MOODY'S
INVESTORS SERVICE

# Rating Action: Moody's assigns definitive Aaa rating to Raiffeisen-Landesbank Tirol's mortgage covered bonds

**Global Credit Research - 18 Apr 2018**

London, 18 April 2018 -- Moody's Investors Service ("Moody's") has today assigned a definitive Aaa long-term rating to the covered bonds issued by Raiffeisen-Landesbank Tirol AG (the issuer, RLB Tirol, deposits Baa1 stable; adjusted baseline credit assessment baa3; counterparty risk (CR) assessment A3(cr)). The covered bonds are governed by the 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) following a CB anchor event, the economic benefit of a collateral pool (the cover pool). The ratings therefore reflect the following factors:

(1) The credit strength of RLB Tirol (deposits Baa1 stable; adjusted baseline credit assessment baa3; CR assessment A3(cr) and a CB anchor of CR assessment plus 1 notch).

(2) Following a CB anchor event the value of the cover pool. The stressed level of losses on the cover pool assets following a CB anchor event (cover pool losses) for this transaction is 19.5%.

Moody's considered the following factors in its analysis of the cover pool's value:

a) The credit quality of the assets backing the covered bonds. The covered bonds are backed by residential and commercial property mortgage loans originated in Austria. The collateral score for the cover pool is 10.4%.

b) The legal framework. Notable aspects of the Austrian Covered Bond Act ("Gesetz betreffend fundierte Bankschuldverschreibungen") include that (i) the issuer must be a regulated and supervised bank; (ii) a cover pool monitor (Regierungskommissär) will monitor the day-to-day operations of the cover pool on a regular basis; (iii) at a minimum, there will always be a match between the nominal values of the cover pool assets and the outstanding covered bonds.

c) The exposure to market risk, which is 12.5% for this cover pool.

d) The over-collateralisation (OC) in the cover pool at 37.2% on a nominal value basis, of which the issuer provides 0% on a "committed" basis (see Key Rating Assumptions/Factors, below).

The TPI assigned to this transaction is Probable, in line with other mortgage programmes in Austria. Moody's TPI framework does not constrain the rating of the covered bonds at its current level.

As of 6 March 2018, the total value of the assets included in the cover pool is approximately EUR 1.24 billion, comprising residential mortgage loans (55.0%), commercial property mortgage loans (44.8%) and promoted housing mortgage loans (0.2%). The loans are secured on properties located in Austria. The residential loans have a weighted-average (WA) seasoning of 39 months and a WA loan-to-value (LTV) ratio of 55.6%. The commercial loans have a WA seasoning of 51 months and a WA LTV ratio of 49.2%.

The ratings that Moody's has assigned address the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Moody's did not address other non-credit risks, but these may have a significant effect on yield to investors.

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (a CB anchor event); and (2) the stressed losses on the cover pool assets following a CB anchor event.

The CB anchor for this programme is CR assessment plus one notch. The CR assessment reflects an issuer's ability to avoid defaulting on certain senior bank operating obligations and contractual commitments, including covered bonds. Moody's may use a CB anchor of CR assessment plus one notch in the European Union or otherwise where an operational resolution regime is particularly likely to ensure continuity of covered bond payments.

The cover pool losses for this programme are 19.5%. This is an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk of 12.5% and collateral risk of 7.0%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and (if applicable) currency mismatches; these losses may also include certain legal risks. Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 10.4%.

The over-collateralisation in the cover pool is 37.2% on a nominal value basis of which the issuer provides 0% in a "committed" form. Under Moody's Cobol model, the minimum OC consistent with the Aaa rating is 16.0%, of which the issuer should provide 0% in a "committed" form to be given full value (numbers in nominal terms). These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's please refer to "Moody's Global Covered Bonds Monitoring Overview", published quarterly. All numbers in this section are based on Moody's most recent modelling (based on data, as of 6 March 2018).

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which measures the likelihood of timely payments to covered bondholders following a CB anchor event. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

FACTORS THAT WOULD LEAD TO A DOWNGRADE OF THE RATINGS:

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to a downgrade of the covered bonds. The TPI Leeway measures the number of notches by which Moody's might lower the CB anchor before the rating agency downgrades the covered bonds because of TPI framework constraints. Based on the current TPI of "Probable", the TPI Leeway for this programme is 1 notch. This implies that Moody's might downgrade the covered bonds because of a TPI cap, if it lowers the CB anchor by 2 notches all other variables being equal. A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances, such as (1) a country ceiling or sovereign downgrade capping a covered bond rating or negatively affecting the CB Anchor and the TPI; (2) a multiple-notch downgrade of the CB Anchor; or (3) a material reduction of the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not use any stress scenario simulations in its analysis.

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