MOODY'S INVESTORS SERVICE

Credit Opinion: Hypo Alpe-Adria-Bank International AG

Global Credit Research - 07 Jul 2011

Klagenfurt, Austria

Ratings

Category	Moody's Rating
Outlook	Negative(m)
Bank Deposits	Baa3/P-3
Bkd Bank Deposits	Aa3/P-1
Bank Financial Strength	E
Baseline Credit Assessment	Caa2
Adjusted Baseline Credit Assessment	Caa2
Issuer Rating	Baa3
Senior Unsecured MTN -Dom Curr	(P)Baa3
Subordinate MTN -Dom Curr	(P)Ba1
Bkd Jr Subordinate -Dom Curr	C (hyb)
Commercial Paper -Dom Curr	P-3
Other Short Term -Dom Curr	(P)P-3
Hypo Alpe-Adria (Jersey) II Limited	
Outlook	Stable
BACKED Pref. Stock Non-cumulative	Ca (hyb)
Hypo Alpe-Adria (Jersey) Limited	
Outlook	Stable
BACKED Pref. Stock Non-cumulative	Ca (hyb)
Hypo Alpe-Adria-Bank AG	
Outlook	Negative
Bkd Senior Unsecured -Dom Curr	Aa3
Bkd Subordinate -Dom Curr	A1

Contacts

Analyst	Phone
Mathias Kuelpmann/Frankfurt am Main	49.69.707.30.700
Swen Metzler/Frankfurt am Main	
Carola Schuler/Frankfurt am Main	
Mira Kirschner/Frankfurt am Main	

Key Indicators

Hypo Alpe-Adria-Bank International AG (Consolidated Financials) [1]

	[2]**12-10**	[2]**12-09**	[2]**12-08**	[3]**12-07**	[3]**12-06**	**Avg.**
Total Assets (EUR million)	**38,749.7**	**41,076.4**	**43,334.5**	**37,934.6**	**31,005.5**	[4]**5.7**
Total Assets (USD million)	**51,984.4**	**58,934.0**	**60,237.0**	**55,462.4**	**40,885.4**	[4]**6.2**
Tangible Common Equity (EUR million)	**-649.1**	**587.5**	**1,456.0**	**1,211.5**	**530.9**	**--**
Tangible Common Equity (USD million)	**-870.8**	**843.0**	**2,023.9**	**1,771.3**	**700.1**	**--**
PPI / Avg RWA (%)	**1.2**	**1.5**	**-0.3**	**0.6**	**1.2**	[5]**0.8**
Net Income / Avg RWA (%)	**-3.7**	**-4.7**	**-1.7**	**-0.3**	**0.5**	[5]**-3.4**
(Market Funds - Liquid Assets) / Total Assets (%)	**55.1**	**55.7**	**53.3**	**49.3**	**51.9**	[6]**53.1**
Core Deposits / Average Gross Loans (%)	**27.7**	**25.4**	**31.5**	**36.7**	**32.3**	[6]**30.7**
Tier 1 Ratio (%)	**6.6**	**6.6**	**7.8**	**6.2**	**5.3**	[5]**7.0**
Tangible Common Equity / RWA (%)	**-2.4**	**1.9**	**4.2**	**4.2**	**2.4**	[5]**1.2**
Cost / Income Ratio (%)	**64.5**	**53.0**	**120.7**	**77.8**	**62.0**	[6]**75.6**
Problem Loans / Gross Loans (%)	**35.1**	**28.0**	**14.6**	**10.8**	**11.8**	[6]**20.1**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**393.4**	**279.8**	**183.4**	**141.3**	**225.6**	[6]**244.7**

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Basel I; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] Basel II & IFRS reporting periods have been used for average calculation [6] IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of E to Hypo Alpe-Adria-Bank International AG (HAA), mapping to Caa2 on the long-term rating scale. The BFSR reflects Moody's view that HAA is likely to continue to face substantial challenges in its efforts to work-out its sizeable portfolio of impaired loans and at the same time to establish a viable business model independent of government support. We believe that the bank has yet to prove that its franchise in Austria and abroad can be restored and that the risks in its significant legacy portfolio are contained. In Moody's view, as HAA remains in a fragile financial situation for the foreseeable future, we cannot rule out the possibility that more capital support will be necessary to prevent renewed distress. The BFSR is supported by the largely matched funding profile of the group.

Moody's continues to view the probability of systemic support for nationalised HAA as very high. This results in a eight-notch uplift in HAA's long-term global local currency (GLC) senior debt and deposit ratings to Baa3 from its Caa2 standalone rating (baseline credit assessment or "BCA"). The short-term rating is Prime-3.

The debt rating for grandfathered obligations, which continue to benefit from deficiency guarantees from the Austrian federal state of Carinthia (unrated) is Aa3, reflecting the financial strength of the guarantor. Debt issued under the guarantee program of the Republic of Austria during the financial crisis is rated Aaa.

Credit Strengths

- Recognised market position as lender in South Eastern Europe (SEE), which also provides access to deposit funding.

- Continued support from the Republic of Austria as HAA's sole shareholder, also given the government's exposure resulting from significant amounts of funding (EUR 18.8 billion) guaranteed by the Austrian federal state of Carinthia or the Republic of Austria (around EUR 600 million), which will only mature over time and most of it ultimately by 2017.

Credit Challenges

- Impaired loan quality with about one third of the loan portfolio classified as non-performing which represent an ongoing challenge to moderate capitalization in view of only acceptable coverage ratios.

- Maintaining necessary levels of liquidity and capitalisation while deleveraging the bank's balance sheet.

- Broadening its funding base, thereby effectively replacing the large amounts of grandfathered debt to the extent these maturities will not fully be compensated by timely deleveraging.

- Returning to adequate profitability and rebuilding HAA's franchise within a substantially reduced business set-up as required by the European Commission, while re-building and strengthening corporate and risk governance and culture.

Rating Outlook

The negative outlook to the Baa3 senior unsecured debt and deposit ratings reflects Moody's view of a lower probability of future systemic support over time as: (i) HAA's systemic importance will inevitably decrease as major parts of the bank are divested or wound down over time; and (ii) the "grandfathering" or sovereign guarantee for the bank's debt will gradually reduce in light of the largely staggered nature of the maturity profile of this debt until 2017.

What Could Change the Rating - Up

There is currently no upward pressure on HAA's ratings. Any upward pressure on the BFSR would depend on; (i) material improvement in the bank's portfolio of non-performing loans and asset quality; (ii) a return to profitability and evidence of sustainable profit generation and rebuilding of adequate loss-absorbing capital cushions; and (iii) re-establishment of viable business franchise. Given the very weak asset quality, in particular in the bank's wind-down portfolio, it is currently unclear whether the bank as a whole will ever be able to operate on a stand-alone basis again. Given the very high level of systemic support currently factored into the ratings, any gradual improvement in the standalone profile would not lead to higher long-term ratings.

What Could Change the Rating - Down

There is no downward pressure on the BFSR since it is already at its lowest possible level.

HAA's supported Baa3 long-term ratings depend entirely on the support of the bank's sole owner, the Republic of Austria. We consider the Republic's commitment likely to reduce over time with most of state-guaranteed debt maturing until 2017, putting further downward pressure on the ratings. In addition, HAA's systemic importance will inevitably decrease as major parts of the bank are divested or wound down over time. As the restructuring plan is still subject to the approval of the European Commission, the commission might choose to accelerate this process.

Recent Results and Company Events

In 2010, HAA posted a loss of EUR 1.1 billion, the fourth annual loss in a row and down from a loss of EUR 1.6 billion the year before. Main driver was again substantial risk provisions, which came out at EUR 1.2 billion, EUR 200 million higher than management had anticipated mid 2010 and a result of a further review of exposures at the international subsidiaries. At a decreased volume of customer loans at EUR 28.2 billion (-6.3%), the cost of risk remained at a high 416 bps, mainly driven by Southern Eastern European (SEE) activities and the wind-down portfolio. We note a further increase of the non performing loans (NPLs) to EUR 9 billion or by 30% year on year, also as a result of a comprehensive portfolio review by new management. NPLs now account for almost one third of the entire loan book. Coverage by loan loss reserves remained at a mere 35% with an additional 58% of NPLs covered by collateral. Although we acknowledge the asset based lending model of HAA in the past, we caution that collateral, in particular in the still developing markets in SEE, might not be as fungible as in Western markets.

Pre-provision income (PPI) decreased to EUR 331 million (-32%) mainly due to absence of positive valuation effects that were recorded on financial instruments in 2009 and a EUR 41 million increase in depreciation resulting mainly from abandoning groupwide software projects and some extraordinary depreciation on equity holdings, which the bank has to fully consolidate.

The main driver of PPI remained net interest income at EUR 882 million (+1.5%), while fee income was slightly down to EUR 108 million (-11%). Total assets decreased to EUR 38.7 billion (- 5.7% from 2009 and -10.6% from 2008). Capitalisation remained constant at a low level of 6.6% Tier 1 as HAA received EUR 600 million new capital to cover parts of its losses mostly from the Republic of Austria as its sole owner (EUR 450 million) with the rest being taken up by Carinthia. HAA was able to attract an additional EUR 470 million in deposits, increasing its deposit base to EUR 8.1 billion or 23% of its funding base.

Earlier this year the company bought back EUR 750 million government guaranteed bonds. The transaction was part of a commitment of the bank to buy back at least EUR 400 million to reduce government guarantees after having received a EUR 200 million government guarantee for a selected loan portfolio at the end of 2010 which provides a relief of risk provisions and ultimately capitalisation. The higher buy back amount was possible due to sufficient liquidity reserves of the bank. The bank currently holds a liquidity buffer of EUR 2.2 billion and access to a further EUR 2.75 billion of short-term funding via liquidity lines and ECB repo eligible assets. Although we consider the transaction rating neutral, it shows that the government may aim to limit its commitment to the level of support already granted.

NEW GROUP STRUCTURE ESTABLISHED AND POTENTIAL IMPLICATIONS FOR SALES PROCESS

HAA has reorganised its internal set-up where HAA will assume only holding functions going forward whereas the majority of (grandfathered) wholesale funding will be kept at the holding level. HAA's client related business is reported under its SEE network, as well under its operations in Italy and Austria, accounting for 60% of HAA's assets and 90% of its operating income. A portfolio of EUR 8.2 billion assets across legal entities (21% of the bank's balance sheet) has been ear-marked for wind-down and contains the majority of leasing companies whose business will be discontinued, together with the cross border and corporate large ticket business, which previously has been executed out of Austria.

With this structure in place and in line with directions from the EU, HAA gained the necessary flexibility for a potential sales process, which the bank initiated in June 2011. The intention is to sell the three operating segments: SEE (as the future core of the bank coordinated by a holding in Austria), Austria and Italy separately over time. Unless the wind-down portfolio were to be sold separately, for which we consider chances to be slim, this would then move the remaining bank into wind-down mode. Although we consider the funding profile to be largely matched, we caution that while the bank's capitalisation complies with regulatory requirements, the bank has only limited scope to bear further unexpected losses.

We recognise that the sales process will also be a function of the outcome of the negotiations with the EU. Any decision by the EU to accelerate the process and dissolve parts of the operations in the short term is likely to put pressure on the current rating levels.

DETAILED RATING CONSIDERATIONS

Detailed considerations for HAA's currently assigned ratings are as follows.

Bank Financial Strength Rating

Moody's assigns an E BFSR to HAA, which is constrained by the bank's deteriorated franchise value and impaired asset quality. It is supported by the largely matched liquidity and funding structure.

Qualitative Rating Factors (50%)

Factor 1: Franchise Value

Trend: Neutral

Moody's considers parts of HAA's franchise to be tarnished beyond repair. In particular we consider a return to the capital markets to be highly unlikely for the foreseeable future. More than 20% of the bank's balance sheet is marked for wind-down and the major part of the business has yet to return to profitability.

The key challenge for the bank will be to re-establish a more focused franchise in SEE with a stronger local funding base. We understand that the bank may sell its Austrian and Italian businesses separately, as synergies with its network in SEE are limited. Key challenges in SEE will be to maintain and eventually grow the business, given significant pressure to deleverage, potentially further enhanced by the EU Commission's decision regarding state aid expected for later during the year.

Although the bank has introduced a more stringent credit policy to control for asset quality, in the future, the scope to write new business is constrained by the bank's tight capital ratios, as well as the necessity to deleverage given looming maturities of state guaranteed bonds. We recognise that the bank has been able to maintain major parts of its local deposit base throughout the crisis. Incremental growth will depend largely on the ability of the bank to attract additional funds locally.

The score for the franchise value is E+.

Factor 2: Risk Positioning

Trend: Neutral

Severe shortcomings in coping with or controlling of the aggressive growth of the bank over 2002-08 ultimately lead to repeated instances of distress of the bank, first in the year 2006 when the bank had to post substantial losses from its treasury activities resulting in a breach of capital adequacy requirements and again in 2008 when the bank had to be recapitalized by a EUR 1.6 billion capital injection following a significant deterioration in the quality of its credit exposure. The bank operated as a regional mortgage lender in the Austrian region of Carinthia, with less than EUR 10 billion assets until 2002, when the bank started an aggressive expansion strategy. Since then the bank added EUR 5-7 billion assets p.a. until 2008 when the bank had a total balance sheet of EUR 43 billion. The aggressive growth focused on asset based lending to corporate customers, mainly in SEE, which accounts for more than 60% of the bank's lending to customers. Leasing contracts account for almost one quarter.

The near break-down of the bank at the end of 2009 (despite a capital injection of EUR 1.6 billion in 2008, almost the size of the bank's then capital position of EUR 1.7 billion) showed the severe insufficiencies in risk management. In order to identify the risks incurred, new management, which came in April 2010, initiated a comprehensive IFRS loan book portfolio review, which covered 90% of the total corporate portfolio and resulted in an additional need for provisioning of EUR 425 million at year end, significantly more than anticipated mid 2010.

The bank has considerable legacy risks related to cross border and large ticket lending out of its Austrian operations. In addition, the bank incurs some foreign currency risk given its operations in SEE. Market risk mainly relates to credit-spread risk, which is driven by the bank's liquidity reserve.

New management has put substantial efforts into getting policies and procedures in place, which will allow it to more effectively identify and control risks. However, legacy issues remain a concern. The bank has continued to suffer from severe instances of a lack of control and fraudulent behaviour, including criminal charges. These instances have mainly occurred in its SEE network, such as Slovenia where management had to be dismissed in February 2011. In order to address these legacy issues, management is committed to a zero tolerance policy and has put structures in place to allow for a smooth execution of the arising legal investigations. We caution that it will take years to fully uncover the problems incurred.

The score for risk positioning is E.

Factor 3: Regulatory Environment

Trend: Neutral

All Austrian banks are subject to the same score on the regulatory environment. This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control.

Factor 4: Operating Environment

Trend: Neutral

In general, this factor is also common to all Austrian banks, i.e. Moody's assigns an A- score for the overall operating environment. However, HAA's operating environment score has been adjusted to C- since this better reflects the bank's geographical diversification given its operations in Austria, SEE and its neighbouring countries.

Factor 5: Profitability

Trend: Neutral

With more than EUR 3 billion losses incurred during the past three years, we consider the path for HAA to regain profitability to be challenging. At the heart of the recent losses were significantly increased risk provisions to account more adequately for the bank's poor asset quality. The available substantial loan loss reserves of more than EUR 3 billion provide some cushion to absorb losses from the bank's legacy portfolio.

Given that the wind-down portfolio has been moved to a separate segment, we expect the bank to focus on regaining profitability for its three operating units in SEE, Austria and Italy. We note that HAA has been able to stabilise its operating income, despite decreasing lending volumes to customers (-6.3%) With interest income accounting for 89% of operating income (excluding other income) this was mainly due to a slightly increased net interest margin at 2.3%

The bank aims to break-even in 2011, which will depend on market developments in SEE. An important constraint for the performance of the bank as a whole is the performance of the wind-down portfolio, which accounted for more than 60% of the total risk provisions in the profit and loss statement in 2010. At the same time we expect the three operating units in SEE, Austria and Italy to regain some profitability over time.

The score for profitability is E+.

Factor 6: Liquidity

Trend: Neutral

The main constraint for the bank's liquidity is the looming maturities of state guaranteed bonds. Until 2008, growth was mainly financed by bonds, which were guaranteed by the Austrian federal state of Carinthia and which continue to account for almost half of the bank's balance sheet (EUR 18.8 billion). These bonds have a staggered maturity profile bonds of up to EUR 2.5 billion becoming due p.a. until 2017 when EUR 5.6 billion or most of the remaining volume at the time will have to be repaid. Most of the funding is matched and should allow the bank to deleverage over time.

The bank currently holds a liquidity buffer of EUR 2.2 billion and access to a further EUR 2.75 billion of short-term funding via liquidity lines and ECB repo eligible assets, which we consider adequate given the bank's largely matched funding profile. The bank was able to attract an additional EUR 470 million deposits in 2010 (mainly in SEE which now accounts for EUR 4.3 billion deposits) thereby increasing its deposit base to EUR 8.1 billion, albeit this still falls EUR 600 million short of its overall 2008 deposits which mainly experienced an outflow in Austria. We caution that deposits continue to account for only 23% of the bank's funding base and the bank will need to increase its efforts to attract funding in the local markets in order to implement a business model, which will be sustainable once most of the government guaranteed bonds have matured in 2017.

Reliance on bank debt is limited and consists mainly of a EUR 3 billion liquidity line by its former majority owner Bayerische Landesbank (BayernLB, A1 RuR down, D- / Ba3 stable), which is committed until 2013. However, we caution that further access to parts of the interbank market relies on the bank's current prime status. HAA's Prime-3 short-term rating depends on its long-term deposit rating of Baa3, which carries a negative outlook.

The score for liquidity is E.

Factor 7: Capital Adequacy

Trend: Neutral

In order to maintain the regulatory minimum capitalisation, the bank received more than EUR 3 billion capital injections during the past three years, both from the Republic of Austria and its former owners, mainly BayernLB and the Austrian federal state of Carinthia. As its previous owners were not willing (BayernLB) or able (Carinthia) to provide the necessary support to prevent an insolvency of the bank, the Republic of Austria became the sole owner of HAA at the end of 2009. HAA had EUR 19.4 billion bonds guaranteed by Carinthia outstanding at the time which came down to EUR 18.8 billion meanwhile due to some maturities.

Total capitalisation is at 10.3% (+0.4% y-o-y) and the bank's Tier 1 ratio is at 6.6% (+/- 0%). Capital in excess of regulatory minimum requirements is at a mere EUR 610 million at holding level and EUR 360 million at the level of the single entity Hypo Alpe-Adria Bank International AG.

While major parts of the capital injection were provided as participation capital (EUR 1.5 billion) or supplementary capital (EUR 885 million) we note the recent decision to turn EUR 450 million participation capital into share capital thereby improving the quality of capital and moving core capital to 41% of the bank's tier 1 capital of EUR 1.8 billion.

We consider capitalisation to be tight given substantial uncertainties regarding asset quality and the available security to cover potential shortfalls.

While the bank plans to break even in 2011, downside risks remain. In Moody's view, as HAA remains in a fragile financial situation for the foreseeable future, we cannot rule out the possibility that more capital support will be necessary to prevent renewed distress.

The score for capital adequacy is D.

Factor 8: Efficiency

Trend: Neutral

Costs increased to EUR 595 million, up 10% from the past year, mainly as a result of a EUR 41 million increase in depreciation and amortisation. The increase resulted mainly from abandoning groupwide software projects and some extraordinary depreciation on equity holdings, which the bank has to fully consolidate. Excluding depreciation costs increased by a mere 2.6% due to a strategy of cost containment. The bank has started to reduce staff levels to around 7,000, down from 7,500 in 2008, mainly in the finance department and as an effect of natural fluctuation.

The score for efficiency is D.

Factor 9: Asset Quality

Trend: Neutral

Poor asset quality as a result of rapid growth in 2002 - 08 is at the core of HAA's problems and remains a constraining factor for the bank's poor fundamentals. Gross new loan loss provisions accounted for a staggering 416 basis points on the loan book in 2010, after 555 basis points the year before. As of end of 2010, non-performing loans of EUR 9.0 billion accounted for almost one third of the loan book, indicating the size of the problem. Downward rating transition of the loan book followed a comprehensive due diligence and portfolio review covering 90% of the total corporate portfolio.

Loan loss provisions have increased significantly over the past two years, resulting in a total of EUR 3.2 billion at year end 2010, up from EUR 2.4 billion the year before and EUR 1.0 billion in 2008. Nevertheless, coverage by provisions remains at a low 35%. An additional 58% of the NPL book is covered by collateral. However, we consider the cushion from collateral to be limited as we caution that security is fungible to a limited extent, only in the regions in which the bank operates. Including financial institutions, the bank has EUR 19.3 billion exposure in Southern Eastern Europe.

We consider risks from the bank's structured credit portfolio to be largely contained. The bank reduced its structured credit portfolio - half of which are credit link notes (CLNs) on public entities and corporates - to EUR 276 million, down from EUR 610 million in 2007.

The score for asset quality is E with a neutral trend.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a GLC deposit rating of Baa3 to HAA. The rating is based on HAA's long-term mapping of Caa2 and is underpinned by a very high probability of systemic support. Our assessment reflects the substantial capital (EUR 1.5 billion) and liquidity support (EUR 1.35 billion, in the meantime reduced to EUR 600 million following the bank's debt repurchase in early 2011) granted by the Republic of Austria to avoid an insolvency of the bank, effectively protecting the current EUR 18.8 billion bonds guaranteed by Carinthia. The rating does not incorporate any support from Carinthia. In case additional support was needed, we expect the Republic of Austria (Aaa) to step in first and then have Carinthia to contribute to the extent it can afford.

We expect the support to decrease over time as: (i) HAA's systemic importance will inevitably decrease as major parts of the bank are divested or wound down over time; and (ii) the "grandfathering" or sovereign guarantee for the bank's debt will reduce over time in light of the largely staggered nature of the maturity profile of this debt until 2017. We will therefore closely monitor and regularly update the assessment of support probabilities.

Notching Considerations

All hybrid instruments of HAA are rated on an expected loss basis. Moody's assigns a Ca rating to the non-cumulative preferred securities (Tier 1 instruments) issued by HAA's subsidiaries, Hypo Alpe Adria (Jersey) Ltd and Hypo Alpe Adria (Jersey) II Ltd. The ratings factor in further coupon losses over the next years and take into account that the perpetual instruments could have some prospect of recovery in the long term. HAA's supplementary capital bonds (Ergänzungskapital, ISINs: AT0000345202, XS0178449467) are rated C. The ratings reflect Moody's expectation of coupon losses over the next years and the potential for principal losses at maturity in 2014 and 2015, respectively. Moody's believes that the recovery potential of those instruments is very limited. C is the lowest level on Moody's ratings scale.

The outlook on all hybrid instruments is stable. It will come under pressure if the operating parts of the bank are sold separately and the probability of the bank to go into wind-down mode will increase.

Foreign Currency Deposit Rating

HAA's foreign currency deposit rating is Baa3.

Foreign Currency Debt Rating

HAA's senior unsecured foreign currency debt rating is Baa3.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honour its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's baseline credit assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model 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 Factors

Hypo Alpe-Adria-Bank International AG

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**D-**	
Factor: Franchise Value						**E+**	**Neutral**
Market Share and Sustainability					**x**		

Geographical Diversification				x			
Earnings Stability					x		
Earnings Diversification [2]							
Factor: Risk Positioning						E	Neutral
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management					x		
- Risk Management					x		
- Controls					x		
Financial Reporting Transparency		x					
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information		x					
Credit Risk Concentration					x		
- Borrower Concentration					x		
- Industry Concentration			x				
Liquidity Management					x		
Market Risk Appetite		x					
Factor: Operating Environment						A-	Neutral
Economic Stability	x						
Integrity and Corruption		x					
Legal System	x						
Financial Factors (50%)						E+	
Factor: Profitability						E+	Neutral
PPI / Average RWA - Basel II				0.80%			
Net Income / Average RWA - Basel II					-3.39%		
Factor: Liquidity						E	Neutral
(Mkt funds-Liquid Assets) / Total Assets					54.72%		
Liquidity Management					x		
Factor: Capital Adequacy						D	Neutral
Tier 1 Ratio - Basel II			7.00%				
Tangible Common Equity / RWA - Basel II					1.24%		
Factor: Efficiency						D	Neutral
Cost / Income Ratio				79.43%			
Factor: Asset Quality						E	Neutral
Problem Loans / Gross Loans					25.88%		
Problem Loans / (Equity + LLR)					285.52%		
Lowest Combined Score (15%)						E	
Economic Insolvency Override						E	
Aggregate Score						E	
Assigned BFSR						E	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral