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CREDIT OPINION
16 November 2018

Update

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RATINGS

Raiffeisenlandesbank Vorarlberg

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 - 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

Update to credit analysis

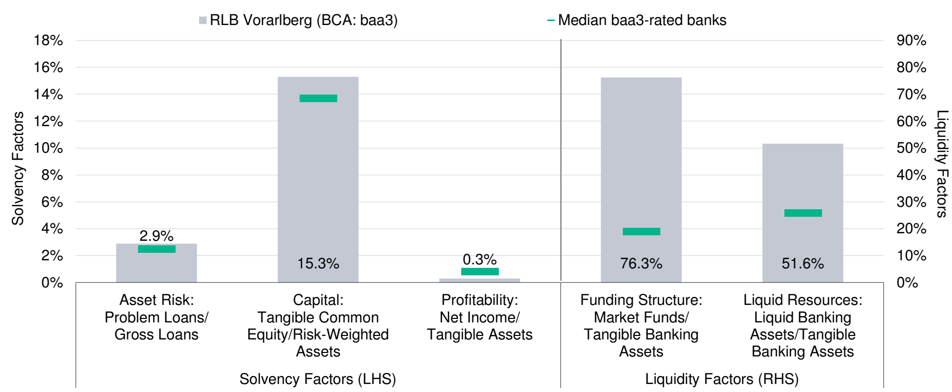
Summary

We assign Baa1 deposit and issuer ratings to Raiffeisenlandesbank Vorarlberg's (RLB Vorarlberg). Moreover, we assign a baa3 Baseline Credit Assessment (BCA) and adjusted BCA, and A3/P-2 Counterparty Risk Ratings (CRRs) to RLB Vorarlberg.

The Baa1 ratings reflect (1) the bank's baa3 BCA; (2) its baa3 Adjusted BCA, which incorporates a very high level of affiliate support from Raiffeisen Banking Group (RBG), but does not result in an 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.

The baa3 BCA takes into account the bank's sound and broadly stable asset-risk and sound capital metrics, as well as its stable funding structure. These strengths in principle indicate the potential for a BCA above the assigned baa3. However, the BCA remains constrained by (1) the high degree of correlation within the sector as a result of the very high mutual support commitment and (2) the risks related to its participations, in particular, the large ownership stake in Raiffeisen Bank International AG (RBI, A3/A3 stable, baa3).[1]

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» RLB Vorarlberg's capitalisation is sound, especially when taking into account the bank's additional reserves not being fully included in its regulatory capital ratios.

» The quality of the bank's core lending book remains sound and better than that of its peers.

» 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 Vorarlberg's risk profile is strongly influenced by non-lending risks, in particular its large stake in the sector's central institution, RBI.

» The bank's profitability is modest and volatile, with some dependence on income from participations.

» Its high dependence on wholesale funding, which is partially mitigated by its access to the Raiffeisen sector.

Outlook

» The outlook is stable, reflecting that the Raiffeisen sector's financial strength remains a limiting factor on RLB Vorarlberg's individual creditworthiness; we expect that the bank's overall solvency and liquidity profile, as well as its liability structure will remain broadly unchanged.

Factors that could lead to an upgrade

» The bank's ratings could be upgraded if RBG's financial strength improves, such that it results in an uplift in the affiliate support.

» In addition, the ratings may benefit from additional rating uplift, as assessed in our Advanced LGF analysis, which would required materially higher subordinated instruments.

» We would consider upgrading the BCA if the bank demonstrates that it can sustain superior asset-quality metrics and improve its capitalisation and leverage. However, this would not result in a ratings upgrade, if the affiliate support remains constraint by the financial strength of RBG.

Factors that could lead to a downgrade

» A 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 a deterioration of RBG's financial strength, because this would raise the current constraints for RLB Vorarlberg's BCA; and (3) changes to the bank's liability structure prompt a weaker result from our LGF analysis.

» Negative pressure on the BCA could result from a material weakening of RLB Vorarlberg's capital ratios combined with indications of materially rising asset risks.

Key indicators

Exhibit 2

Raiffeisenlandesbank Vorarlberg (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)	6.5	6.1	6.3	6.5	6.7	-0.9[5]
Total Assets (USD billion)	7.8	6.4	6.8	7.8	9.2	-4.2[5]
Tangible Common Equity (EUR billion)	0.3	0.3	0.3	0.3	0.3	2.9[5]
Tangible Common Equity (USD billion)	0.4	0.3	0.3	0.3	0.4	-0.6[5]
Problem Loans / Gross Loans (%)	2.4	3.3	2.9	3.5	2.0	2.8[6]
Tangible Common Equity / Risk Weighted Assets (%)	15.3	13.8	14.5	13.1	13.6	14.2[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.9	15.0	12.2	13.7	7.6	11.9[6]
Net Interest Margin (%)	0.5	0.5	0.5	0.5	0.4	0.5[6]
PPI / Average RWA (%)	0.8	0.6	0.9	0.7	0.6	0.7[7]
Net Income / Tangible Assets (%)	0.3	0.2	0.3	0.3	0.9	0.4[6]
Cost / Income Ratio (%)	68.9	75.5	69.4	73.7	73.6	72.2[6]
Market Funds / Tangible Banking Assets (%)	76.3	76.3	77.0	77.0	79.8	77.3[6]
Liquid Banking Assets / Tangible Banking Assets (%)	51.6	48.3	52.5	75.7	78.5	61.3[6]
Gross Loans / Due to Customers (%)	169.1	165.9	154.1	144.5	123.4	151.4[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 €6.5 billion as of December 2017, Raiffeisenlandesbank Vorarlberg (RLB Vorarlberg) is one of the smaller of the eight Raiffeisenlandesbanken in Austria (Aa1 stable), RLB Vorarlberg is majority-owned by 18 local primary credit co-operatives in the region, for which the bank is the central institution. On average RLB Vorarlberg employed 330 people in 2017.

RLB Vorarlberg is a direct shareholder in RBI, the Austrian Raiffeisen sector's central institution, holding a 2.9% share, which implies a significant indirect exposure to the Central and Eastern European banking markets. Traditionally, RLB Vorarlberg has partly relied on income derived from participations.

Weighted Macro Profile of Strong +

RLB Vorarlberg is focused on the Austrian market (73% of net exposures), and the bank's assigned Strong + Weighted Macro Profile is in line with the Strong+ Macro Profile of Austria.

Detailed credit considerations

Asset quality is sound, and modest nonperforming loans are supported by adequate provisioning

We assign a baa2 Asset Risk score to RLB Vorarlberg, three notches below the initial[2] score of a2. The assigned score reflects the modest three-year average of problem loans to gross loans of 2.9% as well as our adjustments for concentrations in more cyclical industries like commercial real estate and market risks from participations.

RLB Vorarlberg has one of the lowest problem loan ratios in the Austrian banking market, which illustrates its conservative underwriting. In 2017, the bank's problem loan ratio remained sound, declining to 2.4% from 3.3% a year earlier, while provisioning levels are prudent above 50% of problem loans. However, measured as percentage of RLB Vorarlberg's tangible common equity the concentration in construction and commercial real estate lending is high with 200%, which could trigger large losses in a highly adverse macroeconomic scenario.

Compared to the bank's total assets of €7.4 billion, RLB Vorarlberg's customer lending constitutes only a small part of it with €1.5 billion, which mainly consists of corporates. In addition to its loan book, the bank holds €31 million of unquoted equity participations in addition to its €148 million participation in RBI. 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 revaluation reserves according to local GAAP.

Although these cannot be (and are also not intended to be) realised without selling the participation, the revaluation reserves imply a valuable buffer against value erosion in its participations portfolio, thereby protecting the income statement from potential losses.

Sound capitalisation, taking into account additional reserves

We position the Capital score at a1, one notch below the initial score of aa3. The score reflects the bank's sound and increasing solvency metrics represented by a tangible common equity (TCE) ratio of 15.3% as of year-end 2017, up from 13.8% a year earlier. Moreover, it also reflects vulnerabilities in capitalisation resulting from RLB Vorarlberg's participations that are counterbalanced by additional reserves.

The €148 million stake in RBI as of year-end 2017 represented a large concentration in the context of the bank's €310 million TCE (48%). To take the related risk into account, we simulate a partial impairment of the bank's stake in RBI as well as on other participations. However, we believe this risk is mitigated by the bank's substantial additional capital resources of €61 million stemming from (1) its fully taxed reserves under Austrian local GAAP[3] as of December 2017; and (2) the revaluation reserves on its participation portfolios. Portions of these reserves were included in the bank's €63 million Tier 2 capital as of December 2017. If the bank were to report under IFRS, the respective amounts would be attributed to its Common Equity Tier 1 (CET1) capital.

In addition to current non-lending risks stemming from its participations, we expect RLB Vorarlberg to only gradually build further capital buffers above the regulatory required minimum to avoid a weakening of its capital ratios resulting from adjustments to the currently applicable (and relatively favourable) risk weightings for participations, in the context of the targeted harmonisation of risk weights under Basel III. In 2017, RLB Vorarlberg reported a regulatory 14.2% CET1 capital ratio as of year-end 2017, well above the 13.0% that was reported a year earlier. The ratio benefited from a €11 million increase in CET1 capital to €286 million as well as from a slight €100 million decrease in risk-weighted assets to €2.0 billion in 2017. However, the bank's regulatory leverage ratio is still weaker than those of its Raiffeisenlandesbanken peers, and stood at 4.2% as of year-end 2017 (2016: 4.0%).

Profitability is modest and partly dependent on income from participations

We assign a Profitability score of b1, two notches below RLB Vorarlberg's ba2 initial score. The b1 score reflects our expectation of a slight decline in its modest net profit relative to its total assets as well as its dependence on more volatile income streams from participations. For 2018, we expect the net income-to-tangible assets ratio to result in around 20 bps of tangible assets based on our assumption of continued pressure on net interest income as well as including a normalised provisioning level.

Although we saw a slight increase in net interest income by 5% to €31 million in 2017, we expect it to remain under pressure in the medium term because the negative/low interest rate environments weigh on returns from treasury and interbank activities, while the share of more stable interest income from customers showed a declining trend in 2017 to 49% from 55% of total net interest income a year earlier.

In total, RLB Vorarlberg reported an improved net profit for 2017 of €18.8 million (2016: €10.9 million), which mostly benefitted from the net release of loan-loss provisions of €3 million compared with the creation of €14 million a year earlier, while net interest income the slight increase in net interest income by 5% to €31 million was mostly outpaced by the decline in fee and commission income of 4% to €9 million. In addition, RLB Vorarlberg did not build up any additional local GAAP reserves[4] as it had done a year earlier. Such transfers principally understate the true profit, which the bank did consistently during the three years to 2016 to increase its loss-absorption buffers. For 2018, we expect a normalised provisioning level ranging between €6 million-€7 million.

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

We assign a Funding score of b2, four notches above the caa3 initial score, reflecting the bank's market funds-to-tangible banking assets ratio of 76% as of year-end 2017. Moreover, the b2 score also takes into consideration RLB Vorarlberg's role as a central institution for the primary Raiffeisen banks in Vorarlberg, which mitigates its reliance on wholesale funding.

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

As of year-end 2017, RLB Vorarlberg's funding profile consisted of €3.8 billion in interbank liabilities, of which €1.4 billion was placed in the sector as well as €1.4 billion in securitised liabilities, including €0.5 billion in covered bonds. Additionally, RLB Vorarlberg held €0.9 billion of customer deposits at that time

Sound liquidity mitigates funding risks

We assign a Liquid Resources score of aa3, one notch below the initial score of aa2, which represents RLB Vorarlberg's strong liquid banking assets-to-tangible banking assets ratio of 52% as of year-end 2017. Moreover, the aa3 score includes our assessment of asset encumbrance due to covered bond issuances and additional restrictions on intragroup deposits that RLB Vorarlberg holds as part of its role as a central institution.

As of year-end 2017, the bank's liquid resources of €3.3 billion included €3.2 billion in interbank lending and €0.2 billion in cash. 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 Vorarlberg.

As of the same date, RLB Vorarlberg's liquidity coverage ratio stood at 177%.

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 Vorarlberg's regional importance to the sector. This support significantly reduces the probability of default because 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 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 baa3 or higher, therefore, do not benefit — in terms of rating uplift — as a result of our very high support assumption for the group of Raiffeisenlandesbanken. Accordingly, RBG's cross-sector support currently results in no rating uplift for RLB Vorarlberg.

Loss Given Failure (LGF) analysis

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

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

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

The bank's CR Assessments are 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 Vorarlberg 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

Raiffeisenlandesbank Vorarlberg

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	2.9%	a2	←→	baa2	Sector concentration	Market risk
Capital						
TCE / RWA	15.3%	aa3	←→	a1	Risk-weighted capitalisation	Stress capital resilience
Profitability						
Net Income / Tangible Assets	0.3%	ba2	←→	b1	Earnings quality	Expected trend
Combined Solvency Score		a3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	76.3%	caa3	←→	b2	Market funding quality	Extent of market funding reliance
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	51.6%	aa2	←→	aa3	Asset encumbrance	Intragroup restrictions
Combined Liquidity Score		ba2		baa3		
Financial Profile				baa2		
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	4,497	69.4%	4,587	70.8%
Deposits	883	13.6%	793	12.2%
Preferred deposits	653	10.1%	621	9.6%
Junior Deposits	230	3.5%	172	2.7%
Senior unsecured bank debt	904	14.0%	904	14.0%
Equity	194	3.0%	194	3.0%
Total Tangible Banking Assets	6,478	100%	6,478	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	19.6%	19.6%	19.6%	19.6%	3	3	3	3	0	a3
Counterparty Risk Assessment	19.6%	19.6%	19.6%	19.6%	3	3	3	3	0	a3 (cr)
Deposits	19.6%	3.0%	19.6%	17.0%	2	3	2	2	0	baa1
Senior unsecured bank debt	19.6%	3.0%	17.0%	3.0%	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	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
RAIFFEISENLANDESBANK VORARLBERG	
Outlook	Stable
Counterparty Risk Rating -Dom Curr	A3/P-2
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 RBI's deposit and senior unsecured debt ratings and outlook, and its 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, therefore, not disclosed as reserves.

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

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