



a state on the edge

EURORAI
Warsaw 17 May 2019

one step in front of the drop-off



01 audits by the Austrian Court of Audit

02 evolution of HYPO-ALPE-ADRIA-BANK
INTERNATIONAL AG

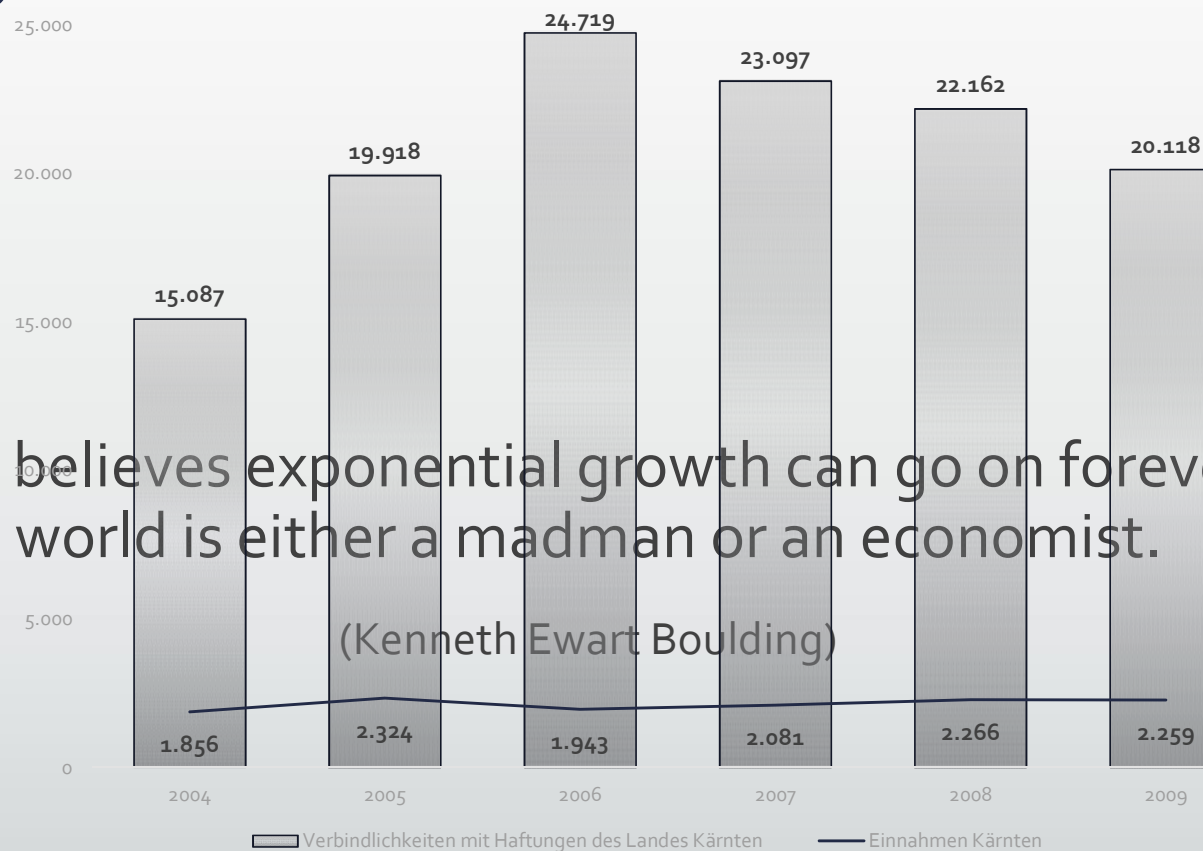
03 state participation capital

04 nationalization of HYPO-ALPE-ADRIA-BANK
INTERNATIONAL AG

Audits by the Austrian Court of Audit



limitless growth?

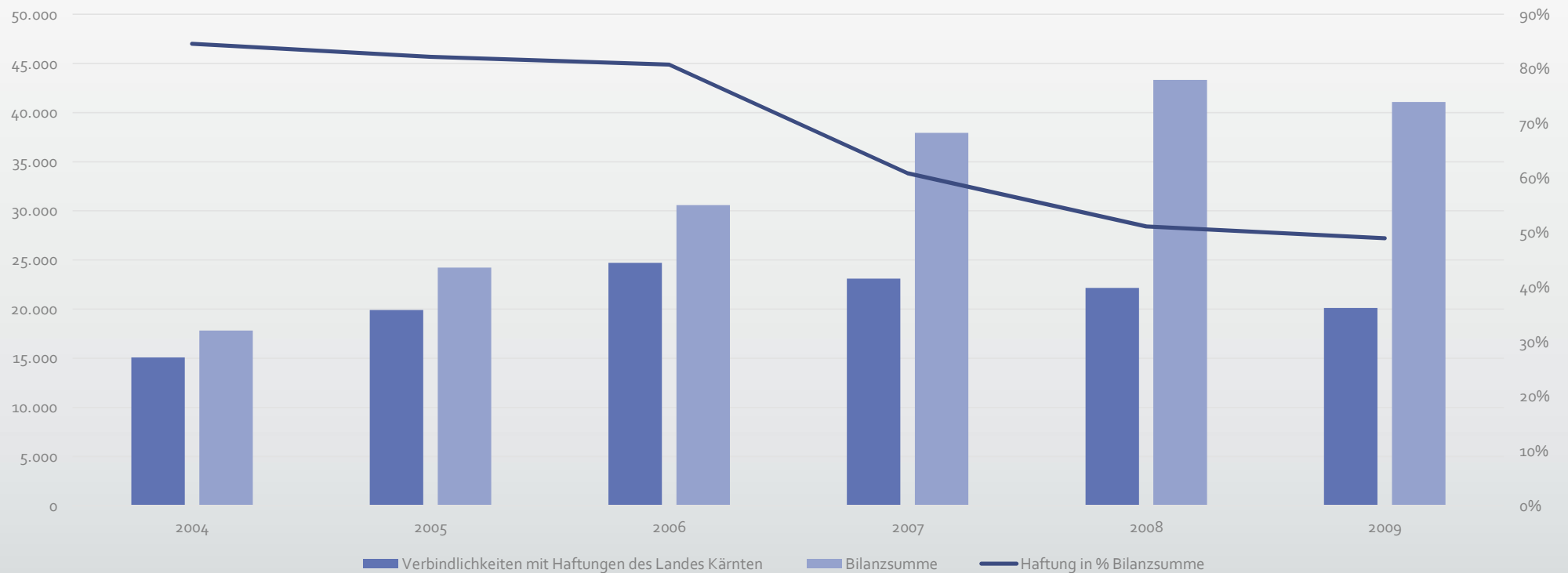


Anyone who believes exponential growth can go on forever in a finite world is either a madman or an economist.

(Kenneth Ewart Boulding)



evolution of Hypo Alpe Adria



risks of the past affect the future

to 2007

- expansion and growth
- risks taken

weaknesses in risk
management

- material shortcomings highlighted
- central bank audit 2007

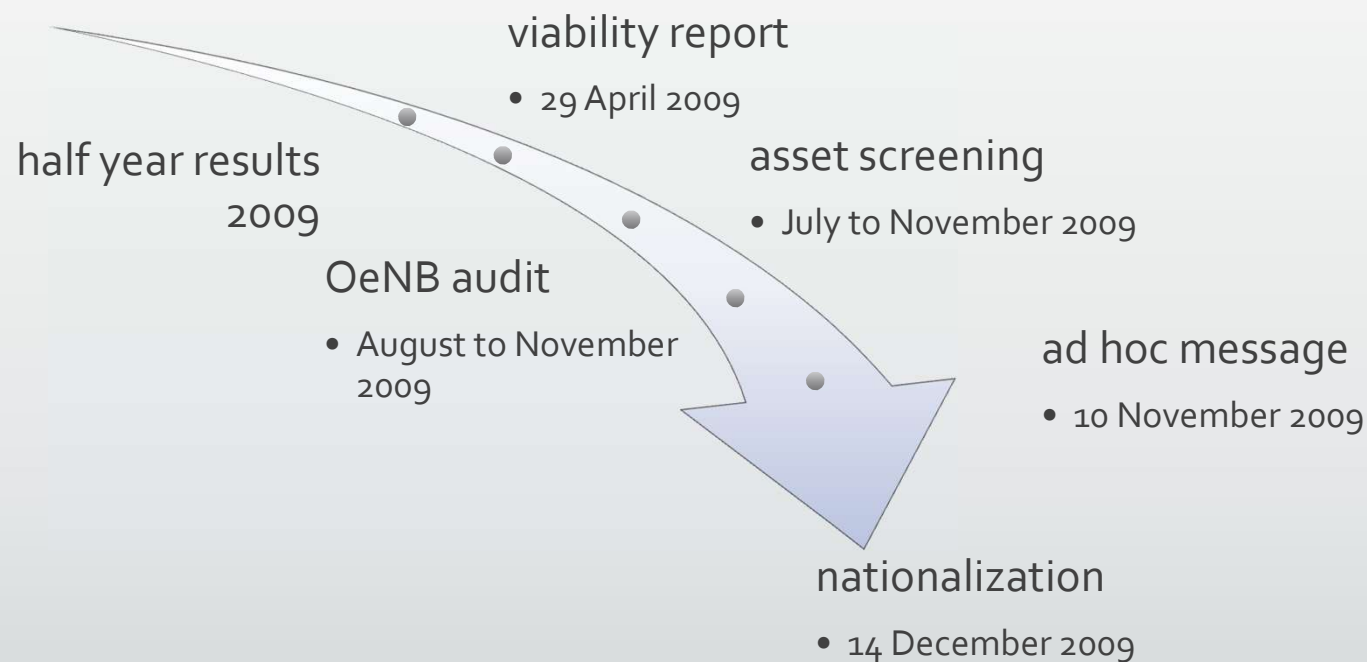
12/2008

state participation capital

roadmap to nationalization

state participation capital

- December 2008



a state on the edge



01 base case

02 1st offer and rejection

03 2nd offer and acceptance

04 rating & status quo

05 funding

Austria - Carinthia



southernmost of the 9
federal states of Austria



adjacent to Italy and
Slovenia



approximately
560,000 inhabitants



known for its nature,
mountains and lakes,
... and HETA



capital:
Klagenfurt



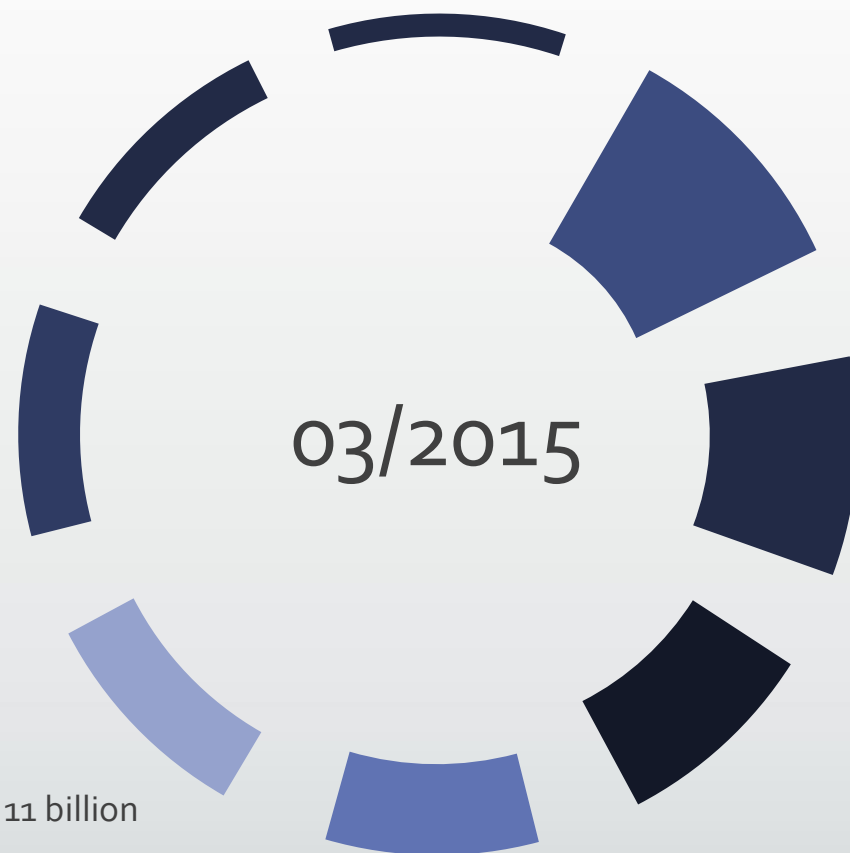
budget € 2.64 billion (estimate 2019)
debt ESA € 3.61 billion (estimate 2019)



approximately 20,000€
HETA-liability per capita 2015

base case (03/2015)

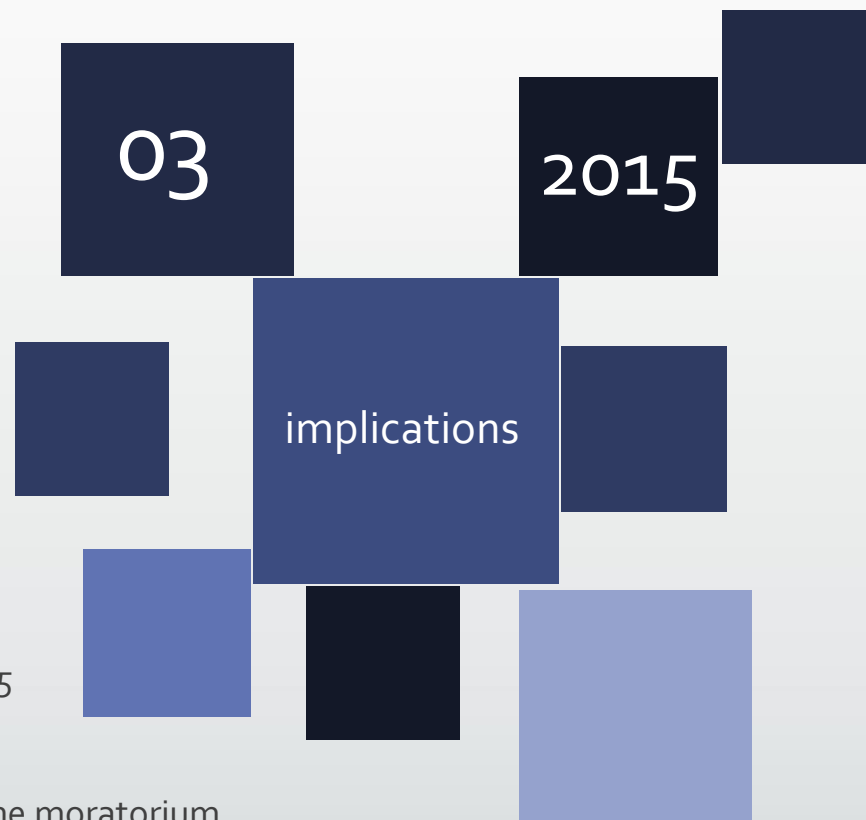
- 1 Austrian federal government as sole shareholder ceased to provide additional funds to “Hypo bad-bank” HETA
- 2 winding down of HETA under the EU’s Banking Recovery and Resolution Directive (BRRD)
- 3 Austrian financial watchdog and resolution authority FMA imposed a debt moratorium until 31 May 2016 - freezing of all debt repayments of HETA
- 4 potential triggering of Carinthia’s debt guarantees of about € 11 billion



base case (03/2015)

implications

- 1 Carinthia cut off from international capital markets
- 2 freezing of all discretionary expenses
- 3 refunding solely via Austrian federal treasury
- 4 Moody's rated Carinthia as "B3" (nearly junk grade) in August 2015
- 5 threat of bankruptcy of HETA and hence Carinthia at the end of the moratorium




headlines (04/2015 – 12/2015)

BUSINESS NEWS APRIL 27, 2015 / 2:30 PM / 4 YEARS AGO

Carinthia cash crunch gives Austria its own mini - Greece

Michael Shields 4 MIN READ

VIENNA (Reuters) - A newspaper cartoon depicting the cash-strapped province of Carinthia as "Greece without the ocean" captures the public mood as Austria weighs what to do with a region facing ruin over unaffordable bank debt guarantees.



General view of the headquarters of defunct lender Austrian bank Hypo Alpe Adria in Klagenfurt in this March 3, 2015 file picture. REUTERS/Hanno-Peter Dader/Files

The Telegraph

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Austria is fast becoming Europe's latest debt nightmare

A mini-Greece is about to go off in Europe's heartlands, and markets don't even know it

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The hills are alive with the sound of bankruptcy Photo: Copyright (c) 1995 Rex Features

Carinthia makes bid to slash debt and avoid bankruptcy



Hypo Alpe Adria headquarters in Klagenfurt. Photo: JJ55/Wikimedia

Austria's cash-strapped state of Carinthia has asked creditors to write off some of the debts owed by its stricken state lender, in a bid to avoid possible bankruptcy.

Austrian province looks at how to avoid insolvency

Moody's recently downgraded the debt of Carinthia to just above junk grade

Austria eyes resolution on 'Greek' province

Debt-ridden Carinthia hopes it can buy off creditors



Ralph Atkins in Klagenfurt OCTOBER 11, 2015

1st offer acc. to § 2a FinStaG (01/2016)



- K-AF Tender Offer Memorandum from 21 January 2016
- cash payment of 75% for senior debt and 30% for junior debt
 - market value about 68% / 20%
 - 50% / 0% write-off at the recommendation of ECB
- buy-back offer consists of
 - expected recovery of HETA wind-down
 - fiscal capacity of Carinthia
 - federal premium to back the acceptance of the offer
- additional offer from the Austrian Minister of Finance from March 2016
 - exchange for medium-term zero-coupon bonds issued and guaranteed by the Austrian government with a maturity of 18 years (market value about 83%)

rejection (03/2016)

Austria fails to strike deal on Hypo Alpe Adria collapse

Small province that was home to bailed-out lender Hypo Alpe Adria faces possible bankruptcy

Austria's FMA imposes big haircut, long wait on Heta creditors

FAILED STATE

The Lasting Legacy of Austria's Bad Bank

A legacy of the financial crisis is threatening to plunge one of Austria's provinces into bankruptcy. Creditors have rejected a deal and are demanding the state of Carinthia pay almost €11 billion in bonds related to the former Hypo Alpe Adria bank.

Bankers say 'no' to Kärnten

Austria's cash-strapped state of Carinthia edged closer to bankruptcy Thursday after creditors rejected its plea to forgive some of the debts owed by stricken state lender Hypo Group Alpe Adria (HGAA).

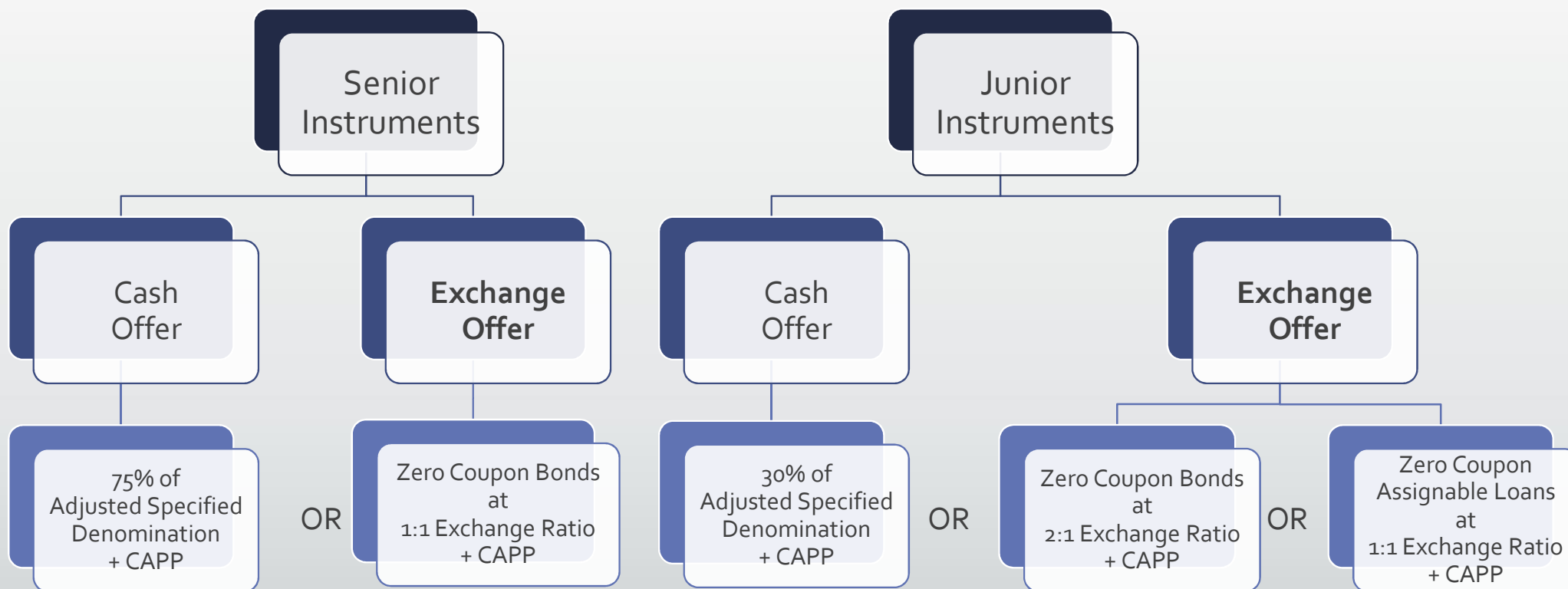
- K-AF announced on 14 March 2016 that offer has been rejected
- no direct consequences, moratorium still in place
- changes expected when FMA decides on further wind-down measures (i.e. haircut)

haircut (04/2016)

- FMA imposes a 53.98% haircut on senior debt and 100% for subordinated claims
- cancellation of all interest payments beginning March 2015
- deferment of maturity for cut liabilities until the end of the wind-down process (ultimately until 31 December 2023)

2nd offer acc. § 2a FinStaG (09/2016)

Options





acceptance (10/2016)

- K-AF announced on 12 October 2016 that the buy-back offer has been accepted (min. 2/3 in total and 1/4 per class):
 - total acceptance 98.71%
 - equals 99.55% of senior debt and 89.42% of junior debt
- creditor upsides:
 - gain uncertain HETA recovery “upfront”
 - potential CAPP payment
 - no long-term court problems
- nearly all creditors took exchange offer in mid-term zero-coupon bonds (volume ZCB about € 10.3 billion)
 - creditors recover about 90% / 45%
- remaining hold-outs: about € 143 million



Austria wins over creditors in €11 bn Heta debt deal

Hypo Alpe Adria bondholders agree repayment deal

Bad bank move could give investors as much as 90 per cent of money back

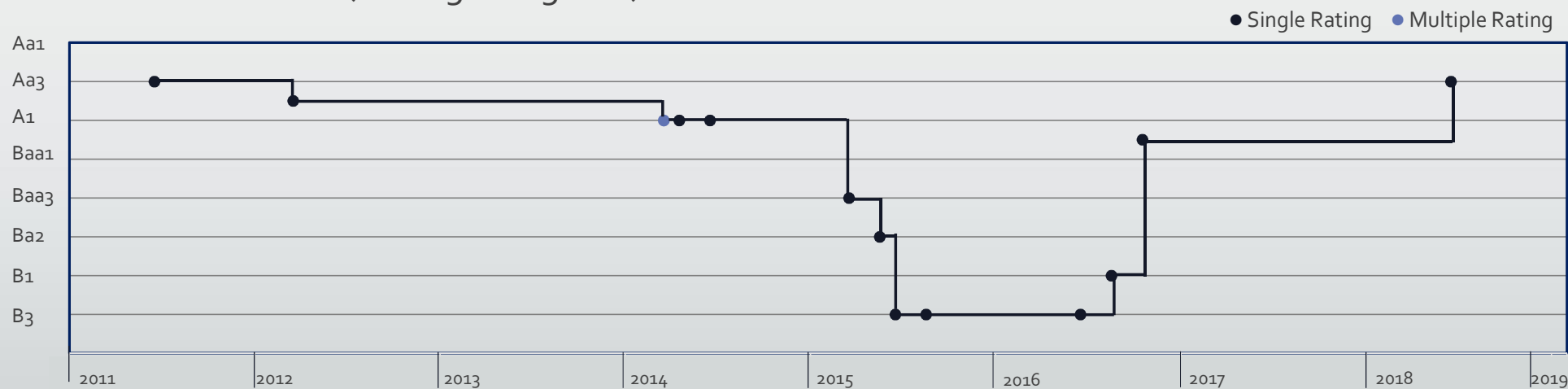
DEBT RELIEF

Austria Cuts a Deal with Heta Creditors

The Austrian government and Heta, the successor organization to insolvent Austrian bank Hypo Alpe Adria, have offered to pay Heta creditors 90 percent of their claims. Most of the creditors appear willing to accept the offer, though there are some holdouts.

rating & status quo (10/2016 – 04/2018)

- Carinthia rated "Aa3" (Moody's) since 27 April 2018 (4th-highest grade)
- equals Carinthia's first evaluation in July 2011
- Carinthia rated "B3" in August 2015: highly speculative investment ("junk grade")
cf. Greece, Angola, El Salvador
- Austria rated "Aa1" (2nd-highest grade)



Quelle: Moody's – eigene Darstellung

funding (10/2016)



- funding volume about € 8.9 billion
- share Carinthia: € 1.2 billion fixed
- funding of compensation amount via federal treasury (OeBFA)
- Carinthian debt acc. ESA totaling about € 3.61 billion (estimate 2019)
- highest per capita debt ratio in Austria of € 6,431 (estimate 2019)
 - cf. Tyrol: about € 350 (estimate 2019)
- remaining funding by federal government via its resolution management vehicle Abbaumanagementgesellschaft des Bundes (ABBAG) as preliminary financing of HETA wind-down recovery
- share federal government: depending on wind-down process (fraught with risk)



“If you would like to know the value of money, go and try to borrow some.”

Benjamin Franklin