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Austrian Development Bank Oesterreichische Entwicklungsbank AG Rated 'AA+' On Integral Link To State; Outlook Stable

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- Oesterreichische Entwicklungsbank (OeEB) has a very important role in implementing Austria's international development policy because it is the government's sole agent for financing private-sector investments in developing and transition countries. OeEB has an integral link with the government, based on state guarantees for client-related business.
- OeEB is the subsidiary of a prominent government-related entity Oesterreichische Kontrollbank AG, through which it has liquidity access. There are no government or shareholder guarantees on OeEB's borrowings.
- We are assigning our 'AA+' long-term and 'A-1+' short-term ratings to OeEB.
- The stable outlook reflects our opinion that OeEB will continue to play a very important role for the Austrian government's development policy goals.

FRANKFURT (Standard & Poor's) Sept. 28, 2009--Standard & Poor's Ratings Services said today it assigned its 'AA+' long-term and 'A-1+' short-term issuer credit ratings to Oesterreichische Entwicklungsbank AG (OeEB). The outlook is stable.

"The ratings on OeEB reflect our opinion that there is an "extremely high" likelihood that the government and OeEB's parent OKB would provide

timely and sufficient extraordinary support to OeEB in the event of financial distress," said Standard & Poor's credit analyst Alois Strasser.

In accordance with our criteria for government-related entities (GREs), our view of an "extremely high" likelihood of extraordinary government and parent support is based on our assessment of OeEB's:

- "Very important" role as the Republic of Austria's (AAA/Stable/A-1+) sole agent for financing private-sector investments in developing and transition countries, supported by government's provision of guarantees that mitigate political and economic risks for its client-related business; and
- "Integral" link with the government as a wholly-owned subsidiary of Austria's export credit agency Oesterreichische Kontrollbank AG (OKB; AAA/Stable/A-1+).

The ratings reflect the support of the Austrian government, which guarantees OeEB's loan and equity investments. The guarantee framework does not necessarily ensure timely payment on guarantees and contains clauses that make them conditional and exclude the government from liability in cases where OeEB had prior knowledge of a loss or in instances of gross negligence, misconduct, or fraud by OeEB. The guarantees protect virtually all of OeEB's operating assets against political and economic risks stemming from its operations. Because OeEB's loan portfolio consists of financings that are guaranteed by the sovereign, asset-quality risk is low, in our view. This also accounts for OeEB's exemption from capital adequacy or risk-segmenting rules under Basel II, based on the Austrian Banking Act.

Standard & Poor's views OeEB's stand-alone credit quality as consistent with a rating in the lower end of the 'BB' category. OeEB's credit weaknesses include its short track record (established in 2008) and its low capitalization in absolute terms (€5.5 million). OeEB's credit strengths include the low embedded credit risk of its development-related portfolio, which emanates from the state guarantees covering these assets. As OeEB develops, we expect its access to markets, which is currently limited, to improve.

Although the government doesn't own OeEB or its parent OKB, it is closely involved in OeEB's advisory board and grants explicit guarantees for each transaction.

The government set up OeEB in March 2008 to complement its international cooperation and development strategy to facilitate private-sector investment in developing and transition countries that would otherwise not receive financing from commercial financial institutions. OKB is OeEB's sole shareholder and exerts full management control.

We expect most, but not necessarily all, of OeEB's funding to come from its parent OKB. Austria guarantees OeEB's assets relating to lending and investment business, but we believe there is the potential for short-term mismatches if a business client defaults. We understand, however, that OKB is willing to bridge temporary mismatches.

OeEB's operations include the provision of long-term investment financing in the form of loans or equity funding. We understand that OeEB expects its loan portfolio to increase by €100 million annually

As a commercial entity, OeEB aims to make profits, but its specific role implies that it is not a profit-maximizing entity. OeEB posted a small profit

of €333,000 for 2008. At €5 million (8% of 2008 assets), shareholder capital is small. Given OeEB's small liquidity buffer, a considerable expansion of the loan portfolio, without a corresponding increase in capitalization or liquidity, could weigh on its stand-alone credit profile. However, we take into consideration OeEB's low risk portfolio, which benefits from sovereign guarantees. Also, building a strong track record and the demonstrated ability to generate capital through consistent profits could benefit OeEB's stand-alone credit profile.

"The stable outlook reflects our opinion that OeEB will continue to play a very important role for the Austrian government's development policy goals," said Mr. Strasser. "This importance is underscored by the inclusion of OeEB's investment financings in the Export Guarantees Act."

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