MOODY'S
INVESTORS SERVICE

Credit Opinion: Investkredit Bank AG

Global Credit Research - 19 Jul 2011

Vienna, Austria

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Baa2/P-2
Bank Financial Strength	E+
Baseline Credit Assessment	B1
Adjusted Baseline Credit Assessment	Ba2
Senior Unsecured -Dom Curr	Baa2
Subordinate -Dom Curr	Baa3
Jr Subordinate -Dom Curr	B3 (hyb)
Parent: Oesterreichische Volksbanken AG	
Outlook	Stable
Bank Deposits	Baa2/P-2
Bank Financial Strength	E+
Baseline Credit Assessment	B1
Adjusted Baseline Credit Assessment	Ba2
Issuer Rating	Baa2
Senior Unsecured	Baa2
Senior Subordinate -Dom Curr	Baa3
Jr Subordinate -Dom Curr	Caa2 (hyb)
Pref. Stock Non-cumulative -Dom Curr	Caa2 (hyb)
Other Short Term -Dom Curr	(P)P-2
Investkredit Funding II Limited	
Outlook	Stable
Pref. Stock Non-cumulative	B2 (hyb)

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Key Indicators

Investkredit Bank AG (Consolidated Financials)[1]

	[2]**3-11**	[2]**12-10**	[2]**12-09**	[2]**12-08**	[3]**12-07**	**Avg.**
Total Assets (EUR million)	**9,579.5**	**10,004.6**	**12,643.8**	**14,334.9**	**13,976.7**	[4]**-9.0**
Total Assets (USD million)	**13,594.2**	**13,421.6**	**18,140.6**	**19,926.2**	**20,434.6**	[4]**-9.7**
Tangible Common Equity (EUR million)	**967.5**	**931.3**	**680.8**	**690.9**	**702.6**	[4]**8.3**
Tangible Common Equity (USD million)	**1,373.0**	**1,249.3**	**976.7**	**960.4**	**1,027.2**	[4]**7.5**
PPI / Avg RWA (%)	**2.3**	**1.6**	**1.4**	**1.3**	**1.5**	[5]**1.6**
Net Income / Avg RWA (%)	**1.3**	**0.7**	**-2.6**	**0.8**	**1.4**	[5]**0.0**
(Market Funds - Liquid Assets) / Total Assets (%)	**69.7**	**70.4**	**73.8**	**72.4**	**67.4**	[6]**70.7**
Core Deposits / Average Gross Loans (%)	**10.9**	**9.7**	**10.9**	**15.6**	**19.8**	[6]**13.4**
Tier 1 Ratio (%)	**8.1**	**8.1**	**7.2**	**6.3**	**7.2**	[5]**7.4**
Tangible Common Equity / RWA (%)	**10.5**	**9.9**	**6.2**	**6.0**	**5.7**	[5]**8.2**
Cost / Income Ratio (%)	**27.1**	**33.7**	**33.8**	**42.3**	**38.2**	[6]**35.0**
Problem Loans / Gross Loans (%)	**--**	**12.8**	**12.3**	**5.9**	**4.3**	[6]**8.8**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**--**	**63.3**	**87.3**	**69.5**	**49.3**	[6]**67.4**

Source: Moody's

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

Opinion

RECENT CREDIT DEVELOPMENTS

Investkredit Bank-AG (Investkredit) as a fully owned subsidiary of Österreichische Volksbanken-AG (OeVAG; Baa2 stable; E+ / B1 stable) acts as the centre of competence for the group's business interests in corporate and commercial real estate lending in Austria and Central and Eastern Europe (CEE) including significant exposure in Germany in the corporate segment.

Intra-group merger of OeVAG and Investkredit. On 19 May 2011, the general assembly of OeVAG approved the combination of OeVAG and Investkredit which is expected to become effective in H2 2011. As a result of the intra-group transaction, the banking operations of OeVAG will be transferred to Investkredit (as the assuming company) by way of universal succession. The future name of the unified bank will be Österreichische Volksbanken-AG, which will, as a result of the transaction, essentially display the current consolidated credit profile of OeVAG, which today forms the basis for our rating assessment of OeVAG.

We note that the merger will reduce organisational complexity and better reflect the unified management approach - established in September 2010 - of OeVAG and Investkredit. As a result of the intra-group transaction, the capitalisation of the future group will undergo some changes. The current capitalisation for OeVAG of EUR 3.6 billion comprises EUR 2.6 billion core capital (Tier 1) including a EUR 1.0 billion participation capital injected by the Republic of Austria during the financial crisis. Together, these represent a 9.7% Tier 1 ratio as of March 2011. While we expect regulatory Tier I ratios to increase slightly as a result of the transaction due to a different allocation of goodwill, economically the available capital on a consolidated level will remain at the same level as factored into our OeVAG ratings today which are based on consolidated financials.

For a more detailed discussion of OeVAG's credit profile, please refer to OeVAG's credit opinion.

SUMMARY RATING RATIONALE

We assign a bank financial strength rating (BFSR) of E+ to Investkredit Bank-AG (Investkredit), which maps on the long-term scale at B1. The BFSR reflects the bank's: (i) tarnished, lending-biased franchise and the bank's limited earnings power; and (ii) impaired asset quality. The bank's BFSR is capped at the E+ BFSR of Österreichische Volksbanken-AG's (OeVAG; Baa2 stable; E+ / B1 stable) as it fully depends on OeVAG for liquidity and capital via a profit and loss transfer agreement and the bank has already been fully integrated into OeVAG since 2009, operating under the same management board since September 2010. Investkredit's liquidity hinges on the cooperative sector liquidity downstreamed from OeVAG. OeVAG's own challenges to fund its retail operations in CEE bundled in its subsidiary Volksbanken International (VBI, unrated) are in the process of being addressed by the planned divestiture of at least major parts of these operations.

The long-term global local currency (GLC) deposit rating of Investkredit is Baa2. It benefits from very high probability of support provided by its parent OeVAG. The adjusted standalone credit strength (mapped from the E+ BSFR) for Investkredit, on which we base our hybrid ratings, is Ba2 and includes a two-notch uplift from the B1 standalone credit strength, reflecting cooperative support assumptions from the Austrian Volksbanken sector (Volksbanken; unrated). Our assumptions for high sector support are underpinned by the substantial levels of funding from the cooperative sector at the level of OeVAG while recognising the limited financial capabilities of the sector to provide capital assistance in case of need. The adjusted BCA excludes systemic support. Investkredit's short-term rating is Prime-2.

Credit Strengths:

Focused business strategy and defined market position as a specialised long-term corporate and real-estate lender

Profit and loss transfer agreement with OeVAG provides for stable capitalisation

Stable liquidity and funding provided by OeVAG whereby Investkredit indirectly enjoys access to the Volksbanken sector's resilient deposit base as stable source of liquidity

Credit Challenges:

Re-establishing tarnished franchise post crisis, while maintaining strengthened corporate and risk governance

Weak asset quality, albeit stabilised at a low level

Maintaining necessary liquidity levels and capitalisation until merger with OeVAG is concluded

Rating Outlook

The outlook on the BFSR as well as on the debt and deposit ratings is stable, reflecting the view that challenges from a potential adverse change in the overall economic environment would be contained.

What Could Change the Rating - Up

Positive pressure on the bank's BFSR could result from sustained improvement in its financial performance, along with significant asset-quality improvement. At present, upward pressure on Investkredit's debt and deposit rating is limited, as a possible improvement in the BFSR is likely to be offset by a further reduction of support uplift that is already factored into the ratings and still includes a component of extraordinary support.

What Could Change the Rating - Down

Negative pressure on the BFSR could be triggered if: (i) the sector reduces its commitment and withdraws its liquidity from OeVAG and the bank; or (ii) asset quality pressures with risk charges exceeding our expectations. A downgrade of the deposit rating could be triggered by a lower BFSR or weakening support from the sector and its parent OeVAG.

Recent Results

For the first three months of 2011 (3M 2011), the bank reported net income of EUR 27 million, compared with a marginal EUR 1 million in the comparable period in 2010. The bank achieved the positive result on the back of significantly lower risk provisions (EUR 15 million in 3M 2011 from EUR 38 million in the equivalent period of 2010). Somewhat lower interest income of EUR 47 million was due to the bank's decreased lending volumes of EUR 7.7 billion, which were down 19% y-o-y. We note the significant reduction of Investkredit's balance sheet over the past two years to EUR 9.6 billion in March 2011, from EUR 14.3 billion at YE2008 amid reduced demand from Investkredit's core customer base. The reported Tier 1 ratio relative to total risk increased to 8.1% in March 2011, from a low 6.8% a year earlier following significant derisking of Investkredit's balance sheet as loans were transferred to OeVAG in Q4 2010. As a result risk weighted assets decreased to EUR 9.3 billion, from EUR 11.4 billion.

For the financial year 2010, Investkredit reported a net profit of EUR 60 million after a net loss of -EUR 296 million the year before, mainly as a result of significantly reduced risk provisions of just below 70 bps on the bank's exposure. With cost of risk at a normalised 150 bps, the result would have broken even. At the same time and after significant provisioning in 2009, the bank has now EUR 641 million loan loss provisions to rely upon (compared with EUR 63 million in 2008), which covers 64% of the bank's non-performing loans.

During the credit crisis, Investkredit's parent, OeVAG, encountered substantial liquidity and asset quality issues, which resulted in the following measures from the Republic of Austria: (i) injection of EUR 1 billion participation capital from the Republic of Austria in Q2 2009; and (ii) the issue of EUR 3 billion in government guaranteed bonds in Q1 2009 and Q3 2009. As Investkredit relies on OeVAG for its liquidity and capitalisation, it continues to benefit as long as these measures are provided. In April 2011, the primary sector banks as shareholders of OeVAG agreed in principle to redeem EUR 300 million of the EUR 1 billion participation capital held by the Republic. The partial redemption needs to be in place by year end in order for the Republic not to take control of the bank and potentially sell or dissolve its operations.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Investkredit's ratings are as follows:

Bank Financial Strength Rating

We assign a BFSR of E+ to Investkredit, which maps to B1 on the long-term rating scale. The BFSR reflects the bank's: (i) tarnished, lending-biased franchise and the bank's limited earnings power; and (ii) impaired asset quality. Investkredit's liquidity hinges on the cooperative sector liquidity downstreamed from OeVAG, while OeVAG faces its own challenges to fund its retail operations in CEE until their planned sale is effected.

As a point of reference, the assigned BFSR is two notches below the outcome of our bank financial strength scorecard. The bank's BFSR is capped at the E+ BFSR of OeVAG as it fully depends on OeVAG for liquidity and capital via a profit and loss transfer agreement and the bank has already been fully integrated into OeVAG since 2009, operating under the same management board since September 2010. We believe that the assigned BFSR better captures the challenges to reposition the corporate banking franchise of the bank in the highly competitive Austrian banking market, as well as its full dependency on OeVAG for liquidity and capital via a profit and loss transfer agreement. For details on OeVAG's credit profile see OeVAG's credit opinion.

Qualitative Factors (50%)

Factor 1: Franchise Value

Trend: Neutral

Investkredit is OeVAG's centre of competence for its corporate and real estate business in Austria and selected markets in CEE. Investkredit provides corporate lending (EUR 4.7 billion as of March 2011) and real estate lending (EUR 4.2 billion as of March 2011). We consider Investkredit's franchise to be vulnerable to severe competition in the Austrian corporate market, real estate markets in CEE (which we consider to be still fragile in many countries), and limited synergies with the Volksbanken sector whose primary banks focus on small SMEs. Only one third of Investkredit's current corporate exposure relates to clients of the primary banks in the Volksbanken sector.

Over the past 24 months, Investkredit has shrunk its balance sheet by one third, which reflects a more cautious borrowing approach, but also less demand from its clients on the corporate side and a partial shift of risk weighted assets to OeVAG in order to bolster its capital ratios. More specifically, the bank's corporate exposure has diminished significantly over the past 24 months by EUR 2.4 billion and by now has an almost equal size as its real estate portfolio, while the corporate segment still accounted for two thirds of the bank's balance sheet in 2008.

For its EUR 4.2 billion real estate portfolio focusing on Austria and selected CEE markets such as Slovakia, Czech Republic and Poland, the bank intends to focus on diversified higher margin business in project developments, real-estate financing and investment funds, thereby winding down over time the low margin part of its portfolio, in particular on the leasing side. While the bank's real estate franchise should clearly benefit from the new set-up of a streamlined and focused country approach, we caution that the partial focus on project development is likely to increase the bank's risk profile and needs to be closely monitored.

Overall, we consider Investkredit's lending-biased franchise with limited product offering and cross-selling opportunities to be under severe threat of further erosion. In our view, the bank will be challenged to position Investkredit as a niche player with a risk return profile that is in line with the risk appetite of the Volksbanken as its ultimate owners.

The overall score for the bank's franchise is D with a neutral trend.

Factor 2: Risk Positioning

Trend: Neutral

In the aftermath of the financial crisis and in view of the deficiencies revealed in Investkredit's risk operations, evidenced by the high level of problem loans, Investkredit's parent OeVAG has fully integrated risk and liquidity management of the bank into their own risk operations and controls.

Credit risk is the main driver of Investkredit's risk position. As expected for a bank that acts as a specialised lender to the corporate and the real estate sector, Investkredit displays sizeable borrower and industry concentrations in its loan book. Industry concentrations are offset somewhat by the regional diversification of activities. Both corporate lending and real estate exposure are spread over several countries, including the very mature markets in Austria and Germany (mainly corporate), as well as less developed markets in Poland, the Czech Republic and Romania (mainly real estate). We caution that the commercial real estate sector may display a degree of volatility, with varying significance depending on the country. Market risk appetite is low and refers mainly to the bank's exposure to local currency risks for its operations on CEE and foreign currency tranches in its leveraged finance portfolio.

The E score for liquidity management reflects Investkredit's full integration into OeVAG's liquidity management and the absence of a meaningful, independent funding franchise.

The overall score of D+ with a neutral trend reflects our view on the bank's risk positioning.

Factor 3: Regulatory Environment

Trend: Neutral

All Austrian banks are subject to the same score on the regulatory environment. This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control.

Factor 4: Operating Environment

Trend: Neutral

In general, this factor is also common to all Austrian banks, i.e., we assign an A- score for the overall operating environment. However, Investkredit's operating environment score has been adjusted to B- since this better reflects the bank's geographical diversification given its operations in Austria, CEE and its neighbouring countries.

Quantitative Factors (50%)

Factor 5: Profitability

Trend: Neutral

Investkredit reported an after-tax profit of EUR 60 million in 2010, returning to moderate profitability after a severe loss of almost EUR 300 million in 2009. We note that the corporate portfolio is contributing a larger share of the top line due to improved margins despite its shrinking asset base. Accounting for more than 95% of operating income, interest income continues to be the key driver of the bank's income, which indicates the challenge for the bank to broaden its product base to achieve higher returns on its loan portfolio. We recognise an increase of non-interest income in Q1 2011, which however is mainly caused by a EUR 9 million one-off effect from the successful sale and deconsolidation of a real estate project in Q1 2011.

The interest margin in the corporate portfolio returned to 2.3%, almost at 2008 levels after significant weakening in 2009 (1.6%). The net interest margin on the real estate portfolio was stable at around 2.0% over the past 24 months.

The score for profitability is E+, with a neutral trend.

Factor 6: Liquidity

Trend: Neutral

Investkredit's funding and liquidity position is largely determined by its close integration into OeVAG, which provides EUR 5.8 billion of its total funding. Since its integration, Investkredit has stopped tapping the capital markets for medium and long-term funding. Its main funding source is now interbank lending, dominated by funds provided by the parent. Thereby, Investkredit's liquidity also benefits from its position within OeVAG group, allowing it to access the liquidity provided to OeVAG by local cooperative banks.

Funds of around EUR 900 million are also raised by customer deposits, especially deposits held by the bank's core corporate or real estate customers. Although the bank lost the major part of its short-term deposits in 2010, it was able to gain some additional long term deposits. In addition, the bank raises around EUR 900 million long-term funding from business development banks, which are then lent onward as part of the bank's corporate franchise.

The score for liquidity is E as a result of the dependency from its parent OeVAG and the absence of a meaningful, independent funding franchise.

Factor 7: Capital Adequacy

Trend: Neutral

At a Tier I ratio of 8.1% and a solvency ratio of 14.8% % as of March 2011, we consider the bank's capital adequacy to be adequate to absorb losses under our base case scenario, especially given significant loan loss reserves built during the financial crisis. Investkredit was able to increase its capital levels up from a Tier I ratio at the end of Q3 2010 of 6.3% (solvency ratio 10.8%) following significant derisking of Investkredit's balance sheet as loans were transferred to OeVAG in Q4 2010. During the financial crisis Investkredit was able to maintain its capitalisation levels despite the significant losses in the recent past, thanks to the profit and loss transfer agreement with its owner OeVAG.

Overall, the score for capital adequacy is B, with a neutral trend.

Factor 8: Efficiency

Trend: Neutral

Investkredit was able to maintain competitive cost structures throughout the crisis with a cost-income ratio (CIR) of 40% in the year to date, which also reflects the absence of maintaining a costly branch network as a specialised lender. On the other hand, the low CIR is also a reflection of the integration of Investkredit's back office functions into OeVAG, especially risk management. For 2010, we note a EUR 20 million increase in staff costs to EUR 65 million, which is mainly due to adjustments in the interest rate for the company's pension plan and should be a one-time adjustment.

Overall, the score for efficiency is A, with a neutral trend.

Factor 9: Asset Quality

Trend: Neutral

Non-performing loans (NPLs) which Moody's defines as impaired loans together with loans that are 90 days past due stabilized in 2010 at EUR 1 billion equivalent to an elevated 12.3% of Investkredit's total loan book, EUR 170 million down from the year before mainly as result of maturing loans and divestments. While risk provisioning at the bank was insignificant in previous years, problems became apparent in 2009 when the bank had to report costs of risk of 568 bps for its entire portfolio up from 60 bps the year before. For its corporate portfolio cost of risk were even higher at a staggering 716 bps. In the meantime asset quality stabilized which allowed the bank to reduce the reported cost of risk to a mere 68 bps still accounting for almost 50% of the bank's pre-provision income. As a result of the reduction in NPLs, coverage increased to 64% from 54% providing for a significant cushion and in line with the bank's competitors in Austria.

The bank's exposure relates to Austria (34%), CEE (37%) and rest of world (30%), approximately half of which accounts for the bank's leverage finance portfolio. Major non-performing loans relate to exposures in the construction sector and the bank's small and mid-cap leveraged-finance loans. On a regional basis, problems in asset quality mainly relate to the bank's exposure outside Austria. The picture is mixed for the CEE, as in 2009 and 2010 the bank did not have to provision for its EUR 2 billion exposures in Poland, Czech Republic and Slovakia, the future core markets of the bank in CEE. Nevertheless and similar to its peers, the bank had to impair loans significantly elsewhere in its scattered portfolio across the wider CEE and CIS region.

As a result of the crisis, severe insufficiencies in the bank's risk culture and measurement became apparent. In the context of integrating its risk-management processes into OeVAG's, the bank recalibrated its internal rating system, in particular on the corporate side following significantly higher default rates in its portfolio. In the meantime, the rating migration has stabilised at its current level.

Overall, the score for asset quality is E+, with a neutral trend.

Global Local Currency Deposit Rating (Joint Default Analysis)

We assign a global local currency (GLC) deposit rating of Baa2 to Investkredit. This rating is supported by the bank's long-term of mapping B1, as well as by the ratings of its underlying support provider, its parent OeVAG. We assess the probability of parental support from OeVAG as very high based on Investkredit's strategic importance as the group's corporate and real estate lender and the level of operational integration as well as the planned merger with OeVAG.

Investkredit's logo refers to its parent's brand name and both banks are able to realise a considerable amount of synergies from the close cooperation. Investkredit's adjusted baseline credit assessment is Ba2 and excludes systemic support.

The country support guideline for Austria is medium. There is a very good track record of systemic support being provided to the Austrian banking system. However, we believe that market practice is becoming increasingly important, and also note the fragmented nature of the Austrian banking system, in which most banks have only a limited market share. Going forward, we therefore view the medium country support guideline as appropriate.

Notching Considerations

In line with our notching guidelines published in April 2007, Investkredit's subordinated debt is rated at Baa3, i.e. one-notch below the bank's senior debt rating.

Upon resumption of coupon payments as of March 2011, Investkredit's hybrid capital is rated again according to normal notching conventions, which are anchored from Investkredit's Adjusted BCA of Ba2. Investkredit's non-cumulative hybrid securities (Tier 1 instruments) issued by Investkredit's subsidiaries, Investkredit Funding Ltd and Investkredit Funding II Ltd, are rated B2 (hyb). The ratings are positioned three-notches below the Adjusted BCA, reflecting their deeply subordinated claim in liquidation and non-cumulative coupon skip mechanism tied to the breach of a balance sheet loss trigger. Investkredit's Upper Tier 2 securities ("Ergänzungskapitalanleihen" AT0000A0H874, AT0000322581, AT0000A05HC5) are rated B3 (hyb). The ratings are positioned four-notches below the Adjusted BCA, reflecting their deeply subordinated claim in liquidation and non-cumulative coupon skip mechanism tied to the breach of a net loss trigger. The outlook on all the hybrid instruments is stable.

Foreign Currency Deposit Rating

Our foreign currency deposit ratings for Investkredit are Baa2/Prime-2.

Foreign Currency Debt Rating

Our foreign currency debt ratings for Investkredit are Baa2/Prime-2.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Ratings

are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Investkredit Bank AG

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**C-**	
Factor: Franchise Value						**D**	**Neutral**
Market Share and Sustainability				**x**			
Geographical Diversification			**x**				
Earnings Stability					**x**		
Earnings Diversification [2]							
Factor: Risk Positioning						**D+**	**Neutral**
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management			**x**				
- Risk Management				x			
- Controls		x					
Financial Reporting Transparency		**x**					
- Global Comparability	x						
- Frequency and Timeliness	x						

- Quality of Financial Information		x					
Credit Risk Concentration					**x**		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management					**x**		
Market Risk Appetite		**x**					
Factor: Operating Environment						**A-**	**Neutral**
Economic Stability	**x**						
Integrity and Corruption		**x**					
Legal System	**x**						
Financial Factors (50%)						**D**	
Factor: Profitability						**E+**	**Neutral**
PPI / Average RWA - Basel II				1.43%			
Net Income / Average RWA - Basel II					-0.38%		
Factor: Liquidity						**E**	**Neutral**
(Mkt funds-Liquid Assets) / Total Assets					72.18%		
Liquidity Management					x		
Factor: Capital Adequacy						**B**	**Neutral**
Tier 1 Ratio - Basel II			7.20%				
Tangible Common Equity / RWA - Basel II	7.38%						
Factor: Efficiency						**A**	**Neutral**
Cost / Income Ratio	36.62%						
Factor: Asset Quality						**E+**	**Neutral**
Problem Loans / Gross Loans				10.34%			
Problem Loans / (Equity + LLR)					73.40%		
Lowest Combined Score (15%)						**E**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**D+**	
Assigned BFSR						**E+**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral