

Rating Action: Moody's downgrades Heta Asset Resolution's Carinthian-State-Guaranteed Debt Ratings

Global Credit Research - 04 Mar 2015

Frankfurt am Main, March 04, 2015 -- Moody's Investors Service has today downgraded Heta Asset Resolution AG's (Heta) Carinthian-state-guaranteed senior unsecured debt ratings to Ca from Caa1. Concurrently, Moody's has downgraded the entity's Carinthian-state-guaranteed subordinated debt ratings maturing after 30 June 2019 to C from Ca.

Today's downgrades were triggered by the Austrian Financial Market Authority's (FMA) announcement on 1 March 2015 to initiate resolution measures on Heta. This was in accordance with the Federal Banking Restructuring and Resolution Act (BaSAG), the national implementation law of the European Bank Recovery and Resolution Directive (BRRD), which has been effective since 1 January 2015. The FMA also imposed a temporary payment moratorium on Heta's liabilities until 31 May 2016, which affects all of the securities that Moody's rates. Although these debts benefit from the Austrian state of Carinthia's (A2, stable) statutory deficiency guarantee, one of the bank's former owners, when assessing the credit risk associated with these instruments Moody's does not attribute any weight to the guarantee. This reflects the strong likelihood that the deficiency guarantee could not be enforced upon a full or partial cancellation of bailed-in debt under BaSAG because of its accessory nature.

The negative outlook on the Carinthian-state-guaranteed senior unsecured ratings reflects the high level of uncertainty of the potential for higher expected losses for bondholders during the resolution process. The ratings on the subordinated debt carry no outlook as they are in the lowest rating category that Moody's assigns.

At the same time, Moody's affirmed the Aaa rating, with a stable outlook, on the EUR1 billion subordinated debt that the Austrian Government guaranteed and issued in December 2012.

A list of affected ratings is available at the end of this press release.

RATINGS RATIONALE

--DOWNGRADE OF CARINTHIAN-STATE-GUARANTEED SENIOR AND SUBORDINATED DEBT

In downgrading the Carinthian-state-guaranteed senior and subordinated ratings to Ca and C from Caa1 and Ca previously, Moody's based its assessment on an expected loss analysis which assumes severity of losses in the range of 35% to 65% and more than 65%, respectively. The rating agency's decision follows the FMA's announcement to apply resolution tools to Heta's outstanding debt instruments, including a temporary payment moratorium on its liabilities until 31 May 2016. Heta announced on the same day that an asset quality review revealed a capital shortfall between EUR4.0 billion and EUR7.6 billion, raising Moody's estimate of the likely level of losses that bondholders might experience as a result of the resolution process. The downgrade also reflects further clarity provided by Austrian authorities that Heta will not receive any further support measures in accordance with the Federal Act on Financial Market Stability.

In 2014, the Austrian government implemented a law that paved the way for the nationalised Austrian lender Heta to be transferred to an unregulated wind-down institution and revoked its banking license. The law allowed the recapitalisation of Heta, the wind-down entity, through the full write-down of all subordinated debt maturing on or before 30 June 2019, notwithstanding the existence of Carinthia's deficiency guarantee, which the law declared null and void.

Subordinated debt maturing after 30 June 2019 and senior debt continue to benefit from Carinthia's statutory deficiency guarantee. However, in June 2014, Moody's decided to no longer place any weight on the guarantee in assessing the credit risk associated with these instruments. This was based on the assumption of a strong likelihood that future resolution and bail-in measures would also affect the enforceability of these guarantees. In fact, under BaSAG, the BRRD implementation law in Austria, Heta is included in the resolution framework's scope as a wind-down entity. This enables the application of resolution tools, including a debt bail-in. In Moody's opinion, there is a strong likelihood that the deficiency guarantee could not be enforced upon a full or partial cancellation of

bailed-in debt because of its accessory nature.

--AFFIRMATION OF THE Aaa RATING ON AUSTRIAN-GOVERNMENT-GUARANTEED SUBORDINATED DEBT

The affirmation of the Aaa rating on Austrian-government-guaranteed subordinated debt reflects the direct, irrevocable and unconditional nature of the guarantee provided by the Federal Republic of Austria, which ranks pari passu to all other senior obligations of the Austrian government. The government reaffirmed its commitment to this debt in a statement on 1 March 2015. The stable outlook reflects the outlook on the government's ratings.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Upward ratings pressure is unlikely to develop on Heta's senior debt ratings, which are backed by Carinthia's deficiency guarantees. This is indicated by the negative outlook. Moody's would consider downgrading the ratings if the expected loss assumptions on these instruments were higher than currently expected.

A deterioration in the creditworthiness of the Republic of Austria, or an indication that the guarantee may be annulled would exert downward pressure on Heta's Aaa-rated Austrian-government-guaranteed subordinated debt instruments.

LIST OF AFFECTED RATINGS

The following ratings of Heta were downgraded:

- Carinthian-state-guaranteed senior unsecured debt ratings to Ca from Caa1, with negative outlook
- Carinthian-state-guaranteed subordinated debt ratings maturing after 30 June 2019 to C from Ca, no outlook assigned

The following rating of Heta is affirmed:

- Aaa rated subordinated debt guaranteed by the Austrian Government, with stable outlook

The following rating of Heta is not affected by today's rating action:

- C rated previously Carinthian-state-guaranteed subordinated debt maturing on or before 30 June 2019, no outlook assigned

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Banks published in July 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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