

Rating Action: Moody's withdraws Hypo Alpe Adria's Baa3/P-3/E ratings; guaranteed debt unaffected

Global Credit Research - 29 Nov 2011

Frankfurt am Main, November 29, 2011 – Moody's Investors Service has today affirmed and withdrawn the Baa3/P-3 issuer, debt and deposit ratings of Hypo Alpe-Adria-Bank International AG (HAA). The long-term rating had a negative outlook at the time of rating withdrawal. The rating agency also affirmed and withdrew the HAA's E bank financial strength rating (BFSR), the Ca(hyb) ratings of the non-cumulative preferred securities (Tier 1 instruments) issued by Hypo Alpe Adria (Jersey) Ltd and Hypo Alpe Adria (Jersey) II Ltd as well as HAA's C(hyb) ratings for supplementary capital bonds (Ergänzungskapital), all of which carried stable outlooks at the time of rating withdrawal. Moody's has withdrawn the ratings for its own business reasons.

The Aa3/A1 ratings of debt backed by the Austrian federal state of Carinthia (Aa3 negative) and the Aaa rating for debt backed by the Republic of Austria (Aaa stable) are not affected by today's rating action.

RATINGS RATIONALE

Moody's has withdrawn the ratings for its own business reasons. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its Web site, www.moody.com.

The rating agency affirmed HAA's weak E BFSR reflecting our 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. While HAA has posted a small profit for H1 2011, Moody's cautions that results may prove to be unsustainable given the need to continue to work-out problem loans and to de-leverage.

Key weaknesses relate (1) to the bank's impaired franchise which the bank has yet to prove that it can be restored; (2) the weak capitalisation at a Tier 1 ratio of 6.6% as per H1 2011 results; and (3) the risks in its significant legacy loan portfolio. The bank relies on a smooth execution of its wind-down and exit plan in order to match the sizable upcoming maturities in its funding profile. As a result, HAA remains in a fragile financial situation for the foreseeable future, and Moody's cannot rule out the possibility that more capital support will be necessary to prevent renewed distress.

HAA's weak E BFSR maps to Caa2 on the long-term scale. At a bank debt and deposit rating of Baa3, the bank benefits from eight notches of systemic support uplift which reflects Moody's expectation of a continued commitment by the Republic of Austria towards a nationalised HAA given the significant contingent liability for the public sector, as major parts of HAA's funding base are guaranteed by either Carinthia (Aa3 negative; EUR 18.4 billion as of 30 September 2011) or the Republic of Austria (EUR 600 million). Moody's further notes the systemic importance of HAA's subsidiaries in some neighbouring countries in south-eastern Europe.

Moody's affirmed the negative outlook on the senior unsecured debt and deposit ratings. It 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.

KEY SENSITIVITIES FOR THE GUARANTEED DEBT RATINGS

The rating agency notes that the ratings of the guaranteed debt depend on a rating change of the support provider i.e. the Government of Austria or the Federal State of Carinthia.

THE FOLLOWING RATINGS WERE WITHDRAWN AT THE CURRENT RATING LEVEL

BFSR: E, stable

Long-Term Bank Deposits: Baa3, negative

Long-Term Senior Unsecured: Baa3, negative

Issuer Rating: Baa3, negative

Short-Term Bank Deposits/ Commercial Paper: Prime-3

Junior Subordinated debt: C(hyb) stable

Preferred Stock issued by Hypo Alpe-Adria (Jersey) Limited and Hypo Alpe-Adria (Jersey) II Limited: Ca(hyb) stable

THE FOLLOWING RATINGS REMAINED UNAFFECTED

Hypo Alpe-Adria-Bank International AG:

Backed long-term senior unsecured debt guaranteed by the Austrian government: Aaa, stable

Backed long-term senior unsecured debt guaranteed by the Federal State of Carinthia: Aa3, negative

Backed long-term subordinated debt guaranteed by the Federal State of Carinthia: A1, negative

The ratings of Hypo-Alpe-Adria's covered bonds were also not affected.

Hypo Alpe-Adria-Bank AG:

Backed long-term senior unsecured debt guaranteed by the Federal State of Carinthia: Aa3, negative

Backed long-term subordinated debt guaranteed by the Federal State of Carinthia: A1, negative

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