

Rating Action: Hypo Alpe-Adria-Bank International AG

MOODY'S DOWNGRADES HYPO-ALPE-ADRIA-BANK INTERNATIONAL'S FSR TO D- FROM C+ AND RATING ON PREFERENCE SHARES TO Baa2 FROM A3; MAINTAINS REVIEW FOR DOWNGRADE ON FSR AND PREFERENCE SHARES

All other ratings affirmed with stable outlook

London, 09 June 2006 -- Moody's Investors Service today downgraded the bank financial strength rating ("FSR") of Hypo Alpe-Adria-Bank International AG ("HAA") to D- from C+ and the bank's preferred stock from Baa2 from A3. Both these ratings were maintained on review for possible further downgrade. All other ratings, including HAA's senior ratings of Aa2/P-1, were affirmed and continue to carry a stable outlook.

Moody's said today's rating actions were prompted by HAA's admission that its treasury activities in 2004 resulted in substantial losses. In an unusual move, HAA's auditor has revoked its certification of the bank's 2004 financial statements and, at the initiative of the Austrian regulator, HAA is shortly expected to publish restated 2004 figures, along with its 2005 results. Moody's understands that the revised audited 2004 financial statements will show a substantial net loss for the year and as a result the bank's capital levels will have fallen below minimum capital requirements in Austria. HAA will be required to pay a penalty for this breach in capital adequacy ratios, although Moody's understands that this amount will not be significant and that provisions for it have been made in the financial statement for 2005.

Moody's commented that in its opinion, these events have revealed not only weaknesses in the bank's risk management systems and risk culture at the time the bank entered into the high-risk treasury transactions but also a lack of transparency and rigour in the bank's handling of developments once the details of the transactions became known. The rating agency added that, given HAA's strong expansion into countries with less developed legal and risk infrastructures than Austria (primarily in former Yugoslavia but also in Bulgaria and Romania), it is of paramount importance to have a risk culture and risk management systems in place that are fully equipped to handle challenges that might arise from lending activities in these markets.

Commenting on the affirmation of HAA's long- and short-term debt and deposit ratings (senior at Aa2/P-1; subordinated debt rating of Aa3), Moody's said that these obligations benefit from ongoing support by the State of Carinthia, as evidenced through an explicit deficiency guarantee.

With reference to the bank's preference shares, which qualify as Tier 1 capital, Moody's said that these do not benefit from this explicit support and therefore their ratings have been downgraded today to Baa2 from A3. The ratings are driven by the bank's FSR as well as external support elements -- particularly the strong implicit support by its majority shareholder, the State of Carinthia, and assumed system support due to HAA's significance for the banking market in its core geographic area.

Moody's ongoing review of the bank's FSR and hybrid instrument debt ratings will focus on the repercussions that the losses in 2004 and the surrounding circumstances will have on the bank's franchise and standing in the financial markets, as well as risk management-related issues and corporate governance practices that HAA needs to address appropriately to exclude any future critical events. Moody's added that further negative control and/or governance issues would likely to lead to further downgrade in the bank's FSR and the rating on the preference shares.

The following ratings were downgraded and remain on review for possible further downgrade:

- Hypo Alpe-Adria-Bank International Bank AG bank financial strength rating to D- from C+
- Hypo Alpe-Adria (Jersey) II Limited debt rating to Baa2 from A3
- Hypo Alpe-Adria (Jersey) Limited debt rating to Baa2 from A3

The following ratings were affirmed with a stable outlook:

- Hypo Alpe-Adria-Bank International Bank AG long-term and short-term deposit ratings at Aa2 and Prime 1, respectively, and senior long- and short-term debt at Aa2 and subordinated debt at Aa3, and its public sector Pfandbriefe at Aaa.

Based in Klagenfurt, Austria, Hypo Alpe-Adria-Bank International AG reported total consolidated assets of EUR18 billion as of 31 December 2004.

London
Antonio Carballo
Managing Director
Financial Institutions Group
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

London
Nicola Venedey
Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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