

Global Credit Research - 18 Mar 2011

Vienna Austria

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits (ST) Dom Curr	/P 1
Bkd Bank Deposits	Aaa/P 1
Senior Unsecured	Aaa
Commercial Paper Dom Curr	P 1
Bkd Other Short Term	(P)P 1

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Key Indicators

Oesterreichische Kontrollbank AG (Consolidated Financials)[1]

	[2]12-09	[2]12-08	[3]12-07	[3]12-06	Avg.
Total Assets (EUR million)	34,251.7	41,546.0	33,019.4	27,739.5	[4]7.3
Total Assets (USD million)	49,142.4	57,750.8	48,276.1	36,578.8	[4]10.3
Tangible Common Equity (EUR million)	522.4	451.0	435.3	394.9	[4]9.8
Tangible Common Equity (USD million)	749.6	626.9	636.5	520.7	[4]12.9
PP / Avg RWA (%)	17.0	4.2	19.3	17.3	[5]10.6
Net income / Avg RWA (%)	12.7	3.0	14.6	12.6	[5]7.9
(Market Funds Liquid Assets) / Total Assets (%)	6.3	8.3	5.2	5.3	[6]6.3
Core Deposits / Average Gross Loans (%)	26.0	18.7	14.8	26.0	[6]21.4
Tier 1 Ratio (%)	42.7	39.9	65.8	79.9	[5]41.3
Tangible Common Equity / RWA (%)	70.3	62.0	100.7	102.5	[5]66.1
Cost / income Ratio (%)	36.5	69.2	48.5	52.8	[6]51.8

Source Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel FRS [3] Basel FRS [4] Compound Annual Growth Rate based on FRS reporting periods [5] Basel & FRS reporting periods have been used for average calculation [6] FRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

The Aaa/P 1 ratings of Oesterreichische Kontrollbank AG (OKB) are based on the unconditional guarantee of the Republic of Austria to those liabilities (domestic and foreign) recognized under the Export Financing Guarantees Act or which are otherwise collateralized by assignment of receivables that are insured under the Export Guarantees Act. OKB is largely owned by a number of leading Austrian Banks while taly's UniCredit indirectly holds the largest stake (40.1%).

The bank's key role is in export financing and capital market services (mainly underwriting of domestic public offerings). To a lesser degree OKB is also active in (i) non export related lending to Austrian public law entities (ii) intermediary domestic lending transactions and (iii) clearing agency/ depository functions (iv) providing credit insurance for marketable risks via its subsidiaries. Maximisation of profits is not OKB's primary aim. This is reflected in some of OKB's modest earnings indicators. Nonetheless, risk adjusted capitalisation is extremely high.

Credit Strengths

The credit strengths of Oesterreichische Kontrollbank Aktiengesellschaft (OKB) are

The debt ratings are based on the unconditional and explicit guarantee of the Republic of Austria (rated Aaa) under the Export Financing Guarantees Act.

Low risk export financing activities in addition to a high level of accumulated reserves

The bank's expertise in administering export guarantees and its relationship with the relevant players in the Austrian markets and the export markets underpin its franchise

As a refinancing institution the specific non competitive nature of the bank is a further factor that helps to protect the bank's franchise

Credit Challenges

The credit challenges for the bank are as follows

A financial deterioration in the financial strength of OKB's major counterparties could have a negative rating implication for those liabilities which are not explicitly guaranteed. Currently we view this risk as remote

Political risk which is concentrated in traditional export markets is difficult to manage or reduce significantly

OKB assumes moderate risks outside the guaranteed export financing activities

The bank's franchise would be significantly weakened if the Austrian Government were to entrust another entity with the administration of the export finance scheme

Rating Outlook

The outlook on the Aaa/P 1 rating is stable and is linked to OKB's sole role in administering export guarantees and benefits from the export financing guarantees irrespective of the amended wording of the Export Guarantees Act and the Export Financing Guarantees Act which have eliminated any direct reference of OKB

What Could Change the Rating - Up

At the current Aaa/P 1 rating level there is no further upside for the rating

What Could Change the Rating - Down

Should the Austrian Government decide to entrust a third party with the administration of the export financing scheme this would on the one hand not effect the outstanding guarantees of OKB's debt until the maturity of such liabilities on the other hand it would have an impact on the ratings for any un guaranteed debt in case the bank would have any such unguaranteed issues outstanding. As guaranteed debt continues to benefit from the state guarantee until its maturity any significant although currently unlikely deterioration of the Republic of Austria would obviously also be reflected in the ratings

Recent Results and Company Events

In 2009 Austria's exports fell by 20% compared with 2008. OKB's new guarantee contracts declined by 57% and its total outstanding lending commitments decreased by EUR5.2 billion (13%) over the same period reflecting the banks' sensitivity to the Austrian export activity. As at December 31 2009 OKB's total assets stood at EUR34.3 compared to EUR41.5 billion one year earlier

While the net profit of OKB's main segment the Export Services remained largely stable (2009 EUR52.7 million 2008 EUR51.1 million 2007 EUR43.5 million) the bank's net profit was very volatile over the past three years amounting to EUR91.5 million EUR22.4 million and EUR58.5 million for 2009 2008 and 2007 respectively

This volatility was mainly driven by the valuation of the group's EUR645 million own account investment portfolio. While being part of OKB's Banking book those securities are designated at fair value through profit and loss for accounting purposes (OKB also did not take advantage of the option to reclassify financial instruments according to the amended AS 39 in 2008). The valuation result amounted to EUR36.4 million / EUR58.9 million / EUR7.6 million for 2009 2007 explaining by and large the movements in bottom line profitability

As economic activity picked up during the course of 2010 we expect OeKB for the full year 2010 to report solid results from its core areas of operation

DETAILED RATING CONSIDERATIONS

OKB is a special purpose bank which acts as the Republic of Austria's export credit agency and performs capital market services for the Republic of Austria. The performance of OKB's core business segment 'Export Services' is strongly correlated to the performance and scope of the Austrian export business and activities. More recently OKB entered into T Services and other auxiliary banking services to position itself as a financial service provider to the Austrian banking system

Since 1950 OKB has acted as the Republic of Austria's sole export agent for the administration of guarantees issued by the Republic of Austria to promote Austrian exports (covering commercial political and FX risks). However in 2003 both acts eliminated any direct reference of OKB as the financial institution charged with the administration of both export guarantees and export financing guarantees introducing the possibility that the promotion of export may be put to tender and awarded to another party in the future. From September 2009 to December 2010 OKB was also entrusted with the handling of the guarantee applications under Austria's Corporate Liquidity Support Act on behalf of the Republic of Austria which aimed to support Austrian companies to weather the economic downturn

OKB is owned by a number of Austrian Banks including UniCredit Bank Austria Erste Bank RZB and others. Italy's UniCredit indirectly holds the largest stake (40.1%) through its majority ownership of UniCredit Bank Austria AG. OKB is subject to supervision by FMA the Austrian financial supervisory authority

OKB does assume a very small amount of credit interest or market risk. The group's risk management practices and systems are in line with the bank's risk profile and strategy. OKB uses the Standardized approach to credit risk under Basel by mapping external ratings to an internal scale. For internal risk management purposes OKB operates an 'Internal Capital Adequacy Process' (CAAP). We note favorably that OKB's CAAP quantifies market risks in the Banking Book and other risks which are not subject to regulatory capital requirements

While profit maximization is not OKB's primary aim its modest earning indicators remained fairly stable and positive over the past three years The group's return on assets averaged to 17 basis points over the past three years and the return on equity was 12% in the same period

OKB's funding needs are asset driven As OKB is not allowed to collect deposits from retail or corporate clients the bank relies largely on market funding through its euroshelf and commercial paper programmes (95% of total funding are debt securities) in light of the state guarantee of its liabilities recognized under the Export Financing Guarantees Act OKB's access to international credit markets is under normal market conditions comfortable and will continue to reflect macroeconomic conditions in Austria and market sentiment in respect of the sovereign's creditworthiness Given its close links to the Republic of Austria OKB continued to have access to the market under the prevailing turbulent market conditions

OKB's risk adjusted capitalization is extremely good in 2009 the group reported a total capital ratio of 104.7% (2008 94.1%) and a Tier 1 ratio of 78.5% (2008 72.7%) under Basel 2 Key driver is the very low level of risk weighted assets at EUR 404million as OKB's guaranteed assets under the Export Financing Act get zero risk weight with the Republic of Austria's Aaa/P-1 debt rating

OKB's Cost to Income Ratio (CIR) averaged 54% over the years 2007-2009 This is at the higher end compared to OKB's European export credit agency peers which depending on their business model operate with a CIR of about 30%-40%

The asset quality of OKB's loan book is very good 94% of the groups's exposures are rated Aaa 4% in Aa and A and only 1% below single A reflecting that most of OKB's lending business is subject to the Export Financing Guarantees Act The geographic distribution of OKB's credit risk exposure shows 95% Austria (as all assets under the Export Financing Guarantees Act are allocated here) 4% EU (excluding Austria) and 1% Other countries



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