

Rating Action: Moody's changes outlooks to stable from negative on five Austrian banking groups following sovereign and sub-sovereigns actions; affirms ratings

Global Credit Research - 06 Mar 2014

Frankfurt am Main, March 06, 2014 -- Moody's Investors Service has today changed to stable from negative the outlooks of five Austrian banking groups' long-term debt and deposit ratings or their long-term guaranteed debt obligations, whose ratings incorporate support from the Austrian government or Austrian federal states. Concurrently, the affected ratings of these institutions were affirmed at their current level.

Today's action follows Moody's decision to change the outlooks on the Austrian sovereign and sub-sovereign ratings to stable from negative, as announced on 28 February 2014 and 4 March 2014, respectively. Please refer to:

Rating Action Government of Austria: https://www.moodys.com/research/Moodys-changes-outlook-on-Austrias-Aaa-government-bond-rating-to--PR_293082

Rating Action Austrian sub-sovereign: https://www.moodys.com/research/Moodys-changes-outlook-on-Austrian-sub-sovereigns-to-stable-from--PR_293312

Ratings of Austrian banks that benefit from a statutory deficiency guarantee issued by Austrian federal states or municipalities are unaffected by today's actions. These ratings were placed on review for downgrade on 14 February and 18 February 2014.

Please click on this link (http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_165715) for the List of Affected Credit Ratings. This list is an integral part of this press release and identifies each affected issuer. All other ratings of the listed banks remain unaffected by this rating action.

RATINGS RATIONALE

BANK RATINGS AFFECTED BY SOVEREIGN RATING ACTION

-- HYPO ALPE ADRIA BANK INTERNATIONAL AG

Moody's changed to stable from negative the outlook on the Aaa rating for Hypo Alpe Adria Bank International's guaranteed subordinated notes, which benefit from a guarantee from the Republic of Austria. Concurrently, Moody's has affirmed the Aaa rating. The Aaa rating is based on the unconditional and irrevocable nature of the guarantee and on Moody's assessment that the terms and conditions of the guarantee provide for full and timely payment of the underlying obligations.

-- OESTERREICHISCHE KONTROLLBANK AG

Moody's changed to stable from negative the outlook on the Aaa ratings for Oesterreichische Kontrollbank's guaranteed long-term debt and deposit ratings to reflect the change in outlook to stable on the Government of Austria. Concurrently, Moody's has affirmed the bank's guaranteed long-term debt and deposit ratings of Aaa. Oesterreichische Kontrollbank's guaranteed Aaa ratings are based on the unconditional and irrevocable guarantee of the Republic of Austria for all domestic and foreign liabilities issued under the Export Financing Guarantees Act.

-- OESTERREICHISCHE POSTSPARKASSE AG AND KA FINANZ AG

Moody's changed the outlook to stable from negative on the Aaa ratings on the guaranteed senior debt of former Oesterreichische Postsparkasse AG (a fully integrated part of BAWAG P.S.K. (deposits Baa2 stable; bank financial strength rating (BFSR) D stable / baseline credit assessment (BCA) ba2) and KA Finanz AG (unrated). Both benefit from a guarantee from the Republic of Austria (Aaa stable). Concurrently, Moody's has affirmed these Aaa ratings.

BANK RATINGS AFFECTED BY SUB-SOVEREIGN RATING ACTION

--VORARLBERGER LANDES- UND HYPOTHEKENBANK AG

The affirmation and change in outlook to stable from negative on Vorarlberger Landes- und Hypothekenbank's A1 long-term senior debt and deposit ratings reflects the change in outlook to stable from negative of the Government of Austria, and our assessment of a consequently improved credit profile of the Austrian Federal State of Vorarlberg (unrated), the bank's majority owner. The unchanged five-notch uplift from Vorarlberger Landes- und Hypothekenbank's baa3 Baseline Credit Assessment (BCA) reflects Moody's assumption of a very high probability of support from both support providers being forthcoming in the event of need.

WHAT COULD MOVE THE RATINGS UP/DOWN

Any deterioration of the creditworthiness of the Austrian sovereign or the respective sub-sovereigns would exert downward pressure on the affected guaranteed debt and deposit ratings.

Modest upward pressure on Vorarlberger Landes- und Hypothekenbank's standalone D+ bank financial strength rating (BFSR) is unlikely to immediately trigger an upgrade of the bank's long-term ratings in view of the very high support assumptions already factored into its senior debt and deposit ratings.

A downgrade of Vorarlberger Landes- und Hypothekenbank's long-term debt and deposit ratings could be triggered by any of the following: (1) a change in its standalone BFSR/BCA; (2) a deterioration in creditworthiness of the Austrian Federal State of Vorarlberg; (3) a weakening of the bank's relationship with the state or a perceived weakening of implicit support; (4) a change in ownership; or (5) a negative change in systemic support assumptions.

PRINCIPAL METHODOLOGIES

The principal methodology used in these ratings was Global Banks published in May 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The ratings assigned to government guaranteed long-term debt and deposit ratings reflect the full risk transfer to the guarantor, i.e., by applying a "credit substitution approach" that is based on an irrevocable and unconditional guarantee provided by the Republic of Austria. In addition, Moody's does not follow the usual approach of establishing a BFSR to reflect Oesterreichische Kontrollbank's and KA Finanz's standalone creditworthiness, nor does the rating agency apply a bank financial strength scorecard, given the limited value in these institutions carrying a BFSR.

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For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings of rated entity Oesterreichische Postsparkasse AG were initiated by Moody's and were not requested by this rated entity.

Rated entity Oesterreichische Postsparkasse AG or its agent(s) participated in the rating process. The rated entity or its agent(s) provided Moody's access to the books, records and other relevant internal documents of the rated entity.

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer

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