

Credit Opinion: Hypo Alpe-Adria-Bank International AG

Hypo Alpe-Adria-Bank International AG

Klagenfurt, Austria

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Aa2/P-1
Bank Financial Strength	C+
Issuer Rating	Aa2
Public-sector Pfandbriefe -Dom Curr	Aaa
Senior Unsecured	Aa2
Subordinate -Dom Curr	Aa3
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	P-1
Hypo Alpe-Adria (Jersey) II Limited	
Outlook	Stable
Bkd Preferred Stock	A3
Hypo Alpe-Adria (Jersey) Limited	
Outlook	Stable
Bkd Preferred Stock	A3

Contacts

Analyst	Phone
Nicola Venedey/London	44.20.7772.5454
Guido Versondert/London	
Antonio Carballo/London	

Key Indicators

Hypo Alpe-Adria-Bank International AG (Consolidated)

	[1]2004	2003	2002	2001	2000	[2]Avg/CAGR
Total assets (EUR billion)	17.78	12.71	9.82	7.60	5.43	34.54
Total assets (EUR billion)	17.78	12.71	9.82	7.60	5.43	
Total capital (EUR billion)	1.28	0.88	0.69	0.53	0.34	39.51
Return on average assets	0.83	0.90	0.89	0.67	0.27	0.71
Recurring earning power [3]	1.67	1.75	1.83	1.59	1.21	1.61
Net interest margin	2.67	3.01	3.09	2.80	2.32	2.78
Cost / income ratio	56.12	57.03	56.34	58.60	61.38	57.89
Problem loans % gross loans	-	-	-	-	-	0.00
Tier 1 ratio (%)	-	-	-	-	-	0.00

[1] As of December 31 [2] Compound Annual Growth Rate for total assets and total capital. [3] Preprovision income % average assets.

Opinion

Credit Strengths

Credit strengths of Hypo Alpe-Adria-Bank International AG are:

-Strong state support- the bank benefits from the implicit and explicit support of the Austrian State of Carinthia

(Kaernten)

-Asset quality is acceptable

-Profitability indicators are good and compare well with those of its peers and have shown steady improvement in the past few years.

-Sufficient capitalisation

Credit Challenges

Credit challenges for the bank are:

-Profit growth is becoming increasingly attributable to the group's foreign operations, which are potentially more volatile, which in turn places additional pressure on HAAB to continuously upgrade its risk management tools

-Increasing risk component due to the bank's exposure in Croatia (particularly due to the concentration of non-performing loans) and other countries of former Yugoslavia, whilst the relatively untried credit quality of the Central and East European (CEE) market - from the bank's perspective - could pose problems in the event of a significant economic downturn in this region

-Significant orientation towards domestic retail/corporate customers could also expose the group to asset quality concerns in view of the difficult economic environment in Austria

-Further asset growth could place pressure on currently adequate levels of economic capitalisation

Rating Rationale

The Aa2/Prime-1 deposit ratings and C+ financial strength rating (FSR) for Hypo Alpe-Adria Bank International AG (HAAB) are based on the legal support obligation in the form of an Ausfallbürgschaft (deficiency guarantee) from the bank's majority owner - the Austrian State of Carinthia - whilst also taking into consideration the state's firm implicit support. In assessing the explicit support provided by Ausfallbürgschaft, we note the well-established banking relationship between Carinthia and HAAB as well as Carinthia's intention to retain its majority shareholding in the bank. In addition to its public sector role, HAAB has a modest but growing retail and commercial franchise within a highly competitive domestic market. It is also focused on developing additional commercial banking franchises in neighbouring cross-border markets, in particular Croatia. The group displays adequate financial fundamentals.

On 1 April 2003, the European Commission announced the phasing-out of State guarantees (Ausfallbürgschaft - deficiency guarantee), which currently benefit Austrian public banks. Moody's rating approach for the unguaranteed debt and deposits of the Austrian Landeshypothekenbanken will closely follow the rating methodology adopted in the case of German Landesbanken.

Rating Outlook

The rating outlook is stable and the support mechanism, in the form of Ausfallbürgschaft, is the dominant factor currently underpinning HAAB's rating stability.

What Could Change the Rating - UP

Successful development of HAAB's CEE franchise could exert upward pressure on its C+ financial strength rating. The bank's Aa2 debt and deposit ratings reflect the legal support obligation in the form of an Ausfallbürgschaft (deficiency guarantee) from its majority shareholder - the Austrian State of Carinthia. Following the upgrade in September 2002 of the long-term debt and deposit ratings to Aa2 from Aa3, we see little upside pressure on these ratings for the time being.

What Could Change the Rating - DOWN

A potential deterioration in asset quality as a result of increasing CEE exposure and more particularly if the latter should expose weaknesses in risk management, could place downward pressure on the bank's FSR. Further growth through acquisition could put additional pressure on risk controls, consequently negatively impacting the FSR. Indications of inadequate risk management of the group's non-domestic operations could also exert downward pressure on the bank's current ratings.

Recent Results

As of June 2005 HAA reported a 14.2% increase in total assets to EUR 20.3 billion compared to year end 2004 and an operating result of EUR 125 million (June 2004: EUR 123 million).

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