MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades covered bonds of Hypo Tirol and Kommunalkredit

Global Credit Research - 23 Jun 2014

Frankfurt am Main, June 23, 2014 -- Moody's Investors Service has today downgraded to Aa1 from Aaa the ratings on the guaranteed public-sector covered bonds, and to Aa2 from Aa1 the ratings on the unguaranteed public-sector covered bonds, issued by Hypo Tirol Bank AG (Hypo Tirol, deposits Baa3 negative; bank financial strength rating E+/adjusted baseline credit assessment b1).

At the same time Moody's has downgraded to Aa3 under review for downgrade from Aa2 the public-sector covered bond issued by Kommunalkredit Austria AG (Kommunalkredit, deposits Ba1 on review for downgrade; bank financial strength rating E/adjusted baseline credit assessment caa3).

RATINGS RATIONALE

Today's rating action on the guaranteed public-sector covered bonds of Hypo Tirol is prompted by the downgrade of the issuer's guaranteed debt rating to Baa2 from Aa2. The rating action on the unguaranteed public-sector covered bonds of Hypo Tirol is prompted by the downgrade of the issuer's senior unsecured and deposit ratings to Baa3 from Baa2.

The rating action on the public-sector covered bonds of Kommunalkredit is prompted by the downgrade of the issuer's senior unsecured and deposit ratings to Ba1 from Baa3.

For more details on today's rating actions, please refer to our press release "Moody's downgrades Austrian banks following change in systemic support assumptions", published on 20 June 2014.

Moody's notes that the rating action on the covered bonds was not caused by a deterioration in the credit quality of the cover pool assets backing the covered bonds. The downgrade of the issuer's senior unsecured and deposit ratings negatively affected the covered bonds through its impact on both the timely payment indictor (TPI) analysis and the expected loss analysis.

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 the guaranteed covered bonds of Hypo Tirol is the Baa2 guaranteed senior unsecured debt rating plus 0 notches. The CB anchor for Hypo Tirol's unguaranteed covered bonds is the senior unsecured debt rating plus 0 notches. The CB anchor for Kommunalkredit's covered bonds is the senior unsecured debt rating plus 0 notches. Moody's does not provide for an uplift of the CB anchor above the respective senior unsecured debt ratings given the high systemic uplift of these ratings above the issuers' adjusted baseline credit assessments.

The cover pool losses for Hypo Tirol's public-sector covered bonds are 17.9%. 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 14.8% and collateral risk of 3.1%. 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 6.2%.

The over-collateralisation in Hypo Tirol's public-sector cover pool is 707.6 %, of which the issuer provides 9.5% on a "committed" basis. The minimum OC level consistent with the Aa1 rating target for the guaranteed covered bonds is 16.0%, of which the issuer should provide 8.5% in a "committed" form. The minimum OC level consistent with the Aa2 rating target for the unguaranteed covered bonds is 13.5%, of which the issuer should provide 7.0% in a "committed" form. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

The cover pool losses for Kommunalkredit's public-sector covered bonds are 26.6%. 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 20.7% and collateral risk of 5.9%. 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 11.8%.

The over-collateralisation in Kommunalkredit's public-sector cover pool is 30.2 %, of which the issuer provides 28.0% on a "committed" basis. The minimum OC level consistent with the Aa3 rating target is 25.0%, of which the issuer should provide 19.0% in a "committed" form. 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 the most recent Performance Overview based on data, as per 31 December 2013.

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.

For both Hypo Tirol's and Kommunalkredit's public-sector covered bonds, Moody's has assigned a TPI of "High".

FACTORS THAT WOULD LEAD TO AN UPGRADE OR 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 an upgrade or 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 "High" for Hypo Tirol's covered bonds, the TPI Leeway for both the guaranteed and unguaranteed covered bonds is 0 notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap, if it lowers the CB anchor by 1 notch all other variables being equal.

The TPI assigned to Kommunalkredit's public-sector covered bonds is "High". The TPI Leeway for this programme is limited, and thus any reduction of the CB anchor may lead to a downgrade of the covered bonds.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances, such as (1) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (2) a multiple-notch downgrade of the issuer; 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 March 2014. Please see the Credit Policy 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.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Patrick Widmayer
Asst Vice President - Analyst
Structured Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Juan Pablo Soriano
MD - Structured Finance
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

MOODY'S
INVESTORS SERVICE