

Announcement: Moody's changes outlook on Hypo Alpe Adria's state-guaranteed debt to negative (Austria)

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Guaranteed debt of subsidiary Hypo Alpe-Adria-Bank AG rated Aa3 (senior) and A1 (subordinated)

Frankfurt am Main, June 22, 2011 -- Moody's Investors Service has today changed the outlook to negative from developing on Hypo Alpe-Adria-Bank International AG's (Hypo Alpe Adria) Aa3 backed long-term ratings for senior unsecured securities that are backed by the Austrian federal state of Carinthia (unrated). Concurrently, Moody's has affirmed these ratings.

Consequently, the ratings of Hypo Alpe Adria's state-guaranteed subordinated debt were affirmed at A1 and their outlook changed to negative from developing.

At the same time, Moody's has moved two debts (AT0000490701 and XS0139343635) previously listed under Hypo Alpe-Adria-Bank International AG to Hypo Alpe Adria's wholly owned subsidiary Hypo Alpe-Adria-Bank AG. When Hypo Alpe-Adria-Bank AG was spun-off from Hypo Alpe Adria in 2004 to focus on the domestic business, certain securities were moved from Hypo Alpe-Adria-Bank International AG to Hypo Alpe-Adria-Bank AG. Due to an internal administrative error, however, these two debts were not moved to Hypo Alpe-Adria-Bank AG. Both securities continue to benefit from the Austrian federal state of Carinthia guarantee. The current rating for the senior unsecured security (AT0000490701) remains Aa3 and the rating for the subordinated security (XS0139343635) remains A1. The current outlook on these ratings is negative.

All other ratings of Hypo Alpe-Adria are not affected by the above action.

RATINGS RATIONALE

The outlook of the ratings is driven by the credit profile of the guarantor, the federal state of Carinthia. Given the very high level of outstanding contingent liabilities linked to Hypo Alpe Adria group, the bank's future remains a key rating driver for the state's creditworthiness, despite the takeover of the banking group by the Republic of Austria end of 2009. The weak credit profile of Hypo Alpe Adria (Baa3 negative; E/Caa2 stable) will continue to be a key negative factor for the credit profile of Carinthia, hence the negative outlook. In fact, the "grandfathering" or state guarantee for the bank's debt will only reduce gradually due to the largely staggered nature of the maturity profile of this debt, until 2017.

Rating changes, up or downwards, of Hypo Alpe Adria's and Hypo Alpe-Adria-Bank AG's state-guaranteed senior unsecured and subordinated debt could be triggered by the state's creditworthiness which in turn depends to a large extent on the prospects of Hypo Alpe Adria group. On 3 August 2010, Moody's downgraded Hypo Alpe Adria's long-term debt and deposit ratings to Baa3 with a negative outlook from Baa2 indicating that there is currently no upward pressure on Hypo Alpe Adria's credit profile. We consider the Republic's commitment likely to reduce over time with most of state-guaranteed debt maturing until 2017, putting further downward pressure on the ratings. In addition, Hypo Alpe Adria's systemic importance will inevitably decrease as major parts of the bank are divested or wound down over time. As the restructuring plan is still subject to the approval of the European Commission, the commission might choose to accelerate this process.

The principal methodologies used in this rating were Moody's Bank Financial Strength Ratings: Global Methodology published in February 2007, Incorporation of Joint-Default Analysis into Moody's Bank Ratings published in March 2007, and Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt published in November 2009.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

Based in Klagenfurt, Austria, Hypo Alpe-Adria reported consolidated assets of EUR38.8 billion at the end of the financial year 2010 and an after-tax loss of EUR1.1 billion.

Based in Klagenfurt, Austria, Hypo Alpe-Adria-Bank AG reported unconsolidated assets of EUR6 billion at the end of the financial year 2010 and an after-tax loss of EUR102 million.

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