

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Hypo-Bank Burgenland's A3 long-term issuer ratings; outlook changed to positive from stable

19 Aug 2024

Frankfurt am Main, August 19, 2024 -- Moody's Ratings (Moody's) today affirmed Hypo-Bank Burgenland AG's (Bank Burgenland) A2/P-1 long- and short-term deposit ratings, its A3/P-2 long- and short-term issuer ratings and the bank's A1/P-1 long- and short-term Counterparty Risk Ratings. The outlook on the long-term deposit ratings remains stable, while the outlook on the long-term issuer ratings was changed to positive from stable.

Concurrently, we affirmed the bank's baa1 Baseline Credit Assessment (BCA) and Adjusted BCA and its A1(cr)/P-1(cr) long- and short-term Counterparty Risk Assessment.

RATINGS RATIONALE

AFFIRMATION OF THE BCA

The affirmation of Bank Burgenland's baa1 BCA reflects the bank's very strong capitalization, which in combination with its good profitability mitigates existing asset risks stemming from geographic and sector concentrations to cyclical commercial real estate activities as well as significant market and operational risks from its private banking business and guarantees provided to its parent, linked to insurance products. The affirmation further reflects a strengthened and primarily deposit-based funding profile and a sound volume of liquid resources.

The affirmation also considers some execution risks related to the planned acquisition of parts of Anadi Bank AG's retail and SME business, expanding Bank Burgenland's geographical footprint into Carinthia.

LONG-TERM RATINGS

The affirmation of the bank's long-term deposit and issuer ratings incorporates the affirmation of the BCA and the results from our Advanced Loss Given Failure (LGF)

analysis, yielding two notches of rating uplift for deposits and one notch for its issuer ratings from the bank's (Adjusted) BCA.

Because of the bank's small market share in the domestic banking system and constraints under the Bank Recovery and Resolution Directive (BRRD) on governments to provide support to ailing banks, we assume a low level of government support for Bank Burgenland, which does not result in any rating uplift.

OUTLOOK

The stable outlook on Bank Burgenland's long-term deposit ratings reflects our view that potential headwind caused by continued modest economic growth and the impact of higher rates on the debt servicing capacity of corporates and households will not impair Bank Burgenland's financial strength. Further, we expect no material change in the liability structure such that it was to result in a different deposit rating uplift from our Advanced LGF analysis.

The positive outlook on the long-term issuer ratings reflects the potential for an increase in rating uplift for this liability class from our Advanced LGF analysis, provided that higher volumes of senior unsecured debt in issuance prove to be more permanent.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Bank Burgenland's ratings could be upgraded if the bank's BCA is upgraded, or upon a change in the bank's liability structure that results in lower expected losses for creditors, particularly if senior unsecured debt components were to account for a sustainably higher share of Bank Burgenland's total liabilities.

Bank Burgenland's BCA could be upgraded if the bank was to strengthen its solvency, in particular if it sustainably reduces its non-lending risks, while at least maintaining its liquidity profile.

Bank Burgenland's ratings could be downgraded if its BCA was to be downgraded. In addition, a downgrade could result from a significant decrease in the volume of senior unsecured liabilities relative to its tangible assets such that it increases the loss severity of respective instrument classes.

Bank Burgenland's BCA could be downgraded in case of a significant weakening of its solvency or liquidity, or in case we were to observe meaningful risk management failures.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>.

Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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