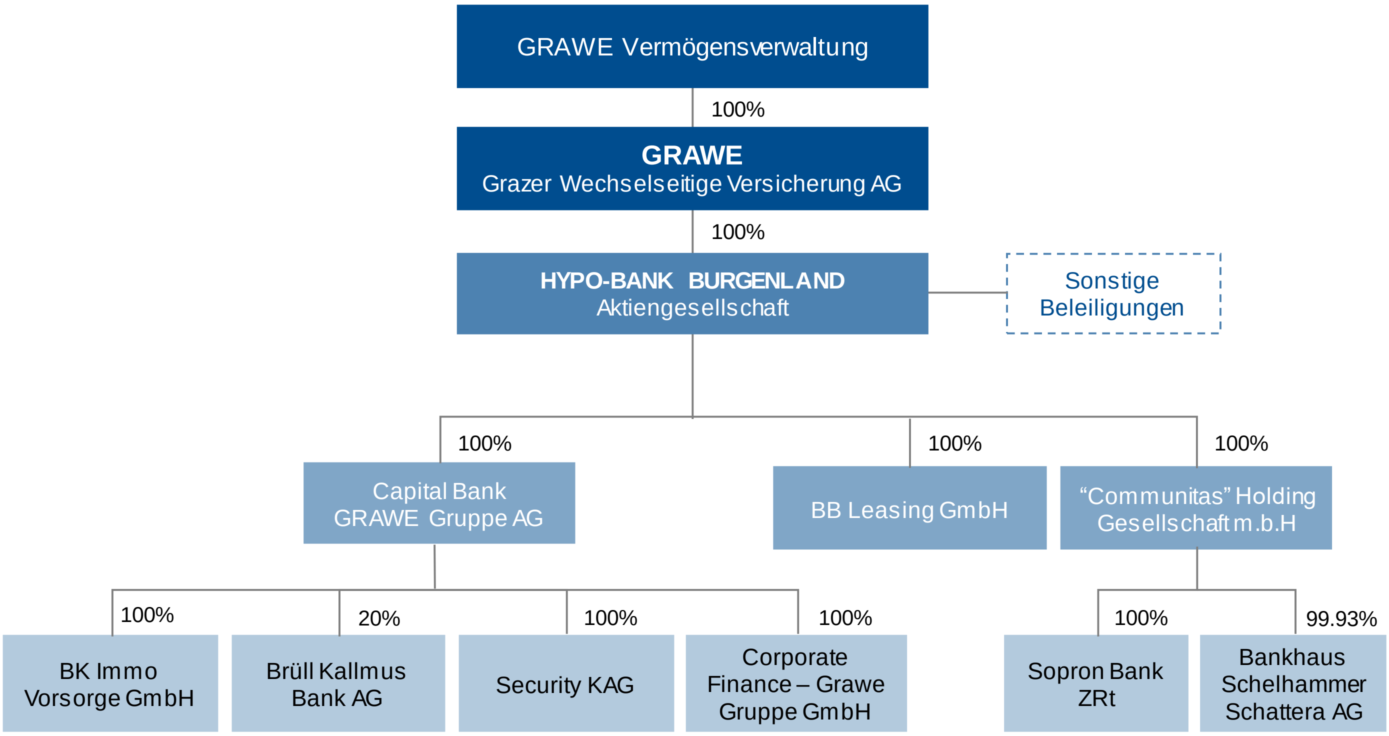
⇧	Significant increase in market share, profitability and revenue diversification could lead to further improvements of the issuers credit strength.
⇩	Any adverse risk exposure or risk-taking on the part of the bank, its majority shareholder or financial subsidiaries could put pressure on our view on the issuer's credit strength
⇩	Any decreased commitment by the current shareholder or capital depletion would lead to a negative adjustment of our view of Bank Burgenland's credit strength.
⇳	Any changes in the shareholder structure.

Credit drivers (details)

Bank Burgenland ownership and group structure overview

Bank Burgenland and its subsidiaries make up about half of the GRAWE insurance group's balance sheet, contributing 45% of 161mn profits from ordinary business in 2018. The shareholder cooperates closely with Bank Burgenland and its subsidiaries on various levels, e.g. about group-internal asset management agreements, commercial real estate business, as well as the utilization of the bank network as an alternative distribution platform for insurance products. Given this, combined with the insurance company's strong financial position, we assume that the group has the willingness and ability to financially support its subsidiaries.

Figure 1: Bank Burgenland ownership and group structure overview



Source: Company info

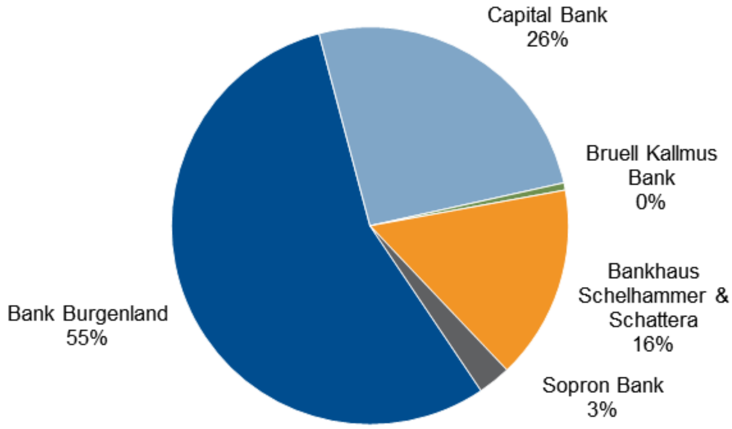
Bank Burgenland's stand-alone business profile has been substantially re-shaped over the past decade, since the takeover of the bank by Grawe. Bank Burgenland, as a banking institution itself, is focusing on the retail and small business segment, as well as continuing to benefit from its status as the 'house bank' for the regional state of Burgenland.

Within the Grawe banking group, Bank Burgenland provides also the expertise for real estate business, including commercial real estate lending. Other members of the Grawe banking group mainly provide complementary services that focus on asset management and private banking Capital Bank and Schelhammer & Schattera, the private banking institutions within the group, count as part of the largest, private banks in Austria. Fund manager Security KAG has shown a strong growth in fund volumes over the past years. Within the Grawe group, the banking arm has around EUR 14.7bn assets under management, with the majority being overseen by Capital Bank and its subsidiary Security KAG.

A new co-operation with the Austrian Post, which will invest in Bank Burgenland's subsidiary Brüll Kallmus will add further momentum to Bank Burgenland's Austrian franchise and allows the group to better utilize its cost base. The Post network allows access to about 200,000 customers who regularly visit the post office. The Austrian Post takes over 80% of the banking subsidiary as part of the deal and fund most of the expansion, while Bank Burgenland provides product expertise and part of the staffing.

The addition of a small capital markets business in Vienna focused on Austrian mid-caps adds further revenue diversification. Based on current business plans Scope does not expect this to materially change the risk profile of the group.

Figure 2: Bank Burgenland Pre-tax profit, 2018



Source: SNL, company info

The year 2018 was strongly marked by the ongoing digitization of core banking processes. In addition to the going live of DADAT as the online sales channel of Bankhaus Schelhammer & Schattera in 2017, other banks in the GRAWE banking group decided to change their data center service provider and thus also their core banking system as part of a migration project, which means one of the largest projects for the entire banking group by 2019. In June 2019, the bank migrated to their new technology platform which they hope will bring about more cost-cutting in the future.

Stable profitability supports credit profile

Bank Burgenland's stand-alone financials have been improving due to certain intrinsic factors such as a restructured, more integrated business profile with its subsidiaries, as well as an aligned, conservative risk control strategy within the larger Grawe group. Bank Burgenland benefits from strong contributions to profit from its subsidiaries, particularly from Capital Bank. Cost income ratio of Bank Burgenland was 55% in 2018, which was better than domestic peers.

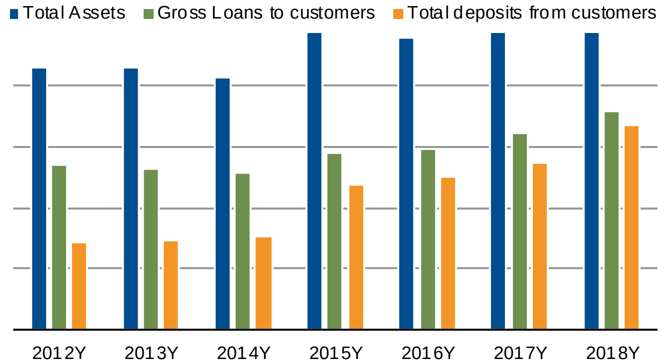
Figure 3: Bank Burgenland subsidiaries: selected key ratios (unconsolidated), 2018

as of 2018Y	Total assets	RWAs	Core capital	Operating income	Pre-tax profit	Employees (FTE)
HYPO-BANK Burgenland AG	4,030,474	2,308,384	22.40%	75,889	37,507	325
Capital Bank GRAWE Gruppe AG	964,741	608,139	25.67%	42,803	17,394	168
Brüll Kallmus Bank AG	19,181	16,116	78.82%	3,879	385	9
Bankhaus Schelhammer & Schattera AG	967,353	564,250	18.79%	24,516	10,711	94
Sopron Bank ZRt	230,098	161,049	15,90%	11,009	1,497	159

Source: SNL, company info

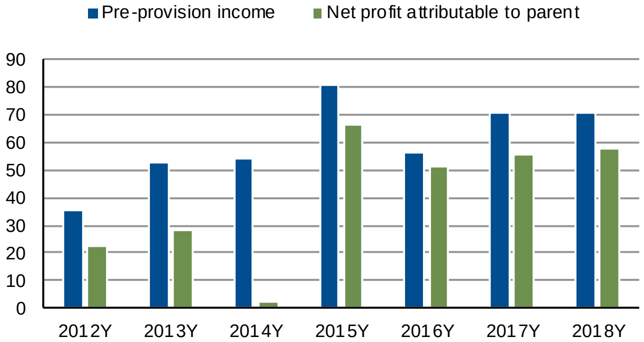
Bank Burgenland's improved profitability over the past years has resulted in higher dividends that are up-streamed to the parent, though most of the profit continues to be retained at the bank level.

Figure 4: Bank Burgenland balance sheet



Source: SNL, company info

Figure5: Bank Burgenland profitability



Source: SNL, company info

Conservative funding and liquidity profile, as well as prudent capitalisation

The prudent metrics of Bank Burgenland have demonstrated strong stability over the past years, with owner Grawe supporting intrinsic capital build up and conservation at the banking level. The total capital ratio of the Burgenland banking group was 17.5% and the stand-alone ratio for the parent company was 22.8% at end-2018.

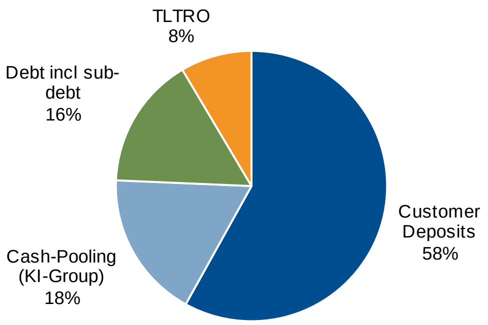
Risk-weighted asset levels have remained stable over the past years and growth in capital is based on retained profits. All financial entities within the group have prudent capitalisation levels.

Although Bank Burgenland does not benefit from an explicit guarantee from its owner, our view is that the integration of the bank within the group, as the leading institution for its financial arm, as well as the strategy of intrinsic capital build up, reflect a strong strategic commitment on the part of Grawe.

Going forward, Bank Burgenland will be the single point of entry for resolution of the various Austrian subsidiaries. Sopron Bank in Hungary will form its own resolution entity and mostly self-funded except for a small line from the parent. Bank Burgenland will have to raise the required MREL debt for the group.

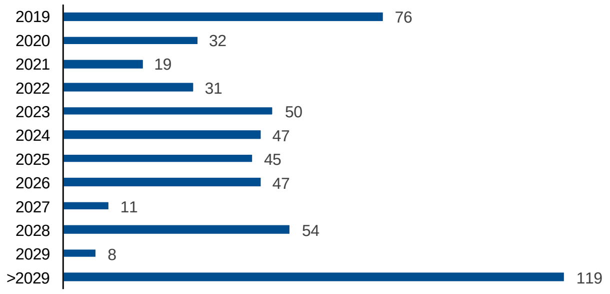
After the discontinuation of state guarantees for Landes-Hypothekenbank shifted its funding profile in line with upcoming maturities. Increased primary funds enabled the bank to decrease market funding substantially. However, we believe that a changed market environment and regulatory requirements will move the bank's focus again, this time towards more regular access to capital markets via Pfandbrief (covered bond) issuance, as well as senior unsecured funding. The LCR of the parent company Bank Burgenland was 170% at end-2018 but has since declined in view of the high cost of excess liquidity. The NSFR is around 110% for both the group and parent company.

Figure 6: Bank Burgenland funding profile



Source: SNL, company info

Figure 7: Bank Burgenland maturities of issues incl subordinated capital



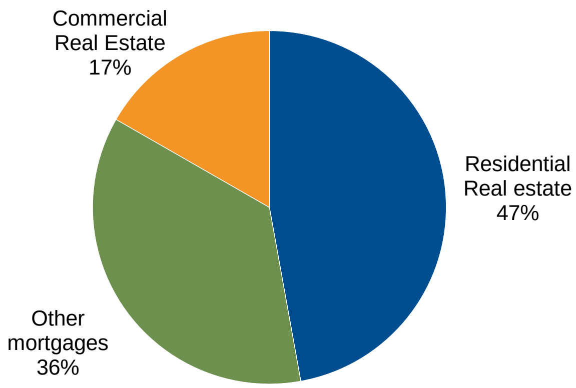
Source: SNL, company info

Adequate asset quality metrics

Bank Burgenland's credit strength also reflects the concentration risk in mortgage lending within a regional market, as well as the bank's limited growth potential without larger risk-taking.

The bank has shown a decent track record of adequate asset quality. Looking at the loans secured by mortgages, almost 47% of the loan book comes from residential real estate mortgages, 17% from commercial real estate mortgages and the remaining a diversified source of other mortgages.

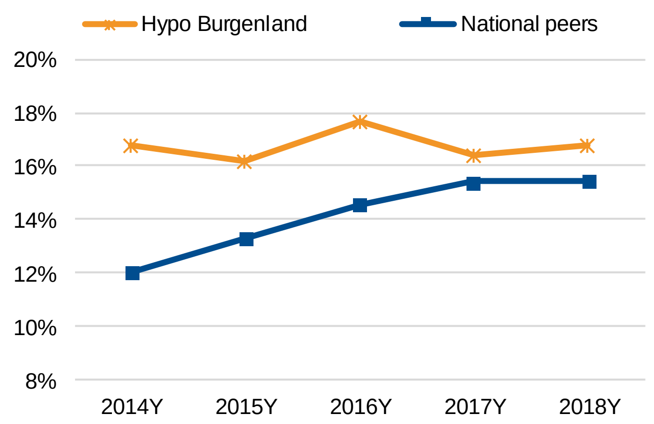
Figure 8: Bank Burgenland mortgage loan book split



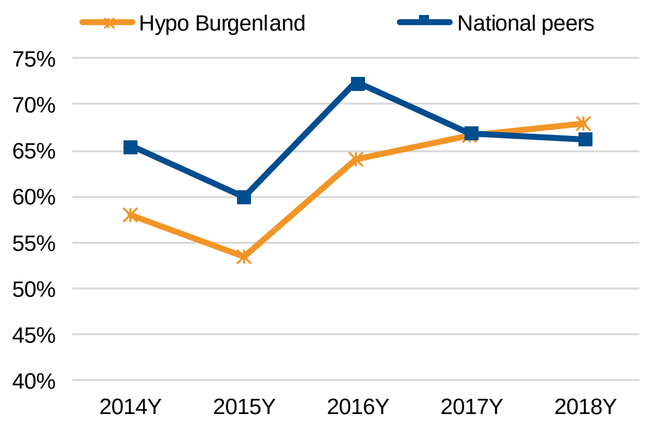
Source: SNL, company info

Peer comparison

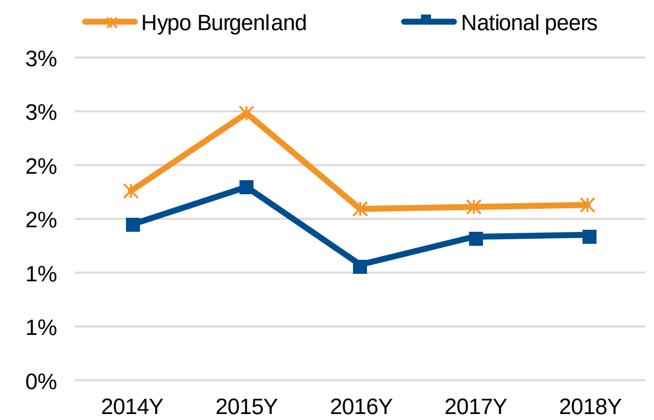
CET1 Ratio (%, transitional)



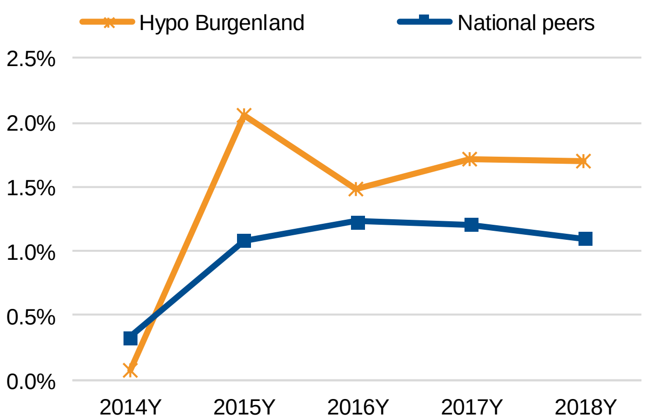
Cost to income (%)



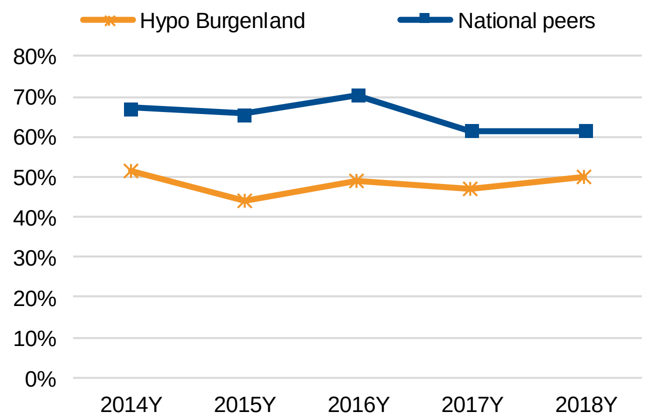
Pre-Provision Income/RWA (%)



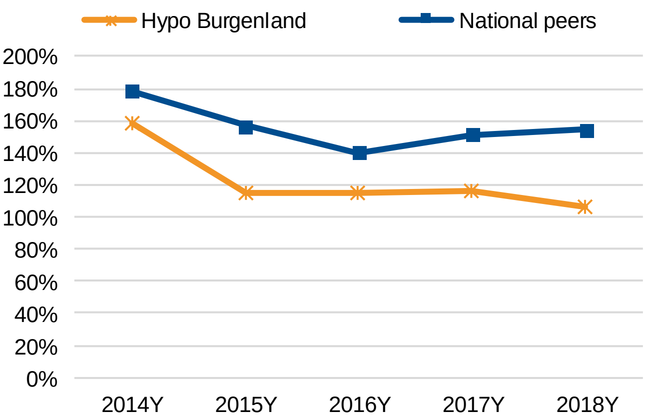
RoRWA (%)



NII % operating income



Loan-to-deposits Ratio (%)



*National peers: Salzburger Landes-Hypothekenbank, Hypo NOE, Hypo OÖ, Hypo Steiermark, Hypo Tirol, Hypo Vorarlberg, Anadi Bank, Hypo Bank Burgenland
Source: SNL
*Consolidated numbers taken for Hypo Bank Burgenland

Selected Financial Information – Hypo-Bank Burgenland AG (Consolidated)

	2014Y	2015Y	2016Y	2017Y	2018Y
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	396	578	235	382	756
Total securities	1,225	1,492	1,527	928	803
of which, derivatives	99	80	63	NA	NA
Net loans to customers	2,461	2,768	2,903	3,196	3,597
Other assets	78	126	129	296	266
Total assets	**4,160**	**4,965**	**4,794**	**4,803**	**5,422**
Liabilities					
Interbank liabilities	219	368	352	452	479
Senior debt	1,487	1,165	891	775	732
Derivatives	35	33	36	NA	NA
Deposits from customers	1,547	2,396	2,520	2,744	3,367
Subordinated debt	72	74	72	16	12
Other liabilities	238	264	219	NA	NA
Total liabilities	**3,599**	**4,300**	**4,090**	**4,188**	**4,776**
Ordinary equity	561	636	703	600	646
Equity hybrids	0	0	0	0	0
Minority interests	0	29	1	14	0
Total liabilities and equity	**4,160**	**4,965**	**4,794**	**4,803**	**5,422**
Core tier 1/ common equity tier 1 capital	514	553	637	548	586
Income statement summary (EUR m)					
Net interest income	66	76	76	79	87
Net fee & commission income	54	60	67	72	72
Net trading income	3	29	2	3	2
Other income	5	8	11	15	12
Operating income	**129**	**173**	**156**	**169**	**173**
Operating expenses	75	92	100	113	118
Pre-provision income	**54**	**81**	**56**	**56**	**56**
Credit and other financial impairments	47	34	-30	-12	-17
Other impairments	0	0	0	0	0
Non-recurring items	NA	NA	NA	NA	NA
Pre-tax profit	**7**	**77**	**87**	**70**	**73**
Discontinued operations	0	0	0	0	0
Other after-tax Items	0	0	0	0	0
Income tax expense	5	10	35	10	15
Net profit attributable to minority interests	0	0	1	1	0
Net profit attributable to parent	**2**	**67**	**51**	**59**	**58**

Source: SNL, Scope Ratings

Selected Financial Information – Bank Burgenland (Consolidated)

	2014Y	2015Y	2016Y	2017Y	2018Y
Funding and liquidity					
Net loans/ deposits (%)	158.0%	114.7%	114.5%	116.5%	106.8%
Liquidity coverage ratio (%)	NA	NA	NA	NA	149.9%
Net stable funding ratio (%)	NA	NA	NA	NA	NA
Asset mix, quality and growth					
Net loans/ assets (%)	59.2%	55.7%	60.6%	66.5%	66.3%
Problem loans/ gross customer loans (%)	13.8%	12.0%	5.2%	NA	NA
Loan loss reserves/ problem loans (%)	36.5%	36.9%	50.7%	NA	NA
Net loan growth (%)	-1.6%	12.4%	4.9%	10.1%	12.5%
Problem loans/ tangible equity & reserves (%)	51.6%	43.6%	19.7%	NA	NA
Asset growth (%)	-3.2%	19.3%	-3.4%	0.2%	12.9%
Earnings and profitability					
Net interest margin (%)	1.6%	1.7%	1.6%	1.7%	1.8%
Net interest income/ average RWAs (%)	2.2%	2.3%	2.2%	2.3%	2.5%
Net interest income/ operating income (%)	51.6%	43.9%	48.8%	46.8%	50.2%
Net fees & commissions/ operating income (%)	42.0%	34.6%	43.0%	42.5%	41.3%
Cost/ income ratio (%)	58.0%	53.3%	64.0%	66.7%	67.9%
Operating expenses/ average RWAs (%)	2.4%	2.8%	2.8%	3.2%	3.4%
Pre-impairment operating profit/ average RWAs (%)	1.8%	2.5%	1.6%	1.6%	1.6%
Impairment on financial assets / pre-impairment income (%)	86.6%	42.8%	-54.1%	-21.8%	-30.6%
Loan loss provision/ average gross loans (%)	1.8%	1.1%	-1.1%	NA	NA
Pre-tax profit/ average RWAs (%)	0.2%	2.4%	2.5%	2.0%	2.1%
Return on average assets (%)	0.0%	1.5%	1.1%	1.2%	1.1%
Return on average RWAs (%)	0.1%	2.1%	1.5%	1.7%	1.7%
Return on average equity (%)	0.4%	10.9%	7.6%	9.1%	9.2%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (%, transitional)	16.8%	16.2%	17.6%	16.4%	16.8%
Tier 1 capital ratio (%, transitional)	16.8%	16.2%	17.6%	16.4%	16.8%
Total capital ratio (%, transitional)	17.9%	17.0%	18.1%	17.1%	17.5%
Leverage ratio (%)	NA	NA	NA	NA	9.4%
Asset risk intensity (RWAs/ total assets, %)	73.6%	68.8%	75.3%	69.7%	64.3%
Market indicators					
Price/ book (x)	NA	NA	NA	NA	NA
Price/ tangible book (x)	NA	NA	NA	NA	NA
Dividend payout ratio (%)	NA	NA	NA	NA	NA

Source: SNL, Scope Ratings

Appendix II: Summary of covered bond characteristics

Reporting date	01 August 2017	30 September 2018	30 September 2019
Issuer name	Bank Burgenland		
Country	Austria		
Covered bond name	Hypothekenpfandbrief (Hypf) Austrian mortgage-covered bonds issued under the PfandG		
Covered bond legal framework	Austrian legal covered bond framework		
Cover pool type	Residential and commercial mortgages		
Composition	N/D	Residential = 65.4% Commercial = 34.0% Substitute assets = 0.6%	Residential = 68.1% Commercial = 31.0% Substitute assets = 0.9%
Issuer rating	N/D	N/D	N/D
Current covered bond rating	AA+/Stable	AAA/Stable	AAA/Stable
Covered bond maturity type	Hard bullet	Hard bullet	Hard bullet
Cover pool currency	EUR (91.8%) CHF (8.3%)	EUR (100%)	EUR (100%)
Covered bond currency	EUR (100%)	EUR (100%)	EUR (100%)
Fundamental cover pool support (notches)	4	4	4
Max. achievable covered bond uplift (notches)	7	7	7
Potential covered bond rating buffer	0	0	1
Cover pool/ eligible assets [EUR m]	910.4 / 761.4	952.4 / 828.9	1,007.6 / 891.0
Covered bonds (EUR m)	186.0	234.2	338.7
Substitute assets (EUR m)	-	5.2	7.6
Current OC / legal minimum OC	389.5% / 2.0%	253.9% / 2.0%	163.1% / 2.0%
OC to support current uplift	40.0%	28.0%	22.0%
OC to support current rating upon a one-notch downgrade	N/A	N/A	26.0%
Number of exposures	4,166	3,855	3,846
Average loan size (000)	182.8	215.0	231.7
Top-10 exposures	15.1%	16.7%	12.8%
WA LTV	47.4%	49.4%	48.9%
WA maturity of assets (in years)	5.9	6.1	7.0
WA maturity of liabilities (in years) *	11.0	9.1	9.6
WA maturity gap (in years)	5.1	3.0	2.6
Interest rate type – assets (fixed / floating)	12.6% / 87.4%	23.9% / 76.1%	24.6% / 75.4%
Interest rate type – liabilities (fixed / floating)	86.6% / 13.4%	97.9% / 2.1%	100.0% / 0.0%
Geographic split (top 3)	Vienna (38.9%) Burgenland (35.7%) Lower Austria (12.1%)	Vienna (44.7%) Burgenland (31.1%) Styria (10.0%)	Vienna (49.7%) Burgenland (29.3%) Styria (9.6%)
Default measure (residential/commercial)	Inverse Gaussian	Non-Parametric	Inverse Gaussian/Non-Parametric
Mean default rate	19.4%	11.3%	10.1%
Coefficient of variation	52.6%	73.2%	68.0%
Recovery rate (D0/D7)	89.5% / 68.3%	97.1% / 77.8%	95.9% / 73.7%
Liquidity premium (residential/commercial)	150bps / 300bps	150bps / 300bps	200bps / 400bps
Servicing fee (residential/commercial)	25bps / 50bps	25bps / 50bps	25bps / 50bps
Interest rate stresses (max./min.; currency-dependent)	-1 to 10%	-1 to 10%	-1 to 10%
Forex stresses (max./min.; currency-dependent)	-75% / +10%	N/A	N/A

*Assuming first call option is exercised

**D0 or D7 denote the stresses commensurate with the rating distance between the issuer rating and the covered bond rating.

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