



## UPDATE 1-Austrian decision on Hypo Alpe Adria "bad bank" on hold

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\* Ailing state banks in focus for next Austrian coalition

\* "Bad bank" for Hypo Alpe Adria a decision for next govt

\* Volksbanken denies it needs 1 bln euros aid in 2014 (Combines stories, adds background)

By Michael Shields

VIENNA, Nov 14 (Reuters) - Austria's decision on how to set up a "bad bank" for ailing state lender Hypo Alpe Adria is on hold while the country's two big political parties try to hash out a fresh coalition, dragging out a problem that casts a shadow over public finances.

Chancellor Werner Faymann of the Social Democrats (SPO) and conservative leader Michael Spindelegger have agreed to earmark 5.8 billion euros (\$7.8 billion) for struggling state banks if the parties can agree to govern together for five more years.

But they have yet to come up with a long-term strategy for Hypo, which has sucked in around 3.8 billion euros in state aid so far and needs even more help this month.

Other lenders such as partly state-owned Volksbanken AG are also not out of the woods. The bank has not ruled out requiring more aid, but dismissed as speculation a newspaper report it needed 1 billion euros in 2014.

The state task force charged with developing models for handling Hypo has presented its proposals to the party leaders, Hypo Chairman Klaus Liebscher said on Thursday, but a final decision was in the hands of the next government.

The SPO and OVP aim to reach an agreement on a coalition by the Christmas holidays in late December, so the Hypo decision could be weeks away. The coalition talks still need to bridge big differences over education and social policy.

Liebscher, who is also head of the task force, gave no details on the models being put forward.

The issue is how best to carve 19 billion euros worth of toxic loans, leases and real estate - but also healthier assets - out of the bank that Austria nationalised in 2009 to avoid a collapse with regional repercussions.

Putting these into a state-run wind-down unit would relieve pressure on Hypo, which has sucked in around 3.8 billion euros in state aid and needs more help this month to avoid breaching rules on how much capital it must hold.

But such a move could boost state debt to near 80 percent of economic output - a danger signal for debt rating agencies - unless private investors step forward to control the bad bank, a step healthier banks have shown scant interest in taking.

Selling off Hypo may cost taxpayers up to 5.4 billion euros in fresh **capital** by 2017 - including between 1.9 billion and 3 billion this year alone - under a plan approved by the European Commission but not yet reflected in state financial projections.

(\$1 = 0.7460 euros) (Editing by David Holmes)

HYPOALPEADRIA-BADBANK/ | ABN | D | E | RBN | M | RNP

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