MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aaa to mortgage covered bonds of Raiffeisen-Landesbank Steiermark

Global Credit Research - 11 Oct 2012

EUR8 million of debt affected

London, 11 October 2012 -- Moody's Investors Service has today assigned a definitive Aaa long-term rating to the mortgage covered bonds (Fundierte Bankschuldverschreibungen or covered bonds) issued by Raiffeisen-Landesbank Steiermark AG, which are governed by the Gesetz betreffend Fundierte Bankschuldverschreibungen (Austrian covered bond Act).

RATINGS RATIONALE

A covered bond benefits from (1) the issuer's promise to pay interest and principal on the bonds; and (2) if the issuer defaults, the economic benefit of a collateral pool (the cover pool). The ratings therefore take into account the following factors:

(1) Raiffeisen-Landesbank Steiermark's credit strength (A1 deposits; BFSR C-/BCA baa2, P-1, outlooks stable).

(2) The value of the cover pool in the event of issuer default. The stressed level of losses modelled in event of issuer default (cover pool losses) for this transaction is 17.7%.

The analysis of the value of the cover pool considered:

a) The credit quality of the assets backing the covered bonds. The mortgage covered bonds are backed by Austrian commercial and residential mortgage loans and the collateral score for the cover pool is 7.9%.

b) The legal framework of the programme. Notable aspects of the Austrian legislation include that (1) the issuer must be a regulated and supervised bank; (2) a cover pool monitor (Regierungskommissär) will monitor the day-to-day operations of the cover pool; and (3) at a minimum, there will always be a match between the nominal values of the cover pool assets and the outstanding covered bonds. In addition, the assets' interest income must at all times be sufficient to cover the interest due on the outstanding bonds.

c) The exposure to market risk. The market risk for the cover pool is 12.4%.

d) The over-collateralisation (OC) in the programme currently is 3,647% on a nominal value basis. The minimum NPV OC level that is consistent with the Aaa rating target is 11.5%, of which 0% should be provided in a "committed" form. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

The TPI assigned to this transaction is "Probable". Moody's TPI framework does not constrain the Aaa rating.

At present, the total value of the assets included in the cover pool is approximately EUR300 million, comprising 2,485 residential mortgage loans and 447 commercial mortgage loans. The residential mortgage loans have a weighted-average seasoning of 29 months and a weighted-average loan-to-value (LTV) ratio of 60.0%. The commercial mortgage loans have a weighted-average seasoning of 42 months and a weighted-average LTV ratio of 60.2%.

KEY RATING ASSUMPTIONS/FACTORS

Covered bond ratings are determined after applying a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's determines a rating based on the expected loss on the bond. The primary model used is Moody's Covered Bond Model (COBOL), which determines expected loss as (i) a function of the issuer's probability of default (measured by the issuer's rating); and (ii) the stressed losses on the cover pool assets following issuer default.

The cover pool losses for this programme are 17.7%. This is an estimate of the losses Moody's currently models if the issuer defaults. Cover pool losses can be split between market risk of 12.4% and collateral risk of 5.3%. Market risk measures losses as a result of refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from the credit quality of the assets in the cover pool. Collateral risk is derived from the collateral score, which for this programme is currently 7.9%.

The over-collateralisation (OC) in the programme is currently 3,647% on a nominal value basis. The minimum NPV OC level that is consistent with the Aaa rating target is 11.5%, of which 0% should be provided in a "committed" form. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which indicates the likelihood that timely payment will be made to covered bondholders following issuer default. The effect of the TPI framework is to limit the covered bond rating to a certain number of notches above the issuer's rating.

Moody's has assigned a TPI of Probable to the covered bonds.

SENSITIVITY ANALYSIS

The robustness of a covered bond rating largely depends on the issuer's credit strength. The TPI Leeway measures the number of notches by which the issuer's rating may be downgraded before the covered bonds are downgraded under the TPI framework.

Based on the current TPI of Probable the TPI Leeway for this programme is two notches, meaning the covered bonds might be downgraded as a result of a TPI cap once the issuer rating is downgraded below A3, all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances, such as (1) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (2) a multiple-notch downgrade of the issuer; or (3) a material reduction of the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in this rating was "Moody's Approach to Rating Covered Bonds" published in July 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com

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