SCOPE | Ratings

HYPO - Bank Burgenland AG

Austrian Hypothekenpfandbriefe – Performance Update

Covered bond rating
AAA

Outlook
Stable

Rating action
Affirmation

Last rating action
21 Nov 2024

Issuer rating
A-

Outlook
Stable

Last rating action
9 Jan 2024

The AAA rating with a Stable Outlook assigned to the mortgage covered bonds (Hypothekenpfandbriefe) issued by HYPO-Bank Burgenland AG (Bank Burgenland) are based on the bank's issuer rating (A-/Stable), enhanced by governance support and cover pool support based uplift. Governance support factors, in total, provide a rating uplift of up to five notches and, effectively, a floor against a deterioration in cover pool credit quality. This reflects our assessment of the strong governance support provided by the legal covered bond and resolution framework in Austria.

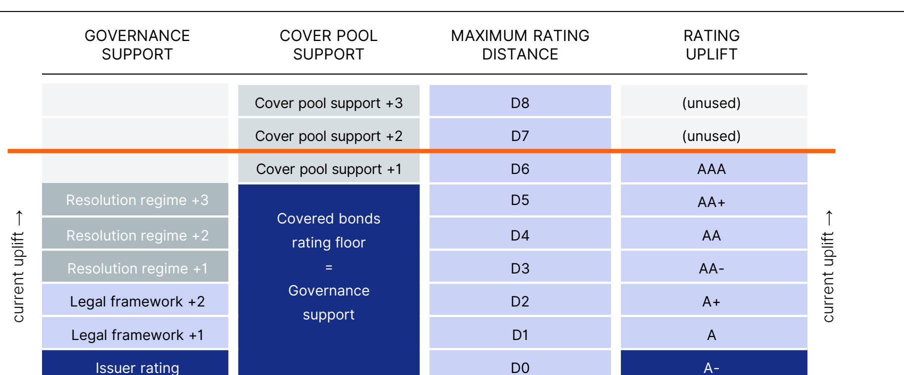
The covered bond programme

Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
30 Sept. 2024	EUR 1,652mn	Mortgage	EUR 878mn	AAA/Stable

Cover pool support is the primary rating driver. Together with the programme's governance support, it provides six notches of uplift above the issuer rating. We classified the interplay between complexity and transparency with a cover pool complexity (CPC) category of 'low', allowing the maximum additional uplift from cover pool support of three notches on top of the governance support uplift. The programme benefits from a two-notch buffer against an issuer downgrade. The covered bonds are covered by a portfolio of mortgage loans to private residential and commercial borrowers. Commercial loans include housing corporations but also exposures to borrowers from other industries such as hospitality, services, retail or manufacturing. Together, the portfolio consists of 6,930 loans with a top 10 comprising 18.8%. The portfolio benefits from a moderate averaged indexed eligible loan to value of 49.9% and a seasoning of 5.4 years.

The covered bonds are exposed to market risks. Interest rate mismatches are driven by the 87.6% fixed rate mortgage bonds which compare to 43.6% of fixed rate loans. In addition, maturity mismatches arise from the bonds' remaining life of 9.5 years which compares to 7.1 years of the assets. The bonds do not benefit from maturity extensions. However, maturity mismatches can be managed from call rights that reduce the bonds' remaining life to around 5 years - if executed. The EUR2.5m of substitute assets do comply with the legal requirement to manage short term liquidity requirements but do not substantially mitigate maturity mismatches. No exchange risk exists as both, assets and covered bonds are denominated in EUR.

Figure 1: Covered bond rating building blocks



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Related research

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Stable Outlook

Scope's Stable Outlook on the mortgage covered bonds reflects the stable Outlook on the issuer, governance support factors and the cover pool. Governance and cover pools support allow for a cushion against a downgrade of up to two notches. The rating may be downgraded upon (individually or collectively): i) an issuer rating downgrade by more than two notches; ii) a deterioration in Scope's view on governance support factors relevant to the issuer and Austrian covered bonds in general and on the interplay between complexity and transparency, and/or iii) the inability of the cover pool to provide an additional uplift in case the issuer rating is downgraded.

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Changes since the last performance update

Bank Burgenland's retail business has been expanded by the acquisition of parts of the Austrian Anadi Bank (Anadi Bank) which has increased the Bank's footprint to Carinthia. This also led to an increase in cover assets by 22.6%. As a result of the merger also five mortgage covered bonds totalling EUR 44.7m have been assumed by Bank Burgenland also contributing to the increase of outstanding covered bonds. Credit risk improved and reflects a lower regional concentration to Vienna (down to 47% from 55% one year ago) and increased granularity (number of borrowers up by 44% to 6,930). The reduced remaining term of the bonds (down to 9.5 years from 10.5 years earlier) together with a lower interest rate mismatch between bonds and assets also reduced the programme's mismatch risk. Market risk remains the prevailing risk factor exposing the covered bonds to decreasing interest rates. The majority of assets are floating which compares to mainly fixed rate covered bonds. Available overcollateralization has increased and does fully mitigate all identified market and credit risks.

Rating drivers and mitigants

Positive rating drivers	Negative rating drivers and mitigants
• Strong legal covered bond framework • Strong resolution regime and adequate systemic importance • Strong credit quality of the domestic cover pool with market risks fully mitigated by available overcollateralisation	• Systemic importance of Bank Burgenland as a covered bond issuer is limited making a going concern less likely in case of a regulatory intervention

Upside rating-change drivers	Downside rating-change drivers
• The ratings are on the highest level achievable • Additional issuer downgrade cushion could arise from a higher governance support assessment (systemic importance) or a rating upgrade of the issuer	• The rating may be downgraded upon an issuer downgrade by more than two notches • The rating may also be downgraded upon a deterioration of our assessment related to the programme's governance support factors and the interplay between complexity and transparency by together more than two notches. • The rating may also be subject to a downgrade if the cover pool is unable to provide an additional uplift in case the issuer rating is downgraded, or our governance analysis deteriorates.

The issuer

Bank Burgenland's issuer rating of A-/Stable reflects its well-established, profitable, regionally focused business model in the Austrian state of Burgenland, Vienna, Carinthia and Styria, complemented by its good access to real estate markets in its home markets and in the rest of Austria. The issuer rating also reflects the reliable profit contributions that Bank Burgenland's institutional banking divisions have achieved through asset management and custodial services.

Together, Bank Burgenland, its banking subsidiary Schelhammer Capital and its other bank-related service companies form the GRAWE Banking Group, an integral part of GRAWE Group, an Austrian multi-line insurance group. Bank Burgenland and its subsidiaries are integrated in GRAWE Group's risk control processes. The bank is managed according to the arm's length principle. Due to the group's mutual ownership structure, management is strongly focused on internal capital generation and conservative reserve building, which is also reflected in its banking subsidiaries.

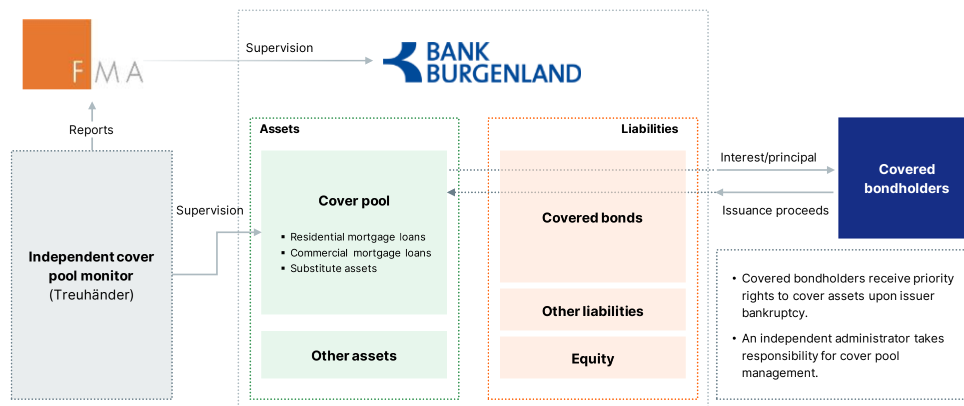
Further details on our credit assessment of Bank Burgenland are available at scoperatings.com.

Programme structure

On balance sheet structure

Bank Burgenland issues covered bonds using an on-balance sheet structure. Its issuances are governed by the new Austrian Covered Bond Act (PfandBG) and supervised by Austria's Financial Market Authority (FMA). Covered bond issuance is limited to financial institutions with a special licence to issue covered bonds. This includes universal banks, specialised mortgage banks and building societies. In principle, the issuer does not need to be the originator, as issuers can pool cover assets originated by other banks, for example through a true-sale of assets but also commonly through fiduciary arrangements (Treuhandschaft).

Figure 2: Issuance structure



Source: Scope Ratings

Governance credit support analysis

Together five notches from legal framework and resolution regime

Governance credit support is a rating driver for Bank Burgenland's mortgage covered bonds. It provides an uplift of five notches. This uplift is based on our credit-positive view on i) the legal framework for mortgage covered bonds in Austria; ii) the Austrian's resolution regime; and iii) the systemic relevance of covered bonds in Austria, including those of Bank Burgenland.

Legal framework and structural support analysis

The Austrian's covered bond framework is very strong, meeting our criteria for protecting investors and resulting in the highest credit differentiation of two notches.

Two notches reflecting strong legal framework in Austria

The relevant legal framework is based on the Covered Bond Act (Pfandbriefgesetz or PfandBG). The legislation has been approved and will come into force on 8 July 2022, transposing the European Covered Bond Directive into local law. The new covered bond framework consolidates the three slightly different sets of earlier existing legislations and brings it fully into line with best practice as seen in other covered bond frameworks across Europe.

Segregation of cover pool upon insolvency

The Austrian framework expects an 'on-balance sheet' cover pool, where cover assets are ringfenced by registration in the cover register. Setting off against the cover pool is not allowed. When the issuer becomes insolvent, the cover pool receives the status of a special estate (Sondermasse), which segregates it from the remaining insolvency estate. The insolvency of the issuer will generally not impact the structure, terms and conditions of loans granted or the covered bonds issued. Covered bonds will not accelerate upon the insolvency or resolution of the issuer.

If proceeds from the sale of cover pool assets are insufficient to repay the covered bonds, investors have also recourse to the general insolvency estate of the issuer.

Ability to continue payments after issuer insolvency

Following insolvency, Austria's financial market supervisor (Finanzmarktaufsicht, or FMA) appoints a special administrator (besonderer Verwalter), which is tasked with ensuring the full and timely payment of covered bonds and managing the cover pool. The framework highlights that resolution or insolvency of the issuer will not affect the ability to make the promised payments on covered bonds or derivatives in the cover pool. The special administrator has the right to collect payments, sell cover assets and enter into bridge financings.

The ability to continue payments after the issuer's insolvency does further benefit from ongoing general and specific risk management principles strengthening Austrian covered bonds.

Asset eligibility and risk management principles

Residential mortgage loans are eligible up to 80% of the properties' mortgage lending value (following CRR 229); commercial mortgage loans are eligible up to 60% of the properties' mortgage lending value. At the same time the full loan amount is registered in the cover pool. Assets need to be located within the EEA, Switzerland and the United Kingdom. Underlying properties must be adequately insured against physical damage and the insurance must be part of the cover pool. Building plots and buildings under construction are eligible for up to 10% of the cover pool. Substitute and liquid assets (max. 15% of the covered bonds outstanding) can comprise exposures to eligible public-sector issuers, financial institutions, deposits and cash.

Issuers must establish prudent processes and risk management systems to identify, assess and control risks including interest-rate and foreign-exchange risks. Liquidity risk is addressed by a mandatory 180-day coverage of net liquidity needs and in case the bank has issued soft bullet covered bonds, the special administrator can activate a maturity extension by up to 12 months without altering the time structure of existing covered bonds. Bank Burgenland has not opted for soft bullet structures.

Programme enhancements remain available

Austrian covered bonds must provide a mandatory minimum nominal overcollateralisation (OC) of 2% in addition to expected wind-down costs. Upon issuer insolvency, excessive and not explicitly committed OC above the legal minimum could be depleted and used by the issuer. However, it will generally be challenging to prove what amounts could be deemed excessive. In addition, every removal of cover assets from the cover register and every new issue must be approved by the trustee. Derivatives in the cover pool will not terminate upon the issuer's insolvency and will remain available to service the covered bond programme.

Covered bond oversight

The FMA must approve covered bond issuance programmes. After the approval is granted by the FMA in co-operation with the Austrian National Bank (OeNB), regulators and supervisors must perform special oversight over the programme. The FMA has the right to order special audits on the cover pool and can also order the issuer to carry out corrective measures. A trustee has to ensure that cover assets comply with regulations, sign off (de)- registration of cover assets, hedging agreements and the issuance of new covered bonds. The trustee must notify the FMA in case of a breach.

Resolution regime and systemic importance analysis

Three notches reflecting strong resolution regime but moderate systemic importance.

Bank Burgenland's mortgage covered bonds benefit from an additional three-notch uplift that reflects i) the covered bonds' exemption from bail-in; ii) the high likelihood that the covered bonds remain with a resolved and restructured issuer and that the programme remains actively managed as going concern funding instrument; iii) the systemic relevance of mortgage covered bonds in Austria but only a moderate systemic relevance of Bank Burgenland as a covered bond issuer; and iv) the strong and proactive stakeholder community.

Availability of statutory provisions

Austrian covered bonds are defined in line with statutory provisions according to the European Commission's Directive (2014/59/EU). It was transposed into the Federal Act on the Recovery and Resolution of Banks (BaSAG), enacted 1 January 2015. It provides the national resolution authority (Financial Market Authority [FMA]) with a toolkit to establish uniform rules and procedures for the resolution of relevant credit institutions.

Strength of statutory provisions

The national transposition of Article 55 of the BRRD into Articles 85 to 94 BaSAG exempts secured liabilities (Article 86 (2) BaSAG) such as covered bonds from bail-in. Where hedging instruments forming an integral part of the covered bond programme (cover assets) they will be excluded as well. The exemption is limited to the extent of the value of any security.

Austria was among the first to actively use the restructuring provisions and demonstrated how such provisions can work in favour of covered bond investors. When the FMA ordered a moratorium on Heta Asset Resolution AG – the workout entity of failed Hypo Alpe Adria Bank, senior unsecured debt was bailed-in, in contrast to Heta's public sector covered bonds that were neither impacted by the moratorium nor bailed-in.

Systemic importance of issuer

In principle, the bank's balanced refinancing and capital structures allow for a bail-in to keep the issuer supporting the covered bonds on a going concern basis. However, we believe and orderly wind-down, a sale or merger with another Austrian covered bond issuer is more likely opposed to a preservation of Bank Burgenland in case of regulatory intervention. This reflects Bank Burgenland's moderate systemic relevance due to the bank's small size in relation to larger Austrian Banks. The acquisition of Austrian Anadi Bank has not increased Bank Burgenland's relevance as a local bank and covered bond issuer significantly.

Systemic relevance of covered bonds

We classify both Austrian mortgage and public-sector covered bonds as refinancing products with a high systemic relevance. In 2023 new issuance reached EUR24bn which was only higher in 2020 where Austrian banks' intensively used covered bonds for ECB funding. In the same year the outstanding volume of covered bonds reached a record in 2023 with EUR109.9bn issued by 22 issuers. As of end-2023, this accounted for more than 23% of Austrian GDP, which puts it into the upper third among European peers.

Proactive stakeholder community

Austrian stakeholders have demonstrated regularly that they are strongly interested in a functioning covered bond market and are willing to support an orderly resolution of problems in case of a distressed issuer. Even before the BRRD came into force Austria was among the first to actively use restructuring provisions and demonstrated how such provisions can work in favor of covered bond investors (e.g. Heta Asset Resolution AG).

The market benefits from an active stakeholder community. Amongst others, the Austrian Federal Economic Chamber (Wirtschaftskammer Österreich or WKO) has become the main platform for issuers to discuss their interests. In addition, covered bond issuers have established a dedicated covered bonds industry lobby called 'Pfandbrief Forum', which provides information on the market, especially for international investors, and further aligns brand presence. The forum also represents issuers within the 'European Covered Bond Council', the European industry lobby.

Cover pool analysis

Bank Burgenland's mortgage covered bond ratings are cover pool-supported, providing one of the six notches of uplift needed to achieve the highest rating. Governance support provides for a five-notch rating uplift and an effective floor against a deterioration in cover pool credit quality.

CPC assessment

Our assessment on the interplay between complexity and transparency translates into a CPC category of 'low'. The assessment on the interplay between complexity and transparency could add up to three notches of credit uplift above of the issuer rating enhanced by governance support. Consequently, the combined credit support could allow to maintain the covered bond rating at the highest level under a hypothetical issuer downgrade by up to two notches, assuming OC does not become a constraining factor.

The CPC category of 'low'-risk reflects the ongoing availability of detailed, regular, current and forward-looking transparency on key credit and market risk factors; information on lending products; ability to assess the issuer's underwriting and credit risk procedures; high visibility on origination and issuance strategy and full access to all relevant counterparty risk information.

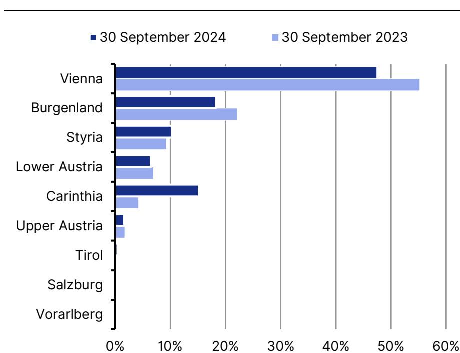
Cover pool composition

Bank Burgenland's mortgage covered bonds are secured by a portfolio of mortgage loans to private residential and commercial borrowers. Together, loans to private individuals and housing corporations account for 73.5%. The remaining loans comprise commercial real estate exposures mainly to hospitality, services, retail or manufacturing corporates. Non-recourse and special purpose vehicle structures are rare.

The low weighted average loan-to-value (LTV) ratio of 49.9% (up from 47.1%) on an eligible-loan basis indicates high protection against credit losses in the event of borrower default. The Austrian Covered Bond Act stipulates a maximum LTV ratio of 80% for residential mortgage assets and 60% for commercial loans. This level determines the maximum amount of covered bonds that can be issued against mortgage collateral. Bank Burgenland continues to voluntarily limit its eligible LTV ratio to 60% for all mortgage loans. The average whole-loan LTV stands at 56.1% (up from 55%). Granularity is moderate. The portfolio consists of 6,930 loans with a top 10 of 18.8%.

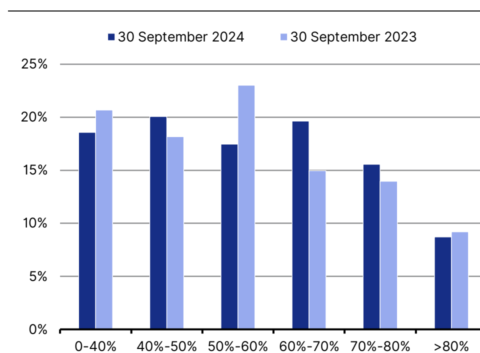
With 47% (from 55%) the portfolio remains to be skewed to Vienna metropolitan region. By population, Vienna accounts for around one third of Austrian's total. At the same time, the portfolio benefits from a 15% (from 4%) share to mortgage loans from the Carinthia region as a consequence of the acquisition of the Anadi Bank portfolio.

Figure 3: Regional distribution



Source: Scope Ratings, Bank Burgenland

Figure 4: Whole loan LTV distribution



Source: Scope Ratings, Bank Burgenland

Cover pool characteristics

Reporting date	Sept 2024	Sept 2023
Balance (EUR bn)	1,652.8	1,346.9
Residential (%)	73.5	70.6
Commercial (%)	26.3	29.2
Substitute (%)	0.2	0.2

Property type (%)

Reporting date	Sept 2024	Sept 2023
Flat / Apartment	29.6	30.7
Multifamily	23.4	26.5
Single family house	21.6	17.8
Office	4.5	4.0
Building plot	3.6	3.6
Industrial	2.4	3.1
Retail	2.3	1.7
Others	12.5	12.5

General information

Reporting date	Sept 2024	Sept 2023
No. of loans	6,930	4,815
Avg. size (EUR)	269,918	279,202
Top 10 (%)	18.8	20.3
Remaining life (y)	7.1	7.4
Seasoning (y)	5.4	5.7
WA eligible-loan LTV (%)	49.9	47.1
WA whole-loan LTV (%)	56.1	55.0

Interest rate type (%)

Reporting date	Sept 2024	Sept 2023
Floating	53.0	65.2
Fixed	47.1	34.8

Repayment type (%)

Reporting date	Sept 2024	Sept 2023
Annuity / Linear	87.2	84.3
Interest-only	12.8	15.7

Asset risk analysis

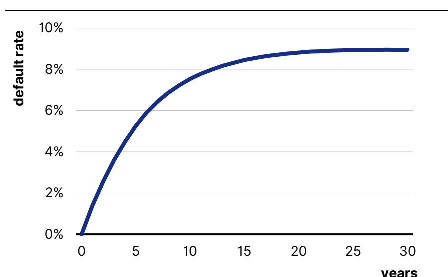
Mixed mortgage portfolio with solid and stable asset performance

The cover pool's credit quality remains solid. Our projection of default depends on the asset type within the portfolio. For owner-occupied residential property we are using an inverse gaussian distribution described by a mean lifetime default rate and a coefficient of variation. For less granular commercial mortgage loans we build a non-parametric distribution (see Figure 6).

We derived the sub-portfolios by allocating all loans exposed to owner-occupied residential property to the residential sub-portfolio with the rest being commercial. This has the effect that most of the housing associations will be allocated to the commercial sub-pool. The private residential portfolio increased to 48.3% from 40.1% since our last analysis thanks to the merged Anadi Bank portfolio. The residential sub-pool is granular with 4,143 mortgage borrowers (Scope aggregated). The largest borrower accounts for 0.9% (by total). We established a mean default rate of 9%, down from 11% previously, and a coefficient of variation of 55% (down from 60%).

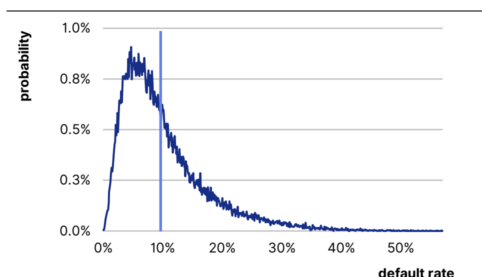
The parameters for the default distribution were derived using the bank's loan-by-loan risk assessments which have been mapped to Scope's PD metrics. The improved credit metrics are driven by lower exposure to high-risk mortgage loans (commensurate with bb- and b+ ratings) as well as increased geographic diversity which reduces exposures to single Austrian regions. The commercial sub-pool accounts for 924 (Scope aggregated) borrowers with the largest borrower accounting for 4.4% (by total). Our projections of default in the cover pool used a non-parametric default distribution, which can be approximated with a mean default rate of 10.1% from 10.4% earlier. Its implied coefficient of variation is 71% (from 73%). We used a correlation framework to incorporate the impact of geographical, industry and obligor concentrations. We further used the bank's loan-by-loan risk assessments mapped to Scope's PD metrics.

Figure 5: Residential expected term defaults, cumulative (DP/years)



Source: Scope Ratings

Figure 6: Commercial PD distribution and mean default rate (light blue)



Source: Scope Ratings

We estimated a recovery rate of up to 100% under a base case scenario (D0) for both the residential and the commercial pool. In the most stressful scenario (D8), we estimated a recovery rate of 75.8% (down from 78.3%) for the residential pool and 57.7% (down from 61.6%) for the commercial pool. The depreciation of stressed recovery rates is driven by a moderate increase in LTV together with more conservative value decline assumptions for Austrian properties - in particular commercial real estate. Our recovery rate calculations reflect rating distance-dependent market value declines as well as assumptions regarding the Austrian housing market and its unique characteristics.

Residential Austrian security value haircuts

Region	Base MVD	Stressed MVD	Firesale discount	Sale costs	Stressed SVH*
Residential Vienna	0%	48.5%	20%	10%	65.0%
Residential Rest Austria	0%	47.6%	20%	10%	62.5%
Commercial	0%	na	30%		75.0%
Multifamily	0%	na	30%		65.0%

MVD: market value decline / SVH: security value haircut *rounded

Cash flow risk analysis

Cover pool support uplift allows for highest ratings considering a minimum overcollateralisation of 10%

The overcollateralisation (OC) supporting the rating is 10%, unchanged to our analysis one year ago. Cover pool support could provide additional rating stability to Bank Burgenland's mortgage covered bonds. Our cash flow analysis shows, that if our rating on Bank Burgenland would be BBB, the maintained nominal overcollateralisation of 88.1% as of September 2024 would be more than sufficient to support the highest achievable rating on the mortgage covered bonds.

The current rating-supporting OC of 10% reflects the mortgage programme's sensitivity to a combination of low prepayments and declining interest rates. The programme does currently benefit from a strong excess spread due to its interest rate mismatches. Most covered bonds (88%) are fixed rate and were issued during the low interest rated environment. 53% of the mortgage loans reference floating rates and about half of the fixed rate assets reset prior to their final maturity dates exposing the programme to additional interest rate mismatches. A stable or rising rate environment would maintain or further increase the excess spread while a declining rate environment has negative effects to the programme.

The covered bonds do not benefit from any hedging against the open interest rate position. Foreign currency risks do not exist as both, asset and liabilities are EUR denominated.

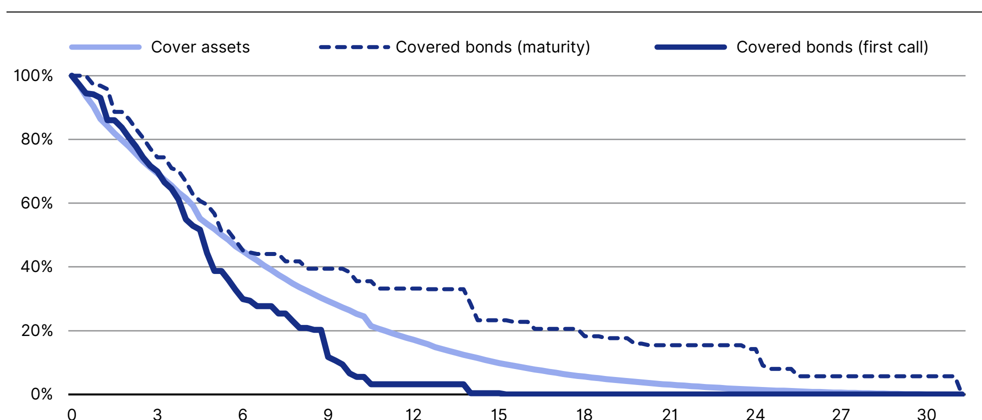
The amortisation schedule for both, assets and liabilities, was established using line by line information as provided by Bank Burgenland. For resetting loans, we assume that they will switch to floating rates at their individual reset date and at the respective (stressed) rate. Margins are assumed between 1.25% and 1.5%. Our base case does assume, that issuer call rights attached to the covered bonds are executed. This essentially decreases the covered bond's weighted average life to 5.1 years from 9.5 years if the final maturity would be considered. We believe that a prudent administrator would try to reduce the programmes risk horizon where possible, assuming this would provide a benefit to investors.

In the event of recourse to the cover pool and where available asset cash flows are not sufficient to pay the bond's maturing (or first call) liability, we have assumed stressed asset sales used to cure liquidity shortfalls. We have applied a 200bp refinancing spread for the residential mortgage loans and 400bps for the commercial mortgage loans. This does also size for the concentration to Vienna, which even after the acquisition of the Anadi portfolio remains significant.

Asset-liability mismatches

	Assets	Liabilities
EUR (%)	100.0	100.0
Fixed (%)	47.0	87.6
Floating (%)	53.0	12.4
WAL maturity (years)	7.1	9.5
WAL first call (years)	n/a	5.1

Figure 7: Amortisation profile (years)



Source: Scope Ratings, Bank Burgenland

We complemented our base case cash flow results with additional analysis, testing sensitivities to higher credit losses, non-execution of bond extension, frontloaded defaults, time subordination

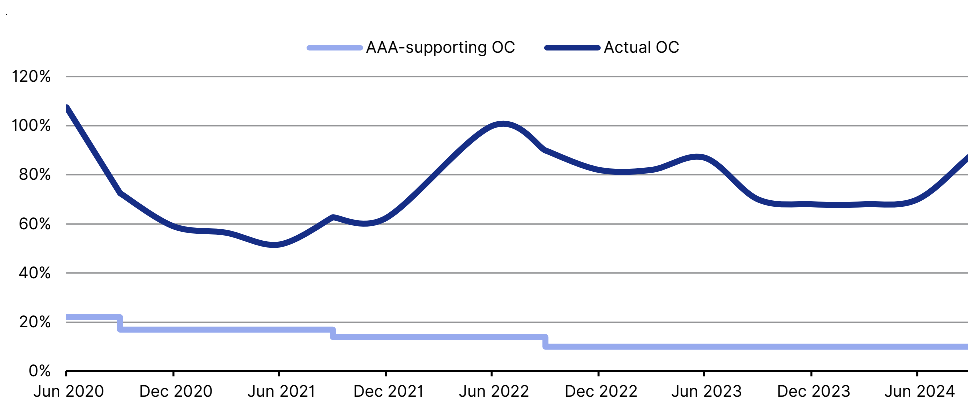
and alternative interest rates stresses. Sensitivities towards bond extension and alternative interest rates resulted into an adjustment to our base case rating supporting overcollateralisation.

Availability of overcollateralisation

The current rating of Bank Burgenland allows us to account for the provided OC. We are not aware that any change to the programme may alter its risk profile or reduce the available OC to levels that would no longer support the current rating uplift.

Supportive level of available overcollateralisation fully taken into account

Figure 8: Available OC versus current rating-supporting level



Source: Scope Ratings, Bank Burgenland

Other risk considerations

Counterparty exposure does not limit the rating

The rated covered bonds have counterparty exposures to the issuer as loan originator, servicer, bank account provider and paying agent. According to our resolution assessment, we see the bank as in principle being resolvable. As a consequence, if a regulator were to intervene, we believe the strong alignment of interests between the bank and the covered bond holders would prevent any negative impact.

Country risk is not a key rating driver

Country risk is not a key risk factor that constrains the covered bond rating. Austria is currently rated AA+/Stable. We have no evidence that transfer risk (e.g. risk of capital controls), convertibility risk (e.g. risk of eurozone exit), the risk of an institutional meltdown are pertinent risk factors for Austria.

Governance factors are key for the analysis of Austrian covered bonds

Governance factors are key for the analysis of Austrian covered bonds as such drive our legal and resolution regime analysis. In our quantitative analysis performed for the covered bonds issued by Bank Burgenland we however have not directly included ESG aspects.

Bank Burgenland has not yet issued any green covered bonds. However, the bank plans to establish a framework for green bonds, sustainable bonds or social bonds (the "ESG Framework"), which will further specify the eligibility criteria for ESG projects based on recommendations from the voluntary guidelines for the issuance of green bonds, sustainable bonds or social bonds published by the International Capital Market Association ("ICMA") (the ICMA Green Bonds Guidelines 2021, the ICMA Social Bonds Guidelines 2021, the ICMA Sustainability Bond Guidelines 2021 and collectively the "ICMA Sustainable Bond Guidelines").

Sensitivity analysis

Two notches buffer against an issuer downgrade

Bank Burgenland’s mortgage covered bond ratings benefit from a buffer against an issuer downgrade of up to two notches. Assuming the issuer’s willingness to support the highest ratings as well as a stable covered bond programme risk profile, a two-notch downgrade would increase the rating-supporting OC requirement to 16.5%.

As a consequence, the rating may be downgraded upon: i) an issuer rating downgrade by more than two notches; ii) a deterioration in Scope’s view on governance support factors relevant to the issuer and Austrian covered bonds in general and on the interplay between complexity and transparency, and/or iii) the inability of the cover pool to provide an additional uplift in case the issuer rating is downgraded.

Summary of covered bond characteristics

Reporting date	30 September 2024	30 September 2023
Issuer name	Hypo-Bank Burgenland AG	
Country	Austria	
Covered bond name	Hypothekenpfandbrief (Hypf)	
Covered bond legal framework	Austrian mortgage-covered bonds issued under the PfandBG	
Cover pool type	Austrian legal covered bond framework	
Composition	Residential = 73.5%	Residential = 70.7%
	Commercial = 26.3%	Commercial = 29.1%
	Substitute = 0.2%	Substitute assets = 0.2%
Issuer rating	A-/Stable	A-/Stable
Current covered bond rating	AAA/Stable	AAA/Stable
Covered bond maturity type	Hard bullet	Hard bullet
Cover pool currencies	EUR (100%)	EUR (100%)
Covered bond currencies	EUR (100%)	EUR (100%)
Governance cover pool support	5	5
Maximum additional uplift from cover pool complexity category	3	3
Maximum achievable covered bond uplift	8	8
Potential covered bond rating buffer	2	2
Cover pool (eligible assets) (EUR mn)	1,651.8	1,347.9
thereof, substitute assets (EUR mn)	2.5	2.5
Covered bonds (EUR mn)	878.4	790.1
Overcollateralisation: current/legal minimum	88.1% / 2.0%	70.5% / 2.0%
Overcollateralisation to support current rating	10.0%	10.0%
Overcollateralisation upon a one-notch issuer downgrade	14.0%	14.0%
Weighted average life of assets	7.1 years	7.4 years
Weighted average life of liabilities (final legal maturity)	9.5 years	10.5 years
Number of loans	6,930	4,815
Average loan size (EUR '000)	199.8	230.5
Top 10	18.8%	20.4%
Interest rate type assets	Fixed: 43.6%	Fixed: 34.8%
	Floating: 56.4%	Floating: 65.2%
Interest rate type liabilities	Fixed: 87.6%	Fixed: 93.4%
	Floating: 12.4%	Floating: 6.6%
Weighted average eligible-loan LTV ratio	49.9%	47.1%
Geographic split	Vienna (47.4%)	Vienna (55.2%)
	Burgenland (18.3%)	Burgenland (22.2%)
	Carinthia (15.2%)	Styria (9.3%)
Default measure (mortgage/substitute)	Inv. Gaussian / Non-parametric	Inv. Gaussian / Non-parametric
Weighted average annualised default rate (residential/commercial)	1.14% / 1.66%	1.49% / 1.58%
Weighted average coefficient of variation (residential/commercial)	55% / 71%	60% / 73%
Weighted average recovery assumption (base [D0]) (residential/commercial)	100% / 100%	100% / 100%
Weighted average recovery assumption (stressed [D8])[1] (residential/commercial)	75.8% / 57.7%	78.3% / 61.6%
Share of loans > three months in arrears (NPL)	2.6%	0.0%
Interest rate stresses (max/min)	9% / -1%; EUR	10% / -1%; EUR
FX stresses (max/min; currency-dependent)	n/a	n/a
Max liquidity premium (residential/commercial)	200 bps / 400 bps	200 bps / 400 bps
Average servicing fee (residential/commercial)	25 bps / 50 bps	25 bps / 50 bps

Source: Scope Ratings

[1] D0 and D8 denote the stresses commensurate with the rating distance between our credit view on the issuer and the covered bond ratings.

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