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Seven Austrian Banks Placed On CreditWatch Negative On Planned Bail-In Of State-Guaranteed Debt Of Hypo Group Alpe Adria

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OVERVIEW

- The Austrian government has proposed legislation to bail in holders of Hypo Group Alpe Adria's subordinated debt, despite a grandfathered guarantee from the State of Carinthia.
- This unexpected move was not our base-case scenario and in our view could signal a weakening of extraordinary state support for systemically important banks and for banks and grandfathered obligations that we consider government-related entities.
- We are placing on CreditWatch negative our ratings on seven Austrian banks, including their senior and grandfathered debt ratings.
- We may downgrade the banks and grandfathered instruments if we think that government support for Austria-based banks has weakened or if we perceive that economic and/or industry risks for Austrian banks have risen.

FRANKFURT (Standard & Poor's) June 10, 2014--Standard & Poor's Ratings Services said today that it has placed on CreditWatch with negative implications its ratings on seven Austria-based banks (see Ratings List).

The CreditWatch placement follows the Austrian government's announcement that it intends to introduce legislation to bail in holders of Hypo Group Alpe Adria's subordinated debt, even though this debt is guaranteed by the State of Carinthia. We understand that this legislation will form a part of the upcoming law concerning transformation of Hypo Group Alpe Adria from a bank to a wind-down unit. We believe that this extraordinary development, which was

not our base-case expectation, may trigger a lowering of our ratings on Austrian banks.

As we have previously stated (see "Decision Pending Over Hypo Alpe Adria's Future Has No Immediate Rating Impact On Austrian Banks Or GREs," published March 7, 2014, on RatingsDirect), if losses are ultimately imposed on bondholders of Hypo Group Alpe Adria, despite a grandfathered guarantee from the State of Carinthia, or if developments surrounding Hypo Group Alpe Adria lead to a general change in the Austrian government's attitude toward bank support, this could, in our view, signal a weakening of extraordinary state support for systemically important banks and for banks and grandfathered obligations that we consider government-related entities (GREs). A downgrade may also be triggered by a reassessment of the economic and/or industry risks of Austrian banks, leading to a weaker starting point for our ratings on Austrian banks. These developments could lead to a multiple-notch downgrade of Austrian banks and their grandfathered obligations.

In our view, the proposed law indicates increasing uncertainty of potential extraordinary state support for the banking sector in times of stress. If the law is enacted, we will review our assessment of Austria's support for the banking system and the systemic importance of individual banks. For banks that we consider highly systemically important in Austria, we currently incorporate two notches of uplift into our ratings to reflect expected extraordinary state support. These banks are Erste Group Bank AG, Raiffeisen Zentralbank Oesterreich AG and its core subsidiary Raiffeisen Bank International AG, and UniCredit Bank Austria AG.

For banks we consider as GREs--and for grandfathered debt obligations, which we rate according to our GRE criteria--we might change our opinion on the probability of state support if we assessed that the developments surrounding the introduction of the new law led to deterioration in GREs' role for and link to their respective governments. Currently, we incorporate into the ratings up to four notches of uplift due to expected state support for GRE banks in Austria (Oberoesterreichische Landesbank AG, Hypo NOE Gruppe Bank AG, and KA Finanz AG).

Our ratings on the grandfathered debt obligations issued by Oberoesterreichische Landesbank AG, Hypo NOE Gruppe Bank AG, and UniCredit Bank Austria AG reflect the benefit they continue to derive until maturity from guarantees issued by Austrian states. Our ratings on the grandfathered debt obligations currently benefit from up to six notches of uplift due to expected extraordinary state support.

As we stated in our March 7, 2014, press release, even if we decide that Austrian GRE banks' role for and link to their respective governments is unchanged in practice, we could nevertheless lower the ratings on these GRE banks and grandfathered debt obligations if the respective state ratings deteriorated due to a weakening of the institutional framework for Austrian states.

We would likely downgrade the banks and grandfathered instruments if the law is enacted as currently under discussion.

We expect to resolve the CreditWatch over the next three months once there is clarity on the timing and details of the upcoming law.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Ratings On Seven Austrian Banks Affirmed, With Various Outlooks, On Stabilizing Economic Risks, June 3, 2014
- Banking Industry Country Risk Assessment: Austria, June 3, 2014
- Banking Industry Country Risk Assessment Update: May 2014, May 13, 2014
- Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review, April 29, 2014
- Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks, April 29, 2014
- Austria (Republic of), April 25, 2014
- Decision Pending Over Hypo Alpe Adria's Future Has No Immediate Rating Impact On Austrian Banks Or GREs, March 7, 2014

RATINGS LIST

CreditWatch/Outlook Action

| | To | From |
|--|------------------|-----------------|
| Erste Group Bank AG Raiffeisen Zentralbank Oesterreich AG Raiffeisen Bank International AG Counterparty Credit Rating | A/Watch Neg/A-1 | A/Negative/A-1 |
| KA Finanz AG Counterparty Credit Rating | A/Watch Neg/A-1 | A/Stable/A-1 |
| HYPO NOE Gruppe Bank AG Oberoesterreichische Landesbank AG Counterparty Credit Rating | A/Watch Neg/A-1 | A/Positive/A-1 |
| UniCredit Bank Austria AG Counterparty Credit Rating | A-/Watch Neg/A-2 | A-/Negative/A-2 |

NB: This list does not include all the ratings affected.

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