MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Hypo Alpe-Adria to Baa3/P-3, negative outlook

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Bank financial strength rating (BFSR) affirmed with stable outlook

Frankfurt am Main, August 03, 2010 -- Moody's Investors Service has today downgraded to Baa3 from Baa2 the long-term debt and deposit ratings of Hypo Alpe-Adria-Bank International AG ("Hypo Alpe Adria") and its ratings for subordinated liabilities to Ba1 from Baa3. Concurrently, the bank's short-term rating was downgraded to P-3. Hypo Alpe Adria's E Bank financial strength rating (BFSR), mapping to a stand-alone Baseline Credit Assessment (BCA) of Caa2, was affirmed with a stable outlook. The multi-notch uplift for the bank's deposit and debt ratings reflects Moody's assessment of a very high probability of ongoing systemic support. The outlook on the debt and deposit ratings is negative.

At the same time, Moody's confirmed the Ca ratings for the non-cumulative preferred securities (Tier 1 instruments) issued by Hypo Alpe Adria (Jersey) Ltd and Hypo Alpe Adria (Jersey) II Ltd with a stable outlook. The ratings of Hypo Alpe-Adria's supplementary capital bonds (Ergänzungskapital) were affirmed at C with their stable outlook.

Today's rating actions conclude the review for possible further downgrade of the short- and long-term debt ratings that Moody's initiated on 4 December 2009.

The Aa3/A1/Prime-1 ratings for debt backed by the Austrian federal state of Carinthia and the Aaa rating for debt backed by the Republic of Austria are not affected by the rating action.

Baa3/P-3 RATINGS BENEFIT STRONGLY FROM EXPECTED MEDIUM-TERM SYSTEMIC SUPPORT

Moody's decision to downgrade Hypo Alpe Adria's long-term debt ratings by only one notch follows the recent completion of another EUR450 million capital injection by the Republic of Austria and EUR150 million by the State of Carinthia, as announced in December 2009. In Moody's view, the ongoing dialogue with the European Commission about the bank's restructuring plan has reduced the risk of a transformative event such as the break-up of the group. The rating agency recognises that more than half of Hypo Alpe-Adria's outstanding debt is guaranteed by the State of Carinthia (ca. EUR19.4 billion) or by its sole owner, the Republic of Austria (EUR1.35 billion).

According to Moody's, Hypo Alpe Adria's ability to retain its Baa3 long-term deposit rating for the foreseeable future depends on the following factors:

i) Moody's expectation of a continued commitment by the Republic of Austria to support the bank given its important role in the Austrian federal state of Carinthia and the systemic relevance of its subsidiaries in some neighbouring countries in south-eastern Europe.

ii) The approval of the bank's suggested restructuring plan by the European Commission.

Moody's decision to apply a negative outlook to the senior unsecured debt and deposit ratings reflects its view of a lower probability of future systemic support over time because (i) Hypo Alpe Adria'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.

BFSR CONSTRAINED BY WEAK ASSET QUALITY, CAPITALISATION, AND IMPAIRED FRANCHISE

The E BFSR reflects Moody's view that, the recent capital injections notwithstanding, Hypo Alpe Adria is likely to continue to face substantial challenges in its efforts to rebuild some of its previous financial strength. Moreover, the rating agency believes that the bank has yet to prove that its franchise in Austria and abroad can be restored. Accordingly, Moody's stated that the BFSR currently continues to remain constrained by several factors, especially

i) the severe asset quality problems, with non-performing loans (NPLs) accounting for more than 20% of total loans and a relatively weak coverage ratio despite some offsetting impact from collateralisation;

ii) the poor outlook on Hypo Alpe-Adria's short- and medium-term profitability and thus internal capital-generation capacity;

iii) the bank's limited capital buffer to absorb future credit losses which may require further capital measures; and

iv) continued concerns about the long-term viability of Hypo Alpe Adria's diversified commercial franchise, which suffers from limited opportunities for new business against the background of its far-reaching restructuring and downsizing programme.

Moody's expects that the bank will focus on de-risking its current business profile, which may have positive rating implications in the long run. However, targeted restructuring measures remain dependent on the approval of the European Commission, which are not expected to be granted before year-end 2010.

The possible impact on the ratings of Hypo Alpe Adria's covered bonds will be discussed in a separate press release.

RATINGS OF HYBRID INSTRUMENTS NOW ALL WITH STABLE OUTLOOK

The confirmation of the Ca ratings and stable outlook of the non-cumulative preferred securities (Tier 1 instruments) issued by HGAA's subsidiaries, Hypo Alpe Adria (Jersey) Ltd and Hypo Alpe Adria (Jersey) II Ltd, is based on Moody's view that the likelihood of a break-up of the group has decreased following the recent completion of the capital injection by the Republic of Austria and the State of Carinthia and the ongoing dialogue with the European Commission about the bank's restructuring plans. The ratings do factor in further coupon losses over the next years. The Ca ratings take into account that the perpetual instruments could have some prospect of recovery in the long term.

At the same time, the ratings of Hypo Alpe-Adria's supplementary capital bonds (Ergänzungskapital, ISINs: AT0000345202, XS0178449467) were affirmed at C with their stable outlook. The C 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.

PREVIOUS RATING ACTION AND METHODOLOGIES

Moody's previous rating action on Hypo Alpe-Adria was implemented on 15 April 2010, when Moody's downgraded the ratings of Hypo Alpe-Adria for senior debt backed by the Austrian federal state of Carinthia to Aa3 from Aa2 and the guaranteed subordinated debt to A1 from Aa3. At the time, Moody's gave the bank's guaranteed ratings a "developing" outlook and maintained the review for possible further downgrade on the short- and long-term debt ratings of Hypo Alpe-Adria.

The principal methodologies used in rating Hypo Alpe-Adria were "Moody's Bank Financial Strength Ratings: Global Methodology", published in February 2007, "Incorporation of Joint-Default Analysis into Moody's Bank Ratings", published in March 2007, and " Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt", published in November 2009, which are available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Based in Klagenfurt, Austria, Hypo Alpe-Adria reported consolidated assets of EUR41.1 billion at the end of 2009 and an after-tax loss of EUR 1.6 billion.

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