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Austria Halts Payments on Hypo Alpe-Adria Debts

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Austria on Sunday said it is halting payments on more than EUR11 billion (\$12.28 billion) in debts of Hypo Alpe-Adria-Bank International AG until it has found a way of winding down the nationalized lender without more costs for taxpayers.

The announcement marks the latest twist in Austria's struggles to deal with the troubled bank, which first ran into trouble in 2008 and has already cost the country's taxpayers EUR5.55 billion. It is likely to lead to big losses for the bank's remaining creditors and could trigger a slew of lawsuits as investors seek to recover some of their holdings.

The payment moratorium affects more than EUR11 billion in debts still owed by a "bad bank" set up for Hypo's remaining assets last year, Austria's banking supervisor Finanzmarktagentur, or FMA, said, as well as a number of other obligations that the FMA didn't quantify in its report. Until the moratorium expires in May next year, the bad bank, known as **Heta Asset Resolution** AG, won't be paying interest on its debts either, the FMA said.

FMA and Heta announced the moratorium after a review of Heta's assets revealed the need for an additional correction to their value of between EUR5.1 billion and EUR8.7 billion. That would have forced the Austrian government to inject as much as EUR7.6 billion in extra capital into Heta--a step the finance ministry in Vienna refused.

"No additional tax money will be provided," the ministry said in a statement.

The possible write-downs of as much as EUR8.7 billion by far surpassed expectations previously voiced by Heta and the Austrian government and underline the poor quality of Hypo's investments. When Heta was set up last year, its assets were valued at EUR18 billion.

Hypo, based in the Austrian region on Carinthia, raced into South Eastern Europe in the 1990s and early 2000s, where it wrote loans on everything from real estate and businesses to cars and yachts. That expansion was aided by near unlimited guarantees for its debts by the Carinthian government, at the time led by far-right populist Governor Jörg Haider.

In 2007, Hypo was bought by a state-owned Bavarian bank BayernLB, which owned a majority stake in the bank until it was nationalized by the Austrian government in 2009. Since then, the government in Vienna and BayernLB have been battling over who should bear the growing cost of winding down Hypo.

It was unclear Sunday night what would happen to some EUR10 billion in Hypo debts that have been guaranteed by the regional government in Carinthia.

In its news release, the finance ministry said the regional guarantees wouldn't be triggered "immediately," without providing further detail. The ministry also said EUR1 billion in Hypo debts guaranteed by the federal government would continue to be paid. A spokesman for the ministry couldn't be reached for comment.

The FMA said the planned sale of Hypo's network in southeastern Europe to U.S. investment fund Advent International and the European Bank for Reconstruction Development wouldn't be affected by Sunday's move.

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