

Rating Action: Hypo Alpe-Adria-Bank International AG

Moody's downgrades Hypo Alpe-Adria's BFSR to E+; Baa1 long-term rating confirmed

BFSR and long-term ratings carry negative outlook

Frankfurt, June 09, 2009 -- Moody's Investors Service today downgraded the bank financial strength rating (BFSR) of Hypo Alpe-Adria-Bank International AG (Hypo Alpe-Adria) to E+ from D-. The Baa1 long-term debt and deposit ratings and the Baa2 rating on the bank's subordinated liabilities were confirmed. The ratings carry a negative outlook.

At the same time, the Prime-2 short-term ratings and the Caa2 ratings on the hybrid securities (Tier 1 instruments) issued by Hypo Alpe-Adria's subsidiaries, Hypo Alpe Adria (Jersey) Ltd and Hypo Alpe Adria (Jersey) II Ltd, were affirmed. The Aa2/Aa3/Prime-1 ratings for debt backed by the Austrian federal state of Carinthia and the Aaa rating for debt backed by the Republic of Austria were also affirmed. The ratings of the hybrid instruments and the backed long-term ratings carry a stable outlook. Moody's rating action concludes the review of Hypo Alpe-Adria's BFSR and debt and deposit ratings initiated on 13 May 2009 and 11 November 2008, respectively.

BFSR DOWNGRADED DUE TO CONCERNS ABOUT ASSET QUALITY AND LOW PROFITABILITY

The downgrade of the BFSR reflects Moody's expectation that Hypo Alpe-Adria will not be able to operate profitably until 2011. The historically low profitability of the bank does not provide a sufficient buffer to absorb the effects of the continuing downturn in the global economy and the persistent economic turmoil in international capital markets that is likely to have a worsening negative impact on the economies of Hypo Alpe Adria's core markets in South-Eastern Europe (SEE).

Hence, Moody's expects pressure on earnings, asset quality and capital ratios to increase further and the likelihood that the bank would need outside support to rise. At 31 December 2008, around 43% of the bank's risk-weighted assets came from the SEE region, with Croatia and Slovenia being the most important markets, followed by activities in Serbia and Bosnia Herzegovina.

"Hypo Alpe-Adria's risk management practices have historically been below industry standards. This shortcoming, combined with the enormously fast growth of the bank's balance sheet to EUR43.3 billion at the end of 2008 from EUR17.8 billion at the end of 2004, is key for the rating, especially in the current market environment. Over the next two to three years, we expect the bank's provisioning to be well above that of its peers, with noticeable adverse effects on its profits and capital ratios," says Dominique Nutolo, a Frankfurt-based Moody's Assistant Vice President and lead analyst for Hypo Alpe-Adria.

Moody's notes that Hypo Alpe-Adria is in the process of implementing measures to enhance its processes and integrate them into those of its major shareholder, Bayerische Landesbank (BayernLB). This builds on the bank's recent changes to its senior management. Hypo Alpe-Adria has a large gap to bridge in order to improve its risk management processes and culture to an acceptable level and it is clear that this is a long-term initiative, the success of which cannot be taken for granted.

Overall, Moody's believes that the E+ BFSR better captures the increased likelihood of Hypo Alpe-Adria needing further outside support in order to cope with today's challenging and unstable economic environment, particularly given its historically low profitability, aggressive expansion and weak risk management practices.

LONG-TERM RATINGS CONFIRMED DUE TO UNCHANGED STRONG SUPPORT ASSUMPTIONS

The confirmation of Hypo Alpe-Adria's Baa1 debt and deposit ratings reflects Moody's unchanged support assumptions. The rating agency assesses a high probability of support from Hypo Alpe-Adria's parent, BayernLB, in the light of a capital injection from BayernLB of EUR700 million in 2008. Furthermore, Moody's believes that BayernLB Group's restructuring plans, which are still subject to EU approval, are unlikely to affect the probability of parental support for Hypo Alpe-Adria. Moody's also takes the probability of regional and local government and systemic support into account and, overall, Hypo Alpe-Adria remains in the high support category. The outlook on the debt and deposit ratings is negative in line with the negative outlook on the BFSR.

Moody's previous rating action on Hypo Alpe-Adria was on 13 May 2009, when Moody's placed the bank's D-BFSR on review for possible downgrade and downgraded its debt and deposit ratings to Baa1 from A2.

The principal methodologies used in rating Hypo Alpe-Adria are "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", which can be found on www.moody's.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors that may have been considered in the process of rating Hypo Alpe-Adria can also be found in the Credit Policy & Methodologies directory.

Based in Klagenfurt, Austria, Hypo Alpe-Adria reported 2008 net losses of EUR520 million and total assets of EUR43.3 billion at the end of the year.

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