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CREDIT OPINION
12 January 2017

Update

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RATINGS

Raiffeisenlandesbank Vorarlberg

Domicile	Austria
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn 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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Raiffeisenlandesbank Vorarlberg

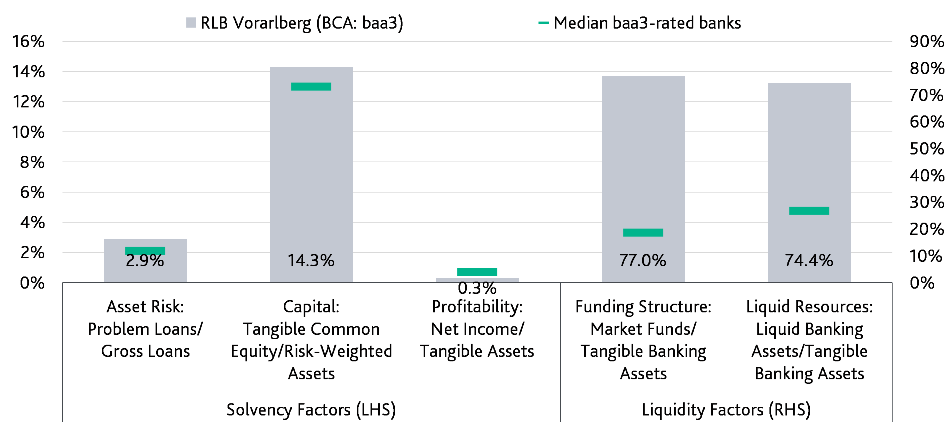
Semiannual Update

Summary Rating Rationale

We assign Baa1/P-2 issuer and deposit ratings to Raiffeisenlandesbank Vorarlberg (RLB Vorarlberg). The ratings are based on the bank's baa3 baseline credit assessment (BCA) which reflects its sound capitalisation and funding profile, but also the weak operating environment and therefore profitability pressures.

The Baa1 long-term ratings reflect: (1) the baa3 BCA; (2) the baa3 adjusted BCA, which incorporates "very high" affiliate support from Raiffeisen Banking Group (RBG, unrated), but results in no uplift from the 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 to RLB Vorarlberg's issuer and deposit ratings from its baa3 adjusted BCA.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit Strengths and Challenges

- RLB Vorarlberg's capitalisation has improved to satisfactory levels
- The bank's asset quality is sound and superior to peers, but participations are quite large relative to capital, implying tail risk
- RLB Vorarlberg's profitability is modest and volatile, with some dependence on Raiffeisen Zentralbank Oesterreich AG's (RZB, Baa2 positive/Baa2 positive)[1] earnings
- RLB Vorarlberg's large liquidity cushion and access to sector funds mitigate funding risks
- Senior creditors benefit from a large volume of outstanding debt, and therefore a very low loss-given-failure, in the unlikely event of resolution

Rating Outlook

- The outlook for RLB Vorarlberg's long-term ratings is stable, reflecting our expectation that the bank will be able to sustain, if not further improve, its satisfactory capitalisation and sound asset quality.
- The Raiffeisen sector's financial strength remains a limiting factor on RLB Vorarlberg's individual creditworthiness. Further progress in the RZB Group's ongoing downsizing and restructuring plan, to be implemented by year-end 2017, will likely continue to stabilise Raiffeisen Bank International (RBI, Baa2 positive/Baa2 positive, ba3)[2]. However, RBI's large size and higher-risk profile relative to the domestic Raiffeisen sector will probably continue to constrain individual members banks' BCAs to the low investments grade level during 2017.

Factors that Could Lead to an Upgrade

- RLB Vorarlberg's long-term ratings could be upgraded if (1) stronger fundamentals justify an upgrade of the BCA; (2) RBG's financial strength improves such that it raises or removes the current rating constraints (or even results in affiliate support uplift); and/or (3) it benefits from additional rating uplift, as assessed in our Advanced LGF analysis. The latter is unlikely, however, given that this would require materially higher subordinated instruments.
- Upward pressure on the BCA would arise if the bank demonstrates that it can sustain the positive trend in its asset quality metrics and improve profits to raise its capital-generation capacity. In addition, a stronger leverage ratio could also exert upward pressure.

Factors that Could Lead to a Downgrade

- A downgrade could be prompted if (1) the bank's BCA is downgraded; (2) the BCA of RBG is downgraded, as this could raise the current constraints for RLB Vorarlberg's BCA; and (3) changes to the bank's liability structure, in particular through a material reduction in senior unsecured liabilities, prompt a weaker result from our LGF analysis.
- Negative pressure on the BCA could result from a material weakening of RLB Vorarlberg's profitability and capital ratios, and/or indications of materially rising asset risks.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2
Raiffeisenlandesbank Vorarlberg (Unconsolidated Financials) [1]

	12-15[2]	12-14[2]	12-13[3]	12-12[3]	12-11[3]	Avg.
Total Assets (EUR billion)	6.3	6.5	6.7	6.7	6.9	-2.2[4]
Total Assets (USD billion)	6.8	7.8	9.2	8.8	8.9	-6.4[4]
Tangible Common Equity (EUR billion)	0.3	0.3	0.3	0.2	0.2	8.4[4]
Tangible Common Equity (USD billion)	0.3	0.3	0.4	0.3	0.3	3.7[4]
Problem Loans / Gross Loans (%)	2.9	3.5	2.0	1.7	1.6	2.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.3	13.1	12.9	9.9	9.4	13.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	11.6	13.7	7.6	7.7	7.2	9.6[5]
Net Interest Margin (%)	0.5	0.5	0.4	0.4	0.4	0.4[5]
PPI / Average RWA (%)	0.9	0.7	0.6	0.4	0.6	0.8[6]
Net Income / Tangible Assets (%)	0.3	0.3	0.9	0.2	0.2	0.4[5]
Cost / Income Ratio (%)	69.4	73.7	73.6	77.5	71.4	73.1[5]
Market Funds / Tangible Banking Assets (%)	77.0	77.0	79.8	79.6	78.7	78.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	74.4	75.7	78.5	77.1	78.9	76.9[5]
Gross loans / Due to customers (%)	156.4	144.5	123.4	119.1	103.6	129.4[5]

[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] Compound Annual Growth Rate based on LOCAL GAAP reporting periods [5] LOCAL GAAP reporting periods have been used for average calculation [6] Basel III - fully-loaded or transitional phase-in & LOCAL GAAP reporting periods have been used for average calculation
Source: Moody's Financial Metrics

Detailed Rating Considerations

With total assets of €6.3 billion as of December 2015, RLB Vorarlberg is one of the smaller of the eight Raiffeisenlandesbanken in Austria. RLB Vorarlberg is majority-owned by 21 local primary credit co-operatives in the region, for which the bank is the central institution. In Vorarlberg, the regional co-operative sector has sizeable market shares in retail banking and in lending to small and medium sized corporates.

RLB Vorarlberg has a 4.48% share in RZB (and therefore is an indirect shareholder of RBI), and a large portion of its income is derived from this participation. The bank's financial reporting is based on local GAAP.

RLB Vorarlberg's capitalisation is satisfactory, but leverage remains relatively high

RLB Vorarlberg's ratings are strongly underpinned by sound and gradually strengthening solvency metrics, in particular sound capital buffers.

RLB Vorarlberg reported a satisfactory 13.3% Common Equity Tier 1 ratio as of year-end 2015, which had improved from 12.6% a year earlier, under the Capital Requirements Regulation and Directive (CRR/CRD IV). The ratio benefitted from a 6% reduction in risk-weighted assets (RWAs) during 2015. That said, the bank displays somewhat higher leverage compared with its Raiffeisenlandesbanken peers, as reflected in its 4.0% regulatory Tier 1 leverage ratio as of year-end 2015 (2014: 3.9%).

RLB Vorarlberg has additional capital resources stemming from 1) undisclosed reserves under Austrian local GAAP; and 2) hidden reserves on its participation portfolios. Portions of these items were included in the bank's €69 million Tier 2 capital as of December 2015. If the bank were to report under IFRS, the respective amounts would be attributed to its CET1 capital.

The €148 million (mostly indirect) stake in RZB Group as of year-end 2015 represents a very large concentration in the context of RLB Vorarlberg's €271 million CET1 capital. To take account of the related risk, we simulate a 20% impairment of RLB Vorarlberg's indirect stake in RZB, which we discount from its tangible common equity (€292 million as of December 2015), and adjust the Capital Score accordingly. The baa1 Capital Score also includes an adjustment for the bank's comparatively high leverage.

Asset quality is sound and modest NPLs are supported by conservative provisioning

RLB Vorarlberg has one of the lowest problem loan ratios in the Austrian banking market, which illustrates its conservative underwriting. The bank's problem loan ratio for 2015 eased to 2.9%, after 3.5% as of year-end 2014. Provisioning levels are very prudent.

In addition to its €148 million participation in RZB, RLB Vorarlberg also has a €31 million portfolio of unquoted equity participations. These participations are largely related to the Raiffeisen sector, and we acknowledge the strategic fit for the bank. We understand that the portfolio carries substantial hidden reserves according to local GAAP. Although they cannot be, and are also not intended to be realised, the hidden reserves imply a valuable buffer against value erosion in its participations portfolio, thereby protecting the income statement from potential losses.

RLB Vorarlberg's Asset Risk Score is baa2. This score includes adjustments for (1) high single borrower concentration risk; and (2) market risk, considering the bank's significant exposure to the Swiss franc.

RLB Vorarlberg's profitabiity is modest and partly dependent on RZB's dividends

RLB Vorarlberg's BCA is constrained by the bank's dependence on returns from its significant investment in RZB, which has been the reason for considerable (underlying) profit volatility in recent years. That said, the bank has been able to disclose relatively stable net profits in recent years, which was possible either due to offsetting effects or through transfers to undisclosed reserves.[3]

Although the bank's 2015 net profit was almost stable at €17.9 million, the result was influenced by large one-off effects, in particular a €21 million profit on the sale of its stake in a regional building society, but also the €11.3 million reduction of the bank's income from participations to €1.5 million. The latter resulted from RZB not distributing dividends in that year (2014: €10.9 million). Total revenue of €61 million was therefore 12% lower year-on-year, whereas the €41 million total operating costs reflect an increase by 3%. That said, the €17.9 million net profit was understated because a large €9 million set aside as a general risk provision was in fact a fully taxed attribution to reserves, as is currently allowed under local GAAP.[4]

Nonetheless, several profitability metrics indicate a satisfactory quality of underlying earnings. These metrics include RLB Vorarlberg's 0.5% net interest margin in 2015, which was stable year-on-year and improved slightly over the last three years. Its risk-adjusted profits before risk costs (pre-provision income relative to risk-weighted assets) have also improved over the past five years. The respective ratio in 2015 was 0.9%, up from 0.7% one year earlier, as it benefitted from lower RWAs. We expect that persistent pressure on the bank's operating revenue, coupled with low or no dividends from RZB and limited scope for reducing costs, will result in lower profits during 2016-17.

The bank's Profitability score of b1 reflects its modest net profits relative to its total assets, and includes an adjustment that captures the expected negative trend for net profits.

The bank's sound liquidity mitigates funding risks, additionally supported by access to sector funds and retail deposits

As the central institution for the local Raiffeisen banks in Vorarlberg, RLB Vorarlberg has access to diversified funding sources including sector funds (€1.37 billion in 2015) and own issuances (€1.44 billion). These funds are complemented by deposits (€898 million) and interbank funding (€2.2 billion to banks outside the sector). The bank's (unadjusted) market funding ratio remains high, at 80% in 2015. However, the mitigation of funding risk implied by the bank's access to sector funds is reflected in the assigned Funding Score of b2.

RLB Vorarlberg has a relatively liquid balance sheet, considering that its loan book only represents 21% of its total assets, with the remainder mostly comprising inter-bank claims (40%) and securities investments (35%). The bank's large portfolio of highly rated fixed-income securities, most of which are eligible for collateral required by central banks, therefore provides ample flexibility in its liquidity management, as reflected in the aa3 Liquidity Score.

RLB Vorarlberg's ratings are supported by its Macro Profile of Strong +

RLB Vorarlberg's Macro Profile is Strong+, at the same level as the Strong+ Macro Profile for Austria (Aa1 stable[5]), because the bank's assets are primarily generated in its home market.

Austria's Strong+ Macro Profile reflects the country's stable economic environment, with a robust institutional and legal framework, sound government finances, and a low susceptibility to adverse events. Despite rising house prices, private sector debt is low and declining, further supporting credit conditions. Our Macro Profile also takes into account the banking sector's high market fragmentation, low fee-income generation and intense competition for domestic business.

Notching Considerations

Affiliate Support

We consider the likelihood of support from RBG, the Austrian Raiffeisen sector, to be very high owing to RLB Vorarlberg's regional importance to the sector. This support materially reduces the probability of default, as the co-operative group 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 stabilised, we still consider RBG's capitalisation as 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. Member banks with BCAs of ba1 or higher therefore 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 Vorarlberg.

Loss Given Failure

RLB Vorarlberg is subject to the EU Bank Recovery and Resolution Directive, which we consider to be an Operational Resolution Regime. We assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These metrics are in line with our standard assumptions.

RLB Vorarlberg's senior obligations and deposits are 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 EU 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 Vorarlberg's issuer and deposit ratings, despite the strong national market shares and systemic relevance of the Raiffeisen sector as a whole to the country's banking system.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment 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

Raiffeisenlandesbank Vorarlberg

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

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.9%	a2	←→	baa2	Sector concentration	Market risk
Capital						
TCE / RWA	14.3%	a1	←→	baa1	Nominal leverage	Stress capital resilience
Profitability						
Net Income / Tangible Assets	0.3%	ba2	←→	b1	Earnings quality	
Combined Solvency Score		a3		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	77.0%	caa3	←→	b2	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	74.4%	aa1	←→	aa3	Asset encumbrance	
Combined Liquidity Score		ba2		baa3		
Financial Profile				baa3		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aa1		
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	4,101	65.2%	4,193	66.7%
Deposits	897	14.3%	806	12.8%
Preferred deposits	664	10.6%	631	10.0%
Junior Deposits	233	3.7%	175	2.8%
Senior unsecured bank debt	1,101	17.5%	1,101	17.5%
Equity	189	3.0%	189	3.0%
Total Tangible Banking Assets	6,288	100%	6,288	100%

Debt class	De jure waterfall		De facto waterfall		Notching		LGF notching guidance versus 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 Assessment	23.3%	23.3%	23.3%	23.3%	3	3	3	3	0	a3 (cr)
Deposits	23.3%	3.0%	23.3%	20.5%	2	3	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 Assessment	3	0	a3 (cr)	0	A3 (cr)	--
Deposits	2	0	baa1	0	Baa1	Baa1

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
RAIFFEISENLANDESBANK VORARLBERG	
Outlook	Stable
Bank Deposits	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 shown are the bank's deposit rating and the debt rating, with their respective outlooks.

2 The ratings shown are the bank's deposit rating and the debt rating, with their respective outlooks, and the baseline credit assessment.

3 Under Austrian local GAAP, such fully-taxed reserves are labeled general loan-loss provisions and booked under risk charges in the income statement. Economically, however, the transfers represent allocations of net profits to capital reserves.

4 Starting from 2017, Austrian banks will have to distinguish between - and disclose separately - general loan loss provisions and transfers of fully taxed profits to local GAAP reserves. These reserves are recognised as Tier 2 regulatory capital, but are subject to phase-out under Basel III.

5 The rating shown is the sovereign bond rating and outlook

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