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CREDIT OPINION
16 November 2018

Update

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RATINGS

Raiffeisen-Landesbank Tirol AG

Domicile	Austria
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Dom Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Baa1
Type	LT Bank Deposits - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Raiffeisen-Landesbank Tirol AG

Update to credit analysis

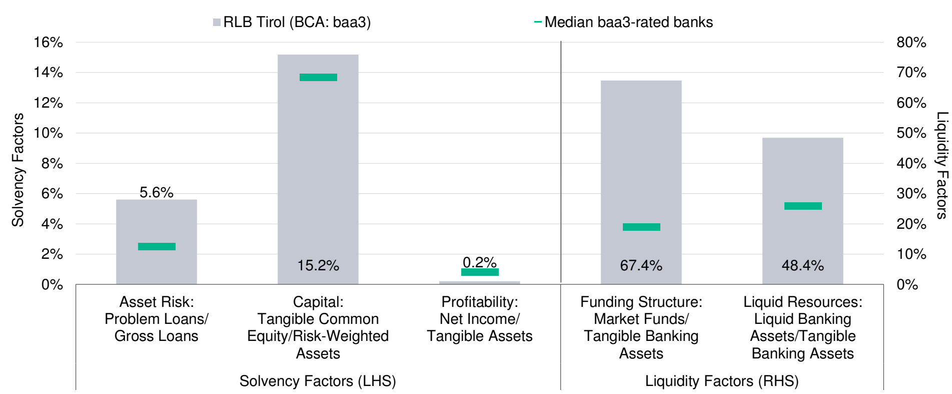
Summary

We assign Baa1 deposit and issuer ratings to Raiffeisen-Landesbank Tirol AG (RLB Tirol). We further assign a baa3 Baseline Credit Assessment (BCA) and Adjusted BCA to RLB Tirol, along with A3/P-2 Counterparty Risk Ratings (CRRs).

RLB Tirol's Baa1 ratings reflect (1) the bank's baa3 BCA; (2) its baa3 Adjusted BCA, which incorporates very high affiliate support from the Raiffeisen Banking Group (RBG), but results in no rating uplift from the bank's baa3 BCA; and (3) the result of our Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by the different liability classes in resolution, adding two notches of rating uplift from the bank's baa3 Adjusted BCA to its deposit and issuer ratings.

The baa3 BCA reflects RLB Tirol's strong capitalisation and sound liquidity resources but also its modest profitability and its vulnerability to asset risks through its relatively high problem loans and sector concentrations as well as its concentrated equity investments, in particular the large ownership stake in Raiffeisen Bank International AG (RBI, A3 stable/A3 stable, baa3)[1].

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» RLB Tirol's capitalisation is strong, especially when taking into account its additional reserves.

» Sound liquidity buffers.

» The bank's senior creditors benefit from a large volume of outstanding debt, and therefore, a very low loss given failure in the unlikely event of resolution.

Credit challenges

» RLB Tirol's risk profile is vulnerable to risks stemming from sector concentrations to real estate and tourism and sizeable equity investments.

» High dependence on wholesale funding.

» The bank's profitability is modest, with some dependence on dividend payments from RBI's earnings.

Outlook

» The outlook is stable, reflecting our expectation that the bank's adjusted BCA remains determined by the sector and unchanged at baa3, as well as the LGF result, stemming from RLB Tirol's liability structure analysis.

Factors that could lead to an upgrade

» RLB Tirol's ratings could be upgraded if RBG's financial strength improves, such that it results in affiliate support uplift.

» In addition, the ratings may benefit from additional rating uplift, as assessed in our Advanced LGF analysis. However, the latter is unlikely, given that a higher rating uplift would require materially higher subordinated instruments.

» We would consider upgrading the BCA if the bank demonstrates that it can sustain the positive trend in its funding profile. However, this would not result in a ratings upgrade, unless the financial strength of RBG also improves.

Factors that could lead to a downgrade

» A rating downgrade could be prompted if (1) weakening fundamentals warrant a downgrade of the bank's BCA and, at the same time, RBG's fundamentals were to weaken to a level that the downgrade cannot be offset by higher affiliate support; (2) there were to be a deterioration of RBG's financial strength because this could raise the current constraints for RLB Tirol's BCA; and (3) the volume of senior unsecured liabilities continues to decline, as observed in 2016, because this would increase the loss given failure for senior creditors, which would lead to a weaker result from our LGF assessment.

» A downgrade of the BCA could result from a material weakening in RLB Tirol's capital ratios, or indications of materially rising asset risks.

Key indicators

Exhibit 2

Raiffeisen-Landesbank Tirol AG (Unconsolidated Financials) [1]

	12-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[3]	CAGR/Avg.[4]
Total Assets (EUR billion)	7.4	7.3	7.4	7.1	7.3	0.4[5]
Total Assets (USD billion)	8.9	7.7	8.1	8.6	10	-3.0[5]
Tangible Common Equity (EUR billion)	0.4	0.4	0.4	0.4	0.4	3.4[5]
Tangible Common Equity (USD billion)	0.5	0.4	0.4	0.5	0.5	-0.1[5]
Problem Loans / Gross Loans (%)	4.4	6.0	6.3	8.5	7.0	6.4[6]
Tangible Common Equity / Risk Weighted Assets (%)	15.2	14.2	13.3	12.7	12.2	13.9[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	24.0	30.2	31.9	39.8	34.1	32.0[6]
Net Interest Margin (%)	0.7	0.7	0.7	0.8	0.8	0.7[6]
PPI / Average RWA (%)	0.6	0.8	0.9	1.4	1.3	0.9[7]
Net Income / Tangible Assets (%)	0.2	0.3	0.2	0.3	0.2	0.2[6]
Cost / Income Ratio (%)	79.9	72.2	70.5	59.9	62.8	69.1[6]
Market Funds / Tangible Banking Assets (%)	67.4	66.7	67.3	68.5	70.4	68.1[6]
Liquid Banking Assets / Tangible Banking Assets (%)	48.4	50.8	51.7	62.1	63.2	55.3[6]
Gross Loans / Due to Customers (%)	144.2	132.3	138.2	147.4	153.4	143.1[6]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully-loaded or transitional phase-in; LOCAL GAAP. [3] Basel II; LOCAL GAAP. [4] May include rounding differences due to scale of reported amounts. [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel III periods presented.

Source: Moody's Financial Metrics

Profile

With total assets of €7.4 billion as of December 2017, RLB Tirol is one of the smaller of the eight Raiffeisenlandesbanken in Austria (Aa1 stable). RLB Tirol is majority-owned by 65 local primary credit co-operatives in the region, for which the bank is the central institution. In Tyrol, the regional co-operative sector has sizeable market shares in retail banking and in lending to private customers, and small and medium-sized enterprises.

As of year-end 2017 RLB Tirol reported 11 full branches as well as 7 self-service branches in which it offered services to its 66,000 customers.

RLB Tirol is a direct shareholder in RBI, the Austrian Raiffeisen Sector's central institution, holding a 3.7% share.

Weighted Macro Profile of Strong +

RLB Tirol is focused on the Austrian market (86% of exposure at default), and the bank's assigned Strong+ Weighted Macro Profile is in line with the Strong+ Macro Profile of Austria.

Detailed credit considerations

RLB Tirol's asset risk, although improving, remains relatively high

We assign a ba1 Asset Risk score to RLB Tirol, two notches below the initial[2] score of baa2. This score reflects the three-year average of problem loans to gross loans of 5.6%, our forward expectation, as well as our adjustments for concentrations in cyclical sectors like real estate lending and market risks from foreign currency lending.

Lending to commercial customers, predominantly small and medium-sized enterprises, account for around three-quarters of the €2.6 billion loan book and considerable sector concentrations. The bank's exposure to real estate, at €635 million, is large relative to its capital (135% of Tangible common equity (TCE)). Other concentrations are in the tourism and retail trade sectors. Moreover, we consider the bank's sizeable loans denominated in foreign currencies summing up to 100% of the banks TCE as additional consideration for our asset risk score.

RLB Tirol's problem loan ratio improved to 4.4% as of December 2017 from 6.0% as of December 2016, but remained slightly weaker than those of its Austrian peers focused on the domestic market. In 2018/19, we expect the bank's problem loans to continue to decline, underpinned by the benign credit environment for sectors that the bank is most exposed to, in particular, tourism. We consider the bank's provisioning levels of around 60% adequate. We recognise that the bank's revaluation reserves related to its €206 million participation portfolio represent a level of protection. Although such revaluation reserves cannot be (and are also not intended to be) realised without selling the participations, they imply a valuable buffer against value erosion in its participations, thereby partly protecting the bank's income statement from potential impairments.

RLB Tirol's improved capitalisation is strong

We position the Capital score at a1, one notch below the aa3 initial score. The score reflects RLB Tirol's sound and increasing solvency metrics represented by a TCE of 15.2%, up from 14.2% one year earlier. Moreover, the score takes into consideration additional hidden reserves, as well as risks from the bank's participations book.

In addition to its €427 million TCE, RLB Tirol has additional capital resources stemming from (1) €43.0 million in reserves under Austrian local GAAP[3], which are not included in its TCE; and (2) considerable revaluation reserves from its participations, which the bank accounts for at historical costs. However, the bank's €206 million participations (mostly the stake in RBI) as of year-end 2017 represent a material concentration in the context of its €427 million TCE (44%). To account for the related risk, we simulated an impairment of the bank's stake in RBI.

As of year-end 2017, RLB Tirol reported a solid 14.8% Common Equity Tier 1 (CET1) capital, up from 13.9% a year earlier, under the Capital Requirements Regulation and Directive. The ratio benefitted from a slight increase in CET1 capital and a 4% reduction in risk-weighted assets in 2017. The bank's regulatory leverage ratio is solidly above 3% regulatory minimum with 5.2% as of year-end 2017 (2016: 5.1%).

RLB Tirol's profitability is modest and partly dependent on income from participations

RLB Tirol's Profitability score of b1, which is in line with the initial score, reflects the bank's relatively resilient underlying performance of around 20 bps in the recent year as well as its partial dependence from less liable income streams from participations.

As a result of the low/negative interest rate environment RLB Tirol reported a declining net interest income of €47 million (down 10% from a year earlier) in 2017, while net fee and commission income remained stable at €21 million. Although, RLB's 2017 net income of €14 million benefitted from low provisioning needs, the result is almost 30% below 2016. Compared with 2016 the bank did not increase its local GAAP reserves as it did in previous two years.[4]. Such transfers principally understate the bank's true profit, thereby adding to its loss-absorption buffers.

For 2019, we expect RLB Tirol's profitability to remain under pressure as long as the low/negative interest rate environment remains in place and provisioning levels will normalize.

High dependence on wholesale funding is mitigated by access to sector funds

RLB Tirol's Funding score of ba2, which is five notches above the initial caa1 score, reflects the bank's good access to less-market-confidence-related sector funding. The bank's market funds ratio remained high at 67% in 2017, unchanged compared with that in 2016. However, for our assessment of the bank's funding structure, we adjust for several risk-mitigating factors, including funds received from primary Raiffeisen banks and from development banks.

The bank's good access to funds from regional Raiffeisen banks and their retail clients, as well as its own retail client base and covered bond franchise, supports the positive adjustment of the Funding score. We consider pass-through funding of retail deposits coming from the sector to be more sticky than interbank funding outside the sector and hence as a more reliable funding source.

As the central institution for the local Raiffeisen banks in Tyrol, RLB Tirol has access to diversified funding sources, including sector funds of €2.4 billion in 2017 and own issuances of €1.2 billion, which are also partly placed within the Raiffeisen sector. These funds are complemented by deposits of €2.0 billion and interbank funding of €1.4 billion which is placed outside the sector.

Funding risks are mitigated by sound liquidity buffers

We assign a baa2 Liquidity score, five notches below the aa3 initial score, reflecting our liquid resources ratio of 48% as well as adjustments for asset encumbrance and additional restrictions on intragroup deposits that RLB Tirol holds as part of its role as a central institution.

RLB Tirol's liquid resources mainly consists of interbank claims of €2.5 billion and unencumbered securities investments of €0.9 billion. However, a major part of the interbank claims are liquidity reserves the bank hold because of its function as central institution for the primary banks and are not available as liquidity buffer for RLB Tirol.

The reported regulatory liquidity coverage ratio as of December 2017 was 119%.

Support and structural considerations

Affiliate support

We consider the likelihood of support from RBG, the Austrian Raiffeisen sector, to be very high because of RLB Tirol's regional importance to the sector. This support materially reduces the probability of default, as the co-operative group's cross-sector support mechanism aims to stabilise its members by avoiding a bail-in or any form of loss participation by creditors.

We assess the Austrian Raiffeisen sector's financial capacity to provide support to its members based on the co-operative group's combined financial strength. Although their combined financial strength has recently improved, we still consider RBG's capitalisation to be moderate relative to its overall credit profile, which is strongly correlated with its higher-risk Central and Eastern European exposures, housed at RBI. The sector's limited support capacity implies a constraint to the possible uplift included in member banks' ratings. Therefore, member banks with BCAs of baa3 or higher do not benefit in terms of rating uplift from our very high support assumption for the group of Raiffeisenlandesbanken. Accordingly, RBG cross-sector support currently results in no rating uplift for RLB Tirol.

Loss Given Failure analysis

RLB Tirol is subject to the European Union Bank Recovery and Resolution Directive, which we consider to be an operational resolution regime. We assume a residual TCE of 3%, losses post-failure of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits, and we assign a 25% probability to deposits being preferred to senior unsecured debt. These are in line with our standard assumptions.

» RLB Tirol's deposits are likely to face very low loss given failure, resulting in two notches of rating uplift from the baa3 Adjusted BCA.

» RLB Tirol's senior obligations (which the issuer rating speaks to) are also likely to face very low loss given failure, resulting in two notches of rating uplift from the baa3 Adjusted BCA.

Government support

In contrast to banks in other European Union countries and reflective of government measures in Austria implemented since 2014, we assign a low level of support for the senior debt and deposit ratings of Austrian banks. As a consequence, we do not include any beneficial rating impact for government support in RLB Tirol's issuer and deposit ratings, despite the high national market shares and systemic relevance of the Raiffeisen sector as a whole to the country's banking system.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

RLB Tirol's CRRs are positioned at A3/P-2

The CRRs are positioned three notches above the Adjusted BCA of baa3, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities.

RLB Tirol's CRRs do not benefit from any rating uplift based on government support, which is in line with our support assumptions on deposits and senior unsecured debt.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and they are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

RLB Tirol's CR Assessment is positioned at A3(cr)/P-2(cr)

RLB Tirol's CR Assessment is positioned three notches above the baa3 Adjusted BCA, based on the buffer against default provided to the senior obligations represented by the CR Assessment, by more subordinated instruments, primarily senior unsecured debt. To determine the CR Assessment, we focus purely on subordination, taking no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal methodology we use in rating RLB Tirol is Banks, published in August 2018.

About Moody's Bank Scorecard

Moody's Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 3

Raiffeisen-Landesbank Tirol AG

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	5.6%	baa2	↓	ba1	Sector concentration	Market risk
Capital						
TCE / RWA	15.2%	aa3	←→	a1	Stress capital resilience	Risk-weighted capitalisation
Profitability						
Net Income / Tangible Assets	0.2%	b1	←→	b1	Expected trend	Earnings quality
Combined Solvency Score		baa1		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	67.4%	caa1	←→	ba2	Market funding quality	Extent of market funding reliance
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	48.4%	aa3	←→	baa2	Intragroup restrictions	Asset encumbrance
Combined Liquidity Score		ba1		ba1		
Financial Profile				baa3		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				--		
Scorecard Calculated BCA range				baa2-ba1		
Assigned BCA				baa3		
Affiliate Support notching				--		
Adjusted BCA				baa3		

Balance Sheet	**in-scope (EUR million)**	**% in-scope**	**at-failure (EUR million)**	**% at-failure**
Other liabilities	4,365	58.8%	4,555	61.3%
Deposits	1,858	25.0%	1,669	22.5%
Preferred deposits	1,375	18.5%	1,306	17.6%
Junior Deposits	483	6.5%	362	4.9%
Senior unsecured bank debt	926	12.5%	926	12.5%
Dated subordinated bank debt	54	0.7%	54	0.7%
Equity	223	3.0%	223	3.0%
Total Tangible Banking Assets	7,426	100%	7,426	100%

Debt class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	21.1%	21.1%	21.1%	21.1%	3	3	3	3	0	a3
Counterparty Risk Assessment	21.1%	21.1%	21.1%	21.1%	3	3	3	3	0	a3 (cr)
Deposits	21.1%	3.7%	21.1%	16.2%	2	3	2	2	0	baa1
Senior unsecured bank debt	21.1%	3.7%	16.2%	3.7%	2	2	2	2	0	baa1

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a3	0	A3	--
Counterparty Risk Assessment	3	0	a3 (cr)	0	A3 (cr)	--
Deposits	2	0	baa1	0	Baa1	--
Senior unsecured bank debt	2	0	baa1	0	Baa1	Baa1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
RAIFFEISEN-LANDESBANK TIROL AG	
Outlook	Stable
Counterparty Risk Rating -Dom Curr	A3/P-2
Bank Deposits -Dom Curr	Baa1/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	Baa1
ST Issuer Rating	P-2

Source: Moody's Investors Service

Endnotes

1 The ratings refer to RBI's long-term deposit rating and outlook, the long-term senior unsecured debt rating and outlook, and the BCA.

2 This is referred to as the Macro-Adjusted score in our Bank Scorecard.

3 Fully taxed local GAAP reserves, based on §57(1) of the Austrian Legal Banking Act, are deducted from gross loans and not disclosed as reserves.

4 In accordance with §57(1) of the Austrian Legal Banking Act, transfers to fully taxed reserves under Austrian local GAAP are labelled as loan-loss provisions and booked under risk charges in the income statement.

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