MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Upgrades Hypo Vorarlberg Bank AG - Mortgage Covered Bonds

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London, 23 March 2018 -- Moody's Investors Service ("Moody's") has today upgraded to Aaa from Aa1 the mortgage covered bonds issued by Hypo Vorarlberg Bank AG (the issuer; CR assessment A2(cr)).

RATINGS RATIONALE

Today's upgrade is prompted by the issuer's confirmation that it intends to maintain a level of overcollateralisation (OC) in the Hypo Vorarlberg Bank AG -- Mortgage Covered Bonds programme at or above 26.0%, which is consistent with a Aaa rating.

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 both programmes is CR assessment plus 1 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 the mortgage covered bonds are 28.8%. 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 17.0% and collateral risk of 11.9%. Market risk measures losses stemming from 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 cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 17.7%.

The over-collateralisation in the mortgage cover pool is 43.5%, of which the issuer provides 2.0% on a "committed" basis. The minimum OC level consistent with the Aaa rating target is 26.0%, of which the issuer should provide 0% in a "committed" form. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

All numbers in this section are based on the most recent Performance Overviews (based on data, as per 9 September 2017). The exception is the figures that show the OC consistent with a Aaa rating which are based on Moody's most recent modelling.

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.

Moody's has assigned to the Hypo Vorarlberg Bank AG - Mortgage Covered Bonds a TPI of Probable.

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 the mortgage covered bonds is 3 notches. This implies that Moody's might downgrade the mortgage covered bonds because of a TPI cap if it lowers the CB anchor by 4 notches or more all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain 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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