

---

# THE WALL STREET JOURNAL.

News

## **Austria's Banks Could Face Higher Financing Costs; Law Designed to Restructure Indebted Bank Poses Risks, Says Banker**

By Nicole Lundeen

377 words

17 June 2014

03:47 AM

The Wall Street Journal Online

WSJO

WSJ.com

English

Copyright 2014 Dow Jones & Company, Inc. All Rights Reserved.

VIENNA—Austria's draft law on restructuring heavily indebted **Hypo-Alpe-Adria** Bank International AG could lead to higher financing costs for the country's banks and damage investors' trust if enacted, the president of the Austrian Bankers' Association said Tuesday.

Under the draft law, which was approved by the government's weekly cabinet meeting last week, but has yet to be passed by parliament, holders of subordinate bonds valued at €890 million (\$1.21 billion) with a guarantee from the Province of Carinthia, where the bank is based, could face a total write-down.

Another €1 billion worth of subordinate bonds with a federal government guarantee won't be included in the bail-in. The decision not to honor the provincial government guarantee has been met with criticism at home and abroad, and has raised worries about Austria's commitment to stand behind its guarantees.

"I feel this taboo-break is an inexcusable mistake," said Willibald Cernko, president of the association and chief executive of UniCredit Bank Austria AG, a subsidiary of Italy's UniCredit SpA.

He added that politicians were making the mistake of playing with the "trust" in Austrian institutions and the risks aren't worth the gains.

Austrian banks have benefited in their ratings from implicit backing from the government. But the draft law is causing some credit-rating firms to re-examine that, Mr. Cernko said. Citing a December 2010 report from the Austrian central bank, Mr. Cernko said that the move could increase the cost of financing for Austrian banks by as much as 70 basis points, or €1.5 billion a year, over the medium term.

The banker dismissed arguments that investors should have known Carinthia had overextended itself and wouldn't be able to stand by the guarantee, adding that bank regulators had never called the investments risky. He said the investors weren't speculators and that they had invested in the bonds because of the provincial guarantee.

Bank Austria doesn't hold any of the affected bonds, said Mr. Cernko who was speaking at a news conference at the end of the association's general assembly.

Document WSJO000020140617ea6h003pf