MOODY'S
INVESTORS SERVICE

Rating Action: Moody's places Hypo Alpe-Adria's unguaranteed public-sector covered bonds on review direction uncertain

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Frankfurt am Main, August 01, 2013 -- Moody's Investors Service has today placed on review direction uncertain the Aa2 rating of the unguaranteed public-sector covered bonds of Hypo Alpe-Adria-Bank International AG (the issuer/HAA), reflecting the uncertainty regarding the final decision by the European Commission (EC) on the restructuring plan which the Austrian government handed in on 1 July and potential implications for the unguaranteed covered bonds. The public-sector covered bonds, which benefit from the State of Carinthia guarantee (guaranteed covered bonds), are not affected by this action and remain Aaa rated. Both covered bonds are governed by the Austrian Pfandbrief Act (Pfandbriefgesetz).

RATINGS RATIONALE

Today's rating action is primarily driven by the uncertainty regarding the final decision by the EC on the restructuring plan which the Austrian government handed in on 1 July and potential implications for the unguaranteed covered bonds. HAA's covered bonds are liabilities of Hypo Alpe-Adria-Bank International AG, which is not rated by Moody's.

On 1 July 2013, HAA released an ad hoc statement that a revised restructuring plan had been submitted to the EC. HAA believes that the EC's decision, which is still outstanding, will include requirements and duties imposed on the bank that may have consequences for the evaluation of holdings and exposures and hence may trigger the need for further capital injections.

The current Aa2 rating of the covered bonds reflects substantial support from the Austrian government which has been forthcoming to stabilize HAA. While Moody's expects that HAA's covered bond programme will continue to benefit from substantial support in a potential resolution scenario, the review direction uncertain reflects the increased uncertainty regarding the future set-up of the bank. This includes the potential delay in the decision-making process as regards the future set-up of the bank and their potential implications for the unguaranteed covered bonds. A final decision by the EC about the restructuring programme is expected in Q4 2013.

The timely payment indicator (TPI) assigned to the public-sector covered bonds is "High". This level constraints the maximum achievable rating for the unguaranteed covered bonds at Aa2.

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as 1) a function of the issuer's probability of default (measured by the issuer's rating); and 2) the stressed losses on the cover pool assets following issuer default.

The cover pool losses for HAA's public-sector covered bonds are 43.2%. This is an estimate of the losses Moody's currently models if HAA defaults. Moody's splits cover pool losses between market risk of 32.2% and collateral risk of 11.0%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 20.0%.

The over-collateralisation in the cover pool is 58.6 %, of which HAA provides 38.5% on a "committed" basis. The minimum OC level consistent with the Aa2 rating target of the unguaranteed covered bonds is 56.0%, of which the issuer should provide 38.0% in a "committed" form. These numbers show that Moody's is not fully relying on "uncommitted" OC in its expected loss analysis.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's please refer to "Moody's EMEA Covered Bonds Monitoring

Overview", published quarterly. All numbers in this section are based on Moody's most recent modelling based on data as per 31 March 2013.

TPI FRAMEWORK: Moody's assigns a TPI, which indicates the likelihood that the issuer will make timely payments to covered bondholders if the issuer defaults. The TPI framework limits the covered bond rating to a certain number of notches above the issuer's rating.

For HAA's covered bonds, Moody's has assigned a TPI of "High".

SENSITIVITY ANALYSIS

The issuer's credit strength is the main determinant of a covered bond rating's robustness. The TPI Leeway measures the number of notches by which Moody's might downgrade the issuer's rating before the rating agency downgrades the covered bonds because of TPI framework constraints.

Based on the current TPIs of "High" for HAA's covered bonds, there is no TPI Leeway for the programme. This implies that Moody's might downgrade the covered bonds because of a TPI cap, if it downgrades the issuer rating, all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances, such as 1) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; 2) a multiple-notch downgrade of the issuer; or 3) a material reduction of the value of the cover pool.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in July 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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