

Rating Action: Moody's affirms Hypo-Alpe-Adria's A1 guaranteed senior debt ratings; outlook negative

Global Credit Research - 19 Dec 2013

Moody's considers insolvency resolution of Hypo-Alpe-Adria as highly unlikely, given potential reputational costs

Frankfurt am Main, December 19, 2013 -- Moody's Investors Service has today affirmed the guaranteed debt ratings of Hypo-Alpe-Adria International AG (HAA; unrated), which benefit from the statutory guarantee of the Austrian state of Carinthia (A1, negative), the former owner of the bank. Moody's applies credit substitution for these debt instruments and rates the guaranteed senior unsecured debt at A1 with a negative outlook and the guaranteed subordinated debt one notch below at A2, also with a negative outlook.

The bank's asset-quality has continued to deteriorate and major parts of its loan book are already in wind-down. Moody's affirmation reflects its view that any restructuring solution for the bank will ensure an orderly and timely repayment of the guaranteed debt, most of which matures by September 2017.

RATINGS RATIONALE

HAA continues to suffer from asset-quality deterioration, triggering renewed recapitalisation needs that were announced on 8 November 2013 and 22 November 2013. In order to comply with regulatory minimum capital requirements by year end, the bank is about to receive another EUR800 million capital from its sole owner, the Republic of Austria. This follows a EUR700 million capital injection in September 2013 and EUR250 million in November 2013.

The European Commission's state aid approval from 3 September 2013 allows Austria to explore how to best wind down the bank's restructuring unit. This process may include the transfer of assets into a wind-down entity that does not have a banking license. Press reports have suggested that an orderly insolvency or voluntary haircut on debt guaranteed by Carinthia are also options under consideration. Moody's considers any such outcome to be highly unlikely given the reputational costs involved, the financial turbulence that would likely result and the demonstrable commitment of the Austrian government to achieving an orderly outcome to date. Moody's takes comfort from statements of senior politicians and the governor of the Austrian central bank, who all ruled out either insolvency or voluntary haircut (and resulting distressed exchange).

RATIONALE FOR OUTLOOK

The negative outlook reflects the negative outlook on the ratings of Carinthia.

WHAT COULD MOVE THE RATINGS UP / DOWN

There is currently no upward pressure on HAA's guaranteed debt as reflected by the negative outlook.

Downward pressure could develop on HAA's guaranteed debt if Carinthia's credit quality deteriorates or if Moody's considered that Austria's willingness and/or ability to support HAA had weakened.

PRINCIPAL METHODOLOGY

HAA's guaranteed debt obligations are rated on the basis of a full risk transfer to the guarantor, i.e. by applying a "credit substitution approach" that is based on the statutory guarantee provided by the bank's former owner, the Austrian state of Carinthia.

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Swen Metzler
Vice President - Senior Analyst
Financial Institutions Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Carola Schuler
MD - Banking
Financial Institutions 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

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