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To learn more about how Standard & Poor’s ratings can benefit export credit agencies and investment insurers, contact Kevin Daly at +44 (0) 20 7176 7112.
Introduction

Standard & Poor's rates the debt of 13 development banks and 13 export credit institutions. Of these 26 public-sector financial enterprises, 21 carry the same foreign currency issuer credit ratings as their sovereign. As set out in our second commentary article, “Rating Methodology for Government-Supported Entities,” these high ratings reflect a combination of the following factors:

- Their close integration with their host governments and their finances;
- Their robust public policy roles;
- The inability of private-sector financial institutions to provide similar services as efficiently; and
- Their relative financial strength.

In addition, these rated institutions face little prospect of being privatized or having their mandates materially changed over the next several years. These attributes also exist, but to a lesser degree, for the issuer credit ratings of the one Russian development bank and the two Scandinavian export credit institutions that are not equalized with the ratings on their corresponding sovereign.

This report comprises Standard & Poor’s most recent analysis on these rated national development banks and export credit institutions, as well as new research on four unrated policy banks. The publication is available in both pdf and hard copy formats and can be obtained from London Client Support on +44 207 176 7176, or e-mail ClientSupportEurope@standardandpoors.com.

We welcome your comments and questions.

David Beers
Managing Director
Sovereign & International Public Finance Ratings
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Credit FAQ: National Development Banks and Export Credit Institutions

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Standard & Poor’s rates 13 national development banks and 13 export credit institutions. Of these 26 public-sector financial enterprises, 21 carry the same foreign currency issuer credit rating as their sovereign. These high ratings reflect a combination of the following factors: their close integration with their host governments and their finances; their robust public policy roles; the inability of private-sector financial institutions to provide similar services as efficiently; and their relative financial strength.

Frequently Asked Questions

Are the ratings on national development banks and export credit institutions automatically equalized with those on their sovereign?

No. The equalization is not automatic. Nevertheless, most such institutions do have the same rating. As set out in the commentary article "Rating Methodology for Government-Supported Entities", equalization depends on the degree of integration of the institution with government finances and policy and on their stand-alone strength, among other factors.

Can the unsecured debt of a national development bank or export credit institution be rated higher than the rating of its sovereign?

In most cases, no. A national development bank or export credit institution derives much of its strength from its host government and government directives dictate its financial condition. Without some highly-rated third-party guarantee, the debt of a national development bank or export credit institution would not be more creditworthy than the sovereign’s.

How can one gauge the strength of government support for national development banks and export credit institutions?

One can start by asking about the incentives for the government to support the institution. Does it carry out its public policy role effectively? Could its mission be equally well executed by a private sector bank? If the institution incurred financial trouble, would it disrupt government debt markets?

One could then look at its statutory arrangements. These arrangements fall on a continuum. Some institutions’ debts are a direct obligation of the sovereign, as with Export Development Bank of Canada. Some institutions have their debt fully guaranteed by the sovereign, such as Oesterreichische Kontrollbank AG (OKB) or the Czech Export Bank. Others have a portion of their liabilities so guaranteed, like the Japan Bank for International Cooperation and Australia’s Export Finance & Insurance Corp. or have a conditional guarantee, such as Croatia’s Hrvatska Banka za Obnovu i Razvitak (HBOR). Others have statutes that require the government to replenish capital in case retained earnings are depleted, such as the Korea Development Bank and the Export-Import Bank of Korea. Still others are granted a monopoly on long-dated inexpensive funding from mandated savings schemes, such as Brazil’s Banco Nacional de Desenvolvimento Econômico e Social or the Development Bank of Japan.

Finally, one needs to examine the sovereign’s past track record for timely support of similar public sector financial institutions.

Some sovereigns have several national development banks. Is more better?

Not necessarily. Some sovereigns find it effective to have several public policy banks with narrow missions. For example, in Canada and Korea, different institutions target small and midsize businesses, the export sector, and national development. Others have a single bank for both national development and export finance, such as HBOR. Again, the proof is in the efficiency of the execution of the policy objective.

Some sovereigns have no national development banks. Is this a weakness?

No. It likely indicates that there is a developed market for medium-term private sector finance that efficiently allocates savings and investment.
Are all national development banks and export credit institutions wholly owned by their governments?

Most are but some are not. The Dutch government owns 51% of Nederlandse Fin.-Maatschappij voor Ontwikkelingslanden N.V. (FMO). The Norwegian government owns only 15% of Eksportfinans ASA. OKB is owned entirely by leading Austrian banks and Private Export Funding Corp. by American banks and companies (although the related Export-Import Bank of the United States is wholly owned by the government).

Do national development banks and export credit institutions face large credit cliffs?

Many do. By their very nature, public policy institutions take on risks that are not economic for the private sector, but for which there is assumed a public benefit. Moreover, with their explicit or implicit government guarantees, these institutions can operate with less capital and under greater regulatory forbearance. A privatization of these institutions without fresh capital could lead to a downgrade of their issuer credit rating to a level matching their stand-alone credit quality.

Is profitability important for national development banks and export credit institutions?

By their nature, these institutions do not seek to maximize their profits. Accordingly, losses, by themselves, do not necessarily prompt a rating action as long as the public policy role remains sound and government support unwavering. The losses in 2003 and 2004 for Banco Nacional de Comercio Exterior, S.N.C. thus did not trigger a rating action on the bank.

However, profitability, along with other financial measures for capitalization and liquidity, are important for determining an institution’s stand-alone rating, for revealing how adept management is, and for signaling potentially rising contingent fiscal risks to the sovereign.

How are national development bank rating criteria different from multilateral development bank rating criteria?

Both criteria analyze the robustness of the institutions’ public policy role and shareholder support. In the case of multilateral lending institutions, the support comes from a diversified shareholder base, usually including many highly rated sovereigns. Moreover, multilateral development banks have traditionally enjoyed preferred creditor status. The repayment record for national development banks is often worse than that of commercial creditors, given their greater tendency toward forbearance.
### Rated National Development Banks and Export Credit Institutions

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<td>A</td>
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<td>Export Development Canada</td>
<td>AAA/ Stable/A-1+</td>
<td>AAA/ Stable/A-1+</td>
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<td>AA+/Stable/A-1+</td>
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<td>AA-/Stable/A-1+</td>
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*N.R.-Not rated. *Issue ratings guaranteed by the Mexican sovereign.*
Background
The economic role of governments in many countries is undergoing considerable transformation. Increasingly, governments are relying on market mechanisms to address the inefficiencies of the public sector. Even where privatization is not currently on the political agenda, policymakers worldwide are showing a growing tendency to expose remaining government-supported entities to market discipline.

In recent years, Standard & Poor's has adjusted its methodology for rating government-supported entities to reflect these trends. Whereas twenty years ago, ratings of such institutions were most often equalized with the ratings of their owner-governments, Standard & Poor's analytical approach has shifted toward an increasing focus on the stand-alone credit quality of the entity, and on determining the durability of the entity's links with the government. This approach is aimed at ensuring that government support is measured consistently and, where there is evidence that support is being reduced, that greater weight is given to stand-alone credit factors when determining the appropriate issuer rating. Abrupt changes in ratings thereby are minimized.

Standard & Poor's is now further refining its analytical approach toward rating government-supported issuers to more rigorously determine the extent to which the rating on such public sector entities is linked—if at all—to that on the government. This revised analytical approach reflects:

- The widespread sale of state enterprises, and policy developments such as competition policy in the EU, which not only are encouraging privatization but, equally important, are discouraging the use of government guarantees and other forms of ongoing state support.

Standard & Poor's analysis of the extent of government support for a public sector enterprise, if any, begins by classifying the entity on a continuum that currently encompasses three categories. The first and smallest category consists of public sector entities that Standard & Poor's considers to be most closely integrated into the government and its finances. The second category includes entities that are less closely tied to the government, but have a public policy role in which the government defines their performance and prospects. The last and largest category includes those entities that benefit from supportive government policies and possibly direct assistance, but that, whether currently regarded as such by the government or not, are most capable of functioning independently from it. This classification, in turn, has a bearing on the degree of rating enhancement for issuer ratings based on government support.

Stand-Alone Ratings
Irrespective of the three categories under which the government-supported issuer is classified, the first analytical step is a determination of the entity's stand-alone rating. This is critical as it identifies the downside, or credit cliff, at all-to that on the government. This revised analytical approach reflects:

- Evidence in a growing number of countries of a reduction in government commitment and support for public sector enterprises. The privatization of enterprises, including entities once thought to be a permanent part of the public sector, is now relatively commonplace. Occasional defaults of public sector enterprises have been allowed to occur, and governments' official statements of support for public sector enterprises have become weaker or less clear-cut.

The stand-alone rating thus reflects the public entity’s various strategies, performance, and prospects that are evaluated in accordance with criteria that Standard & Poor’s has established for that specific type of entity. The analytical process includes comparisons with the entity’s competitors, both locally and internationally.
Also, and particularly where privatization or reduced government involvement is on the agenda, Standard & Poor’s makes assumptions as to what changes to the entity’s capital structure and business focus are likely to take place on the way to privatization. This results in a stand-alone rating that is forward-looking and necessarily subjective, but that is nonetheless useful in managing the issuer’s rating transition up to a possible eventual privatization.

For many government-supported entities, however, the determination of a stand-alone rating is not so clear-cut because of the intricacy of the government’s involvement in many aspects of the entity’s operations. This can include access to preferential funding, a monopoly position, favorable contracts, and sympathetic regulatory regimes, all of which are difficult-to-isolate forms of support that enhance both operational and financial performance. Conversely, price ceilings, risky investment project mandates, and directives to provide loss-generating goods and services represent forms of government intervention that constrains operational and financial performance. In these cases, assuming a sudden and complete stripping away of all forms of government influence may be neither practical nor informative.

As such, the one assumption made in determining the stand-alone rating is that the government will not specifically intervene to maintain the solvency or liquidity of the public entity, or in other words that the government will not bail out the enterprise in a crisis. In short, Standard & Poor’s applies the criteria for the type of entity being rated on the basis of that entity’s existing business profile and financial position, including whatever government support or intervention the entity typically enjoys in the normal course of business, but excluding credit for any extraordinary government assistance that might be expected in the event of a crisis.

Enhancement For Government-Support

Following the determination of the stand-alone rating, consideration is given to government ownership and support.

Three broad categories of government-supported entities

In assessing the credit implications of government ownership or relationship, Standard & Poor’s generally classifies government-supported entities in one of three broad categories:

- High integration with the government. This is the smallest and a shrinking category of public-supported entities.
- Policy-based institutions, whose credit standing is linked to that of the government; and
- Other enterprises, where the relationship with the government is supportive and often enhances the entity’s underlying credit strengths through helpful policies and the possibility of direct assistance. This category includes the majority of rated and unrated government-supported entities.

The purpose of this categorization is to clarify Standard & Poor’s thinking about the relationship between the government and the entity concerned. It recognizes that there are a variety of relationships that imply varying degrees of government help, and varying degrees of certainty regarding government intervention. Standard & Poor’s task is to evaluate the appropriate type of government support and factor it into the ratings in a coherent and consistent manner.

The strongest form of government support implies equalization of the ratings between the public enterprise and its owner-government. For policy-based institutions, depending on conclusions about the government’s willingness and ability to provide support, the rating would, in general, be within two rating categories of the government’s. For other public enterprises benefitting from a “supportive” government, the issuer rating would generally be no more than one rating category above its stand-alone rating.

Defining The Three Categories

In classifying the relationship between the government and the government-supported entity, the guidelines and reasoning outlined below are applied:

High integration

The rating on the public enterprise is generally equated with that on the owner-government when the entity is a government department, ministry, or an agency that is either the source of substantial budgetary revenue, has a constitutionally or legally mandated place in the machinery of
government that is difficult to change, or engages in activities that cannot readily be undertaken on a commercial basis. Government support does not result solely from the entity’s policy role or importance, but rather from its place in the processes of government. Trends in the treatment of similar entities in other countries that enjoy a similar privileged status are relevant. The debt of these entities may or may not receive explicit guarantees from the government.

Changes in government policy could mean that entities in this category will migrate to other categories over time. Examples of entities currently falling into this category include:

- Most government ministries;
- State oil monopolies (with few exceptions, based in developing countries);
- Deposit insurance agencies; and
- Export credit institutions (with some exceptions in both developed and developing countries).

Public policy-based entities

This category differs from the first in that it encompasses a broader variety of entities for which government support is based on a defined public policy role. Support is both a matter of policy and law, but (in part based on trends in other countries) is more subject to change and so is less robust than for entities in the first category. This support may be expressed, in part, through statutory or ultimate—rather than timely—guarantees (see section below for discussion of guarantees). In general, issuer ratings may differ from government ratings by up to two categories.

Even when government support is assessed as very strong, it is often less than totally certain, and a rating differential between the government and the government-supported entity may be appropriate. Government support is not simply a matter of a positive attitude and supportive disposition. Standard & Poor’s must be convinced that the government could and would intervene to avoid default by the enterprise. The degree of likely support for some emerging markets-based public sector entities, in particular, may be limited because of their number and because the government may have a limited financial capacity to support them. Some public sector entities that historically were viewed as critical instruments of government policy may no longer fall into this category because of the changing stance of the government toward them, reflecting a decline in willingness to provide support, rather than limited ability.

The degree of notching that is appropriate to consider in individual cases will reflect the stand-alone rating of the government-owned entity, the government’s rating, and Standard & Poor’s assessment of the robustness of government support. Rating distinctions of up to two categories may occur. When the government’s rating is lower, in most cases there will be greater convergence with the government-owned entity’s stand-alone rating, by virtue of the stand-alone ratings providing a lower limit). A rating distinction within a single category of that of the sovereign is generally appropriate when the enterprise benefits from a statutory guarantee, the government is rated in the ‘AA’ or ‘AAA’ categories, the government’s relationship with the entity is regarded as stable, and the number of government-supported entities is relatively small. A larger rating distinction addresses situations where there is no statutory guarantee, there are many government-supported entities with ambiguous or diminishing public policy roles (which, in aggregate, pose a significant contingent financial risk to the government) and situations where the risk of privatization of the rated entity is deemed to be rising.

In particular, Standard & Poor’s will consider the following issues:

- The track record of support for government entities.
- The formal policy regarding support and Standard & Poor’s evaluation of the policy.
- The mechanisms that are in place for diagnosing and responding to financial distress. Whether the government has financial assets available that can be readily mobilized to assist the entity.
- The financial and political self-interest of the government in keeping the public entity solvent.
• The likelihood of access to the debt markets by the government or its other business entities being compromised in the event of a particular entity defaulting.

• The importance of continued, unimpeded access to debt markets for the government. The stability of policy-making procedures and the administrative and political culture.

• The core public functions, if any, carried out by the public entity.

• The entity’s economic and political importance, visibility, and sensitivity; its ranking in terms of order of importance to the government versus other public sector entities; and its public policy role compared with similar entities in other countries.

• The likelihood of private sector entities providing the same products or services on a commercial basis.

• The government’s policy and track record regarding privatization. Whether the government assumes liabilities or re-capitalizes companies upon privatization.

• The clear allocation of responsibility for government support and intervention. The definition of responsibilities for government officials, departments, or ministers. The rigor and regularity with which the government monitors the financial position of these entities.

Quite clearly, these issues are not always clear-cut and will be balanced out within the context of the direction of government policy and indeed the underlying credit strength of the enterprise itself in reaching a final rating conclusion. For some emerging market governments, support may be more questionable where the legal system and governance is weak, and where there are a number of entities relying on such support. In these instances, as well as when privatization prospects are significant, the issuer rating is essentially driven by the inherent credit attributes of the enterprise itself.

A rating committee, notwithstanding the current government policy, might take account of privatization risk over the next three to five years when considering its rating decision. The ultimate rating decision might take into consideration the time horizon of privatization risk, the likelihood of a reversal in current policy, and the stand-alone rating. Within Europe, the impact of EU competition policy on state ownership and support looms large as an issue which might pressure governments to change policy and pursue privatization, or to at least limit government support. The role of EU policy is also an issue in the rating of the German Landesbanks.

Other public entities

The third category includes an array of government-owned enterprises that lack a defined public policy mission. The rating of entities in this third group is generally within one category above the stand-alone rating. The debt of these entities does not benefit from either full-faith-and-credit or ultimate guarantees. In these cases, government credit enhancement reflects two broad sets of circumstances. First, it encompasses situations where government support is possible, but without much certainty. Second, this category encompasses situations where the government does not hold itself out as the ultimate guarantor, but where it acts in a “supportive” manner and as such reduces the business risks faced by the entity.

Specific characteristics of entities in this category include:

Probable support.

Government officials have asserted support and pledged to assure avoidance of default. However, Standard & Poor’s may have doubts about institutional stability, administrative process, or the ability to diagnose and promptly respond to financial distress, when:

• Government officials have asserted support. However, Standard & Poor’s believes an upcoming possible privatization, or an existing partial privatization, contradicts the logic of support or erodes the identity of interest between the government and the enterprise.
There is a situation of unacceptable ambiguity, where the government has a track record of avoiding default by its enterprises, but its official or stated position is one of nonsupport. Ambiguities of this kind point to an analytical approach that puts very little or no weight on the government relationship, but that essentially focuses on the enterprise’s own credit attributes.

Supportive government.
The government indicates its support for an entity demonstrated through favorable policies, which may be substantiated by a variety of measures including restrictions on competition, pricing policies, preferential access to credit, favorable business transactions, access to profitable business opportunities, willingness to subscribe equity, or other relevant measures.

The government may provide assistance through favorable industry policies, including taxation breaks or policies, duties on competing imports, provision of infrastructure, or helpful directives to other public sector entities.

Government Guarantees
Some government-supported issuers have outstanding obligations benefiting from a timely, full-faith-and-credit government guarantee. These guaranteed obligations are almost always rated the same as the government’s rating. However, the issuer credit rating will not necessarily be the same, despite the current level of support indicated by the guarantee. To determine an issuer credit rating (and thus the rating assigned to unguaranteed debt), the entity is classified into one of the above-mentioned categories.

Issuer ratings for government-supported entities enjoying a statutory or ultimate, rather than a timely guarantee, are also rated in accordance with the methodology outlined above. As already suggested, these entities are generally placed in the first or second categories of government-supported issuers.

Summary
Broadly categorizing government-supported entities in accordance with the nature and stability of the relationship with the owner-government should enhance the consistency of credit ratings. This approach provides a clear and simple means of tackling the variations in the nature of the relationships between governments and government-supported enterprises, while recognizing the ongoing evolution of these relationships. Relationships between public enterprises and governments are often unclear or seemingly contradictory. Some governments have a clear track record of supporting certain entities even though the stated policy is one of nonsupport. Some governments treat their enterprises badly, refusing price increases or imposing unprofitable tasks. This sometimes implies acute credit risks, while at other times it reflects and deepens the government’s moral obligation to the entity. Governments often deal with public sector enterprises arbitrarily, precisely because they are government-supported and therefore do not need a strong financial profile to continue to trade and access the financial markets. The task of Standard & Poor’s is to evaluate the relationship, while recognizing that government support is not a black-and-white issue.

Footnotes
"Government-supported entities" include enterprises in which the government has majority ownership, such as industrial concerns, utilities, financial institutions, and other enterprises producing a product for a fee. In rare cases, the enterprise may have little or no government ownership, but its role as a provider of an important product or as a large employer suggests that it could rely on some degree of government support.

The processes outlined here describe the methodology for assigning local currency issuer credit ratings. Regardless of the local currency issuer rating, the foreign currency issuer credit rating of government-supported entities is capped by the sovereign’s foreign currency rating. This reflects the high likelihood that obligations of public sector entities will be restructured in a sovereign default scenario.
Banco Nacional de Desenvolvimento Econômico e Social

Major Rating Factors

Strengths:
- Government’s direct ownership.
- The bank’s key public policy role in Brazil.
- A steady liquidity inflow and a favorable liability structure.

Weaknesses:
- The rating is constrained by Brazil’s sovereign risk.
- Potential asset quality risk due to loan portfolio concentration.

Rationale

The ratings on Banco Nacional de Desenvolvimento Econômico e Social (BNDES) reflect the demonstrated support of the Brazilian government (foreign currency, BB-/Stable/B; local currency BB/Stable/B), underpinned by the government’s direct ownership of 100% of BNDES’ share capital. Although there is no timely government guarantee on BNDES’ obligations, strong sovereign support is demonstrated by government funding and capitalization policies - including periodic capital increases and stable, constitutionally mandated funding.

As Brazil’s largest development bank, BNDES plays a key public policy role in the government’s economic policy. It marshals domestic and multilateral funds into productive long-term investments; and provides key sectors, underdeveloped regions, and exporters with low-cost financing. The bank’s key public-policy role has been underscored by various policy decisions, such as providing interim financing to utility companies following the 2000 electricity crisis, and extending trade credit as international trade lines dried up in 2002.

BNDES enjoys a steady liquidity inflow and a favorable liability structure. About 60% of BNDES’ funding is constitutionally mandated and derived from two public-worker insurance funds. Most of BNDES’ funding is long-term, including a high portion of undated liabilities.

The ratings on BNDES, however, are constrained by Brazil’s sovereign risk. BNDES relies on public financing and is governed by public policy. BNDES’ risk-weighted capital ratio was 17% in June 2004, above the 11% statutory minimum and in line with the top-tier commercial banks in the system. Nevertheless, given BNDES’ riskier business, long-term lending, and equity investments, maintaining a higher capital base reflects prudent management.

Outlook

The stable outlook on the long-term foreign currency counterparty credit rating on BNDES is based on that on the Federative Republic of Brazil. All things being equal, the ratings on the bank are expected to move in tandem with those on the sovereign. BNDES’ high economic and public policy importance makes the risk of default on its obligations equal to the risk of sovereign default.
Hrvatska Banka za Obnovu i Razvitak (HBOR) — the sole government-owned specialized development and export finance bank in the Republic of Croatia (foreign currency BBB/Stable/A-3; local currency BBB+/Stable/A-2) — are based on the bank's public policy mandate; strong government support; and its manageable risk profile in the context of Croatia's challenging economic environment.

HBOR was established in 1992 as an institution incorporated under the public law of the Republic of Croatia. It is based in the Croatian capital Zagreb. The duration of HBOR is unlimited by law, and the bank may only be dissolved by an act of parliament. As Croatia's sole specialized development and export finance bank, HBOR is likely to remain one of the main instruments supporting the government's economic policies.

HBOR, with total assets of Croatian kuna (HRK) 11.8 billion (US$2.0 billion) in 2004, supports economic reconstruction and development policy objectives, in particular by promoting exports through export credit financing and insurance (provided in the name, and on behalf, of the Republic), financing infrastructure projects, and advancing small and midsize enterprises (SMEs).

According to the law, the state is required to contribute to HBOR's capital from the state budget. The capital is paid-in, with the timing of contribution determined by the Croatian government. The state also guarantees HBOR's liabilities, but not unconditionally, as it reserves the right to object to a claim. Nevertheless, it is Standard & Poor's opinion that the Croatian government would support HBOR in a timely manner given the bank's strong public policy role. In addition, about one-half of the bank's lending (both via commercial banks and directly to end-borrowers) is directly or indirectly guaranteed by the public sector.

Since HBOR's inception, the government has been the sole owner of the bank, and HBOR's ownership structure is unlikely to change in the foreseeable future. The supervisory board—which plans HBOR's strategy—is composed of ministers and members of parliament, giving the state close control over the bank.

Despite a challenging macroeconomic environment, the bank's risk profile remains manageable given its various layers of protection and relatively conservative management. HBOR extends most of its financing directly to borrowers, and a large proportion of the direct lending is guaranteed by the public sector. The remaining loans are provided through financial intermediaries, which then on-lend these funds to the ultimate borrowers. Funds provided by HBOR are taken at the risk of the commercial banks requesting the loans. In addition, HBOR's entire portfolio is protected by collateral. HBOR's management has proved conservative, introducing relatively prudent lending and borrowing policies.

Outlook
The stable outlook on HBOR reflects that on Croatia. The bank's important role in the Croatian government's economic development plans and policies should enable it to maintain its public-law status and, therefore, its credit support from the sovereign's guarantee.
Instituto de Credito Oficial

**Major Rating Factors**

**Strengths:**
- Full government support and 100% state ownership.
- The state’s explicit, irrevocable, direct, and unconditional guarantee of all of ICO’s financial obligations.

**Weaknesses:**
- Low profitability owing to the entity’s public-service role.
- A relatively high level of non-performing loans.

**Rationale**

The ratings on the Spanish state’s financial agency Instituto de Crédito Oficial (ICO) are based on anticipated and continued support for the company from the Spanish state (Kingdom of Spain; AAA/Stable/A-1+). This expectation is amply justified, given the state’s explicit guarantee of ICO’s debt and ultimate liability for all of the agency’s obligations. It is also supported by ICO’s legal status as the state’s financial agency, and by the entity’s importance to the Spanish government through its role as a public-service provider.

ICO’s main objective is to promote activities in line with national economic policy. It provides financial backing for small and midsize enterprises (SMEs); long-term loans, chiefly for infrastructure projects; and financial support in the event of economic crises and natural disasters. It also provides and manages financial instruments to back exports and fund official development programs. ICO can be seen as complementing and leveraging Spain’s private financial system, rather than competing with it.

ICO’s chairperson is designated by Spain’s council of ministers, following the ministry of the economy’s proposal. Its borrowing limits are stipulated in the government’s annual general budget.

Given that ICO’s main public-service role is to support the Spanish economy, its profitability is low: net profit represented 0.2% of average total assets at year-end 2004.

ICO’s capitalization has declined substantially since 2001, due to a capital decrease intended to cancel the state’s outstanding debt with the agency. Nevertheless, with a ratio of capital to risk-weighted assets of 12% at year-end 2004, ICO exceeds the 8% legal minimum required by the Bank of Spain and expects to keep this ratio virtually unchanged in 2005.

**Outlook**

The stable outlook mirrors that on the Kingdom of Spain, which in turn reflects the expectation that the government will continue to steer a prudent fiscal course and remain committed to economic restructuring. Standard & Poor’s expects the ratings on ICO to continue to mirror those on the sovereign, underpinned by the continuation of strong support from the Spanish government, the maintenance of the agency’s protected legal status, and the state’s explicit guarantee of ICO’s financial obligations.
Kreditanstalt für Wiederaufbau (KfW)

Rationale
The ratings on Kreditanstalt für Wiederaufbau (KfW) are based on the support of the government of the Federal Republic of Germany (AAA/Stable/A-1+), as well as the bank’s public policy role, low-risk businesses, and stable financial profile. KfW’s liabilities are covered by an explicit federal government guarantee. In addition, KfW—an institution incorporated under German public law—benefits from the federal government’s maintenance obligation (Anstaltslast). The maintenance obligation requires the founder of a public law entity, in KfW’s case the federal government, to safeguard the institution’s economic basis and maintain its ability to operate and perform obligations as they fall due.

KfW is Germany’s flagship public development bank and ranks among the 10 largest financial institutions in Germany, with total assets of €328 billion (unconsolidated) at year-end 2004. KfW borrows on international capital markets and on-lends the raised funds through the commercial banking system to provide financing in the areas of infrastructure, small and midsize enterprises (SMEs), housing, and the environment in Germany, and to a limited extent in Europe. Abroad, KfW is responsible for export and project financing, as well as Germany’s official financial cooperation with developing countries.

In 2004, KfW raised long-term capital market funds of €52 billion, slightly below the 2002 record (€54 billion). In Europe, this level of issuance is only surpassed by the following governments: Italy (AA-/Stable/A-1+; €200 billion), Germany itself (€153 billion), France (AAA/Stable/A-1+; €123 billion), the U.K. (AAA/Stable/A-1+; €64 billion), and Spain (AAA/Stable/A-1+; €53 billion).

Reflecting its public-policy role, KfW’s profitability remains relatively modest, albeit stable. Asset quality and risk-weighted capital ratios, however, are strong.

Outlook
The stable outlook reflects continued support from the German government. This is consistent with the agreement reached in March 2002 between Germany and the European Commission on the future sovereign support of German development banks. As a result of the agreement, however, most of KfW’s project and export financing will have to be conducted through a separate entity, which does not benefit from either federal guarantees or the maintenance obligation, by no later than year-end 2007. Preparations for the spin-off are well under way, with the recently established KfW IPEX-Bank in charge of operating export and project finance. KfW IPEX-Bank will become a legally independent subsidiary of KfW from 2008. The agreement and the ensuing restructuring will not affect in any way the rights of creditors holding debt issued by KfW.

Major Rating Factors

Strengths:
- Strong German government support through the legal concept of Anstaltslast and the explicit guarantee on KfW’s debt.
- KfW’s public policy role.
- Strong asset quality and risk-weighed capital adequacy ratios.

Weaknesses:
- 'AAA' rating contingent on federal support through Anstaltslast and federal guarantee.

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Credit ratings
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AAA/Stable/A-1+

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Credit ratings
Foreign currency
AAA/Stable/A-1+
Local currency
AAA/Stable/A-1+

Major Rating Factors

Strengths:
- Strong German government support through the legal concept of Anstaltslast and the explicit guarantee on KfW’s debt.
- KfW’s public policy role.
- Strong asset quality and risk-weighed capital adequacy ratios.

Weaknesses:
- 'AAA' rating contingent on federal support through Anstaltslast and federal guarantee.
Landwirtschaftliche Rentenbank

**Rationale**

Landwirtschaftliche Rentenbank (Rentenbank) is a specialized development bank with a public policy mandate to promote German agriculture (including forestry and fisheries) and rural areas. The credit ratings on Rentenbank are based on the support of the government of the Federal Republic of Germany (AAA/Stable/A-1+) under the legal concept of Anstaltslast (maintenance obligation). This concept obliges the government to secure Rentenbank’s economic basis for the complete duration of its existence, and to cover possible financial gaps. Furthermore, the ratings are supported by the bank’s low-risk operational strategy, whereby intermediate banks assume credit risk and provide collateral. Rentenbank has an outstanding track record of loan recovery, a stable financial profile characterized by prudent strategies of comprehensive hedging against currency and interest rate risks, and conservative capitalization.

With total assets of €72.1 billion (US$98.2 billion) at the end of 2004, Rentenbank has supported the government’s agricultural and rural policy objectives since 1949 by providing financing to the agricultural and food sectors. Rentenbank predominantly raises its funds in the international capital markets. It provides resources through intermediate banks, which in turn on-lend to the ultimate borrower, assuming the credit risk and providing collateral. Standard promotional loans are offered at competitive rates, including to banks in other EU member states. Special loans with favorable financial conditions are Rentenbank’s key promotional instrument. Their use is restricted to finance programs and investments benefiting the German rural sector. Given the bank’s public policy mandate, profitability is low, but its stable and risk-weighted capitalization remains at comfortable levels.

Rentenbank’s legal status and operational strategy have not been affected by the agreement in March 2002 between Germany and the European Commission. This agreement stated that German development banks could continue to benefit from state support, to the extent that they are entrusted with promotional tasks in compliance with the state aid rules of the EU. The agreement does not affect the level of sovereign support enjoyed by Rentenbank. The bank’s obligations will continue to be fully and unconditionally supported by the sovereign through the concept of Anstaltslast. For Rentenbank, the main consequence of the agreement was the requirement to specify public tasks in the relevant laws clearly by the end of March 2004. This has already been achieved through amendments to the Rentenbank Act on July 23, 2002, and Aug. 15, 2003.

**Outlook**

The stable outlook reflects Standard & Poor’s expectation that Rentenbank will remain an integral part of the government’s economic development policies. This should enable it to maintain its public law status and secure ongoing federal government support through Anstaltslast, and Rentenbank is not expected to apply for an explicit statutory guarantee.

Rentenbank is extremely unlikely to face a change in its legal status in the medium term. Although the bank’s capital was raised through a special levy on German farmers between 1949 and 1958, no natural or legal person possesses property rights on Rentenbank. Therefore, a merger or takeover by another publicly owned development bank—such as the takeover of Deutsche Ausgleichsbank (DrA) by Kreditanstalt für Wiederaufbau (KfW; AAA/Stable/A-1+) in 2003—is not viable. On the downside, the ownership structure makes it almost impossible to raise additional shareholder capital.
Rationale

The ratings on Oesterreichische Kontrollbank AG (OKB) are based on the support of the government of the Republic of Austria (AAA/Stable/A-1+), which unconditionally guarantees OKB’s debt obligations issued under the Export Financing Guarantees Act. The ratings on OKB also benefit from the Bank’s prudent management and stable financial profile, including an extremely low-risk loan portfolio almost entirely made up of fully secured loans granted under OKB’s export financing schemes. Comfort is also taken from the public policy role that OKB plays as the Republic’s sole agent for the administration of export guarantees. Neither the government of the Republic nor the Bank itself intends to change OKB’s business model substantially.

The debt obligations issued by OKB are generally guaranteed by Austria under the Export Financing Guarantees Act. OKB does, from time to time, issue unguaranteed debt (in particular, short-term debt), depending on markets and costs, because the Bank pays the government a fee for the guarantees given to its debt obligations. In light of its solid fundamentals and, in particular, the fact that the bulk of its lending activities are guaranteed by an ‘AAA’ rated sovereign, Standard & Poor’s Ratings Services rates both OKB’s guaranteed and unguaranteed debt equally, as long as the latter remains at the anticipated levels and excellent asset quality is maintained.

Outlook

The stable outlook reflects the expectation that OKB will continue to play an important role in the Austrian government’s economic development plans and policies. Amendments to the Austrian Export Guarantees Act and the Export Financing Guarantees Act came into effect in August 2003. They open the possibility that the government could assign the task of administering the export financing and guarantee programs to an agency other than OKB. Before 2003, OKB had enjoyed a legal monopoly over these services. Initiating a formal competitive bidding process to award the administration of these services would require a two-year notice period. To date, no notice has been given. If a tender were called and another entity won, the sovereign guarantees on OKB’s existing liabilities would remain in place. In practice, OKB’s operations will be largely unaffected by the legal amendments. Given OKB’s track record and specialized expertise, it is unlikely that the administration of the export promotion programs would be awarded to another entity.

At year-end 2004, OKB had total assets of €24.6 billion (US$33.5 billion). The Bank supports the government’s policy objectives in the Austrian export industry. OKB administers the Republic’s export guarantees and provides medium and long-term financing to banks and foreign importers for export transactions involving Austrian exporters. As a general rule, the refinancing provided by OKB is fully secured by the Republic’s export guarantees for the underlying transaction or, less frequently, by private credit insurance. OKB has never suffered a loan loss. Given OKB’s public policy mandate, the Bank’s profitability is relatively modest but stable. It benefits from the absence of provisioning needs because assets are almost entirely made up of secured loans guaranteed by the ‘AAA’ rated Republic. Risk-weighted capital ratios are very strong.

Oesterreichische Kontrollbank AG

Major Rating Factors

Strengths:

- Unconditional government guarantees on all of OKB’s debt obligations.
- Extremely low-risk loan portfolio.
- Important role as the Republic’s sole agent for the administration of export guarantees.

Weaknesses:

- A near-exclusive focus on export-related businesses, which leaves OKB subject to the business cycle in the Austrian export sector.

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AAA/Stable/A-1+

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AAA/Stable/A-1+

Major Rating Factors

Strengths:

- Unconditional government guarantees on all of OKB’s debt obligations.
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- Important role as the Republic’s sole agent for the administration of export guarantees.

Weaknesses:

- A near-exclusive focus on export-related businesses, which leaves OKB subject to the business cycle in the Austrian export sector.
Nederlandse Fin.-Maatschappij voor Ontwikkelingslanden N.V.

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**Credit ratings**
Foreign currency
AAA/Defined/A-1+
Local currency
AAA/Defined/A-1+

**Major Rating Factors**

**Strengths:**
- Majority ownership of State of Netherlands.
- Strong public mandate.
- Continued support from the Dutch government.
- Strong capital base.

**Weaknesses:**
- Volatile profitability due to the nature of FMO’s business.
- High-risk profile of its activities.

**Rationale**

The ratings on Nederlandse Fin.-Maatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Co., or FMO) reflect the strong sovereign support for the company, based on the legal obligation of the State of The Netherlands (AAA/Defined/A-1+) to ensure timely payment of FMO’s debt. FMO fulfils a strong and growing public policy role as the government’s primary vehicle for promoting private-sector growth in developing countries. Furthermore, the government has shown its support through a doubling of the general capital in December 2000, and through contractual annual paid-in capital contributions of 37.3 million from the state’s budget until 2005. The state is the majority shareholder, holding 51% of FMO’s capital. Moreover, FMO obligations enjoy a zero risk weighting by the Dutch central bank.

Sovereign support is formally codified in the 1998 Agreement between FMO and the state. Under Article 8 of the agreement, the state is legally required to meet FMO’s obligations on a timely basis. The duration of the agreement is indefinite and its termination requires 12 years’ notice by either party. The Netherlands’ long-term commitment to, and support of, FMO is also demonstrated by the sovereign’s obligation in most circumstances to safeguard the company’s solvency (Article 7 of the agreement).

FMO is a leading European development finance institution, with total assets of €2.0 billion in 2004. The company supports businesses and financial institutions in developing countries with capital and know-how. It does so by arranging loans, equity investments, guarantees, and other investment promotion activities. It also manages several development funds on behalf and at the risk of the Dutch government.

Profitability continued to improve in 2004, with net income as a percentage of total average assets standing at 1.9% by year-end (up from 1.3% in 2003). This largely reflected higher investment income and lower provisioning, facilitated by the general improvement in economic conditions in many of the emerging economies in FMO’s loan and equity portfolios, as well as growing remuneration for services rendered. While the high-risk profile of its activities means that profitability is likely to remain volatile, FMO’s intensified commercial approach and improving experience in managing emerging market risks will enhance its long-term profitability. Attempts to diversify revenue sources, including generating more fee-based income, should also help to support profitability in the near term. Overall, FMO continues to maintain adequate capitalization relative to its business, and its asset-liability management is conservative.

**Outlook**

The stable outlook on FMO mirrors that on The Netherlands and reflects Standard & Poor’s expectation that the 1998 Agreement with the state will remain in force for the foreseeable future. As the promotion of private sector growth in developing countries becomes more prominent in the Dutch development policy, FMO’s prospects as a majority state-owned company with a strong public mandate and continued support from the State are considered secure.
Russian Bank for Development

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**Credit ratings**
Foreign currency
BB+/Stable/B
Local currency
BB+/Stable/B

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**Major Rating Factors**

**Strengths:**
- Sovereign guarantees on a significant part of the Bank’s liabilities.
- A clearly defined and strategic public policy role assigned by the Russian government.

**Weaknesses:**
- A difficult operating environment.
- The absence of a strong track record of Russian government support for state-owned entities in periods of financial stress.

**Rationale**

The ratings on the Russian Bank for Development (RBD) reflect strong explicit sovereign support, including a sovereign guarantee on part of the Bank’s liabilities, continuous state capital injections, and a clearly defined and strategic public policy role assigned by the Russian government to the Bank by the government of The Russian Federation (foreign currency BBB-/Stable/A-3; local currency BBB/Stable/A-3). RBD’s 100% ownership by the state, as represented by the Russian Federal Property Fund, also ensures strong implicit sovereign support. RBD is the primary vehicle for providing credits to small businesses in Russia, and expanding this sector is one of the main strategic development targets of the government.

The ratings are not equalized with those of the sovereign, however, due to the difficult operating environment for the Bank, which has so far only been able to build a small loan book since its inception in 1999. In addition, there is a mixed track record of sovereign support for public entities in Russia at times of financial stress.

Since 2004, RBD’s public policy role has been enhanced dramatically by the government’s decision to grant state guarantees, thereby increasing the Bank’s financing capacity, to support the government’s policy to develop small businesses. RBD has received Russian ruble (RUR) 3 billion ($108 million) in guarantees (for principal and interest payments) from the Ministry of Finance to raise funds on the domestic financial market. These funds are now being onlent to regional commercial banks, which will in turn extend loans to small businesses.

The Russian government keeps RBD well-capitalized relative to the size of its business. Since its creation in 1999, the capital of the Bank has been increased repeatedly. At year-end 2004, the Bank’s authorized capital stood at $186.1 million (RUR5.2 billion), giving a capital adequacy ratio of about 67%. The authorities, via the Russian Federal Property Fund and the Ministry of Trade and Development, are also closely involved in defining RBD’s strategy, as well as controlling the Bank through the Supervisory Board of the Bank.

At year-end 2004, total assets amounted to $314.6 million (RUR8.7 billion), and reported equity to $212.2 million. At year-end 2004, disbursed loans reached a total volume of $175.9 million. In view of the substantial development needs in Russia’s private sector, RBD has a vital role to play for many years to come. The Bank is expected to expand its loan portfolio prudently in a high-risk market environment.

**Outlook**

The stable outlook on RBD reflects Standard & Poor’s view that government support will remain strong, as demonstrated by the state guarantees on a significant part of the Bank’s obligations and the expected further rise in its capital. This support, together with prudent lending, is expected to keep the bank well-capitalized in relation to its risk assets. The Bank’s role in government plans is secured by its current policy and regulatory framework. The ratings on RBD could move closer to those on the sovereign if the Bank’s core operations (in particular its small business program) are sufficiently successful to encourage further strengthening of state support. Nevertheless, a deviation from RBD’s policy role, or signs of weakening government support, would result in downward pressure on the ratings.

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China Development Bank

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Credit ratings
Foreign currency BBB+/Stable/A-2
Local currency BBB+/Stable/--

Rationale
The ratings on China Development Bank (CDB), which are equated to those on the People’s Republic of China (BBB+/Positive/A-2), reflect the strong support from the sovereign, its sole owner. The ratings also reflect CDB’s key role as China’s pre-eminent development bank, supporting major public investment priorities and the government’s efforts to spur economic growth in the central and western regions of the country.

CDB is the largest of China’s three policy banks. It provides long-term funding for medium- and large-sized projects in key sectors of the economy.

In addition to lending to Chinese borrowers, including state enterprises and the resident partners of Sino-foreign joint ventures, CDB also offers financial advisory services and competes with commercial banks on banking services. The bank is wholly owned by the government—its only eligible owner by statute—through the Ministry of Finance (MoF). The policy banks are the only financial institutions other than the People’s Bank of China (PBOC), the central bank, that report directly to the State Council, China’s highest executive organ. The State Council addresses major strategic issues confronting the bank, and directly approves CDB’s annual working plan.

CDB enjoys unique access to short-term liquidity from the central bank to support debt-service payments and to bridge timing differences between the receipt of debenture proceeds and project loan payments. Although not equivalent to a sovereign guarantee on CDB’s debt, it is stronger and more explicit support than provided to other Chinese financial institutions. The government also supports CDB by providing guarantees on much of its loan portfolio through MoF and other ministries, and by providing generous tax relief to help build up its capital. The bank’s relationship with the government and its operating environment are unlikely to change materially in the coming years.

CDB’s gross loans as at Dec. 31, 2004, stood at about 8% of domestic credit. The bank is one of the few Chinese banks that have its financial statements audited by an international auditor and presented in accordance with international accounting standards. The bank’s assets quality looks to be better than most in Chinese banking system, due to the bank’s own tight credit control, and its implicit preferred creditor status with local government.

Outlook
The stable outlook on CDB reflects some uncertainty over the financial arrangements between the bank and the sovereign. The bank does not receive any direct central government guarantees on any portion of its liabilities. The lack of statutory or ultimate guarantees due to China’s opaque policy environment may imply a degree of uncertainty incompatible with higher rating categories. Any further upgrades for the policy banks, in line with the sovereign, will require a closer re-examination of the relationship between the government and the banks, and the support mechanisms to avoid default, especially timely financial backing. A weakening of its policy role, the level of government support, or a reduction in the sovereign’s ability to support the bank would weaken CDB’s credit rating.

Major Rating Factors

Strengths:
- Strong public policy role
- Financial support available from the government

Weaknesses:
- Lack of explicit guarantee by sovereign
- High banking industry risk in China.
Development Bank of Japan

**Rationale**

The ratings on Development Bank of Japan (DBJ) are based on its role as the governmental financial institution for extending long-term financial facilities in support of projects with high public policy content, such as technology promotion, environmental conservation, and regional development. DBJ is also an important financial instrument of the Japanese government (AA-/Stable/A-1+) in facilitating corporate restructuring in Japan. In addition, the ratings incorporate the support that DBJ receives from the government, including capital injections, low-cost funding from the Fiscal Investment and Loan Program (FILP), guarantees for its external debt issuance, and managerial support. In addition, the Japanese government (the bank's main creditor) has subordinated its lending to DBJ to below the bank's own bonds, as the bank is 100% government-owned and supervised by the Ministry of Finance (MOF).

DBJ was established on Oct. 1, 1999, through the merger of the Japan Development Bank (JDB) and the Hokkaido-Tohoku Development Finance Public Corp. (HTDF). The bank also assumed the lending functions of two other governmental institutions, the Japan Environment Corp. and the Japan Regional Development Corp. As a general policy financial institution, DBJ does not specialize in any particular field, unlike other FILP agencies, such as the Japan Bank for International Cooperation (JBIC; AA-/Stable/A-1+) and the Japan Finance Corp. for Municipal Enterprises (JFM; AA-/Stable/A-1+). Rather, the lending and investment priorities of the bank are aligned to the government’s prevailing economic and social policies. Reflecting its public policy role, DBJ's profitability is low.

With a 12.2% capital adequacy ratio at March 31, 2004, DBJ's capital is one of the strongest among Japan's public financial institutions, thanks to government capital injections totaling ¥0.86 trillion (US$8 billion) in the past 10 years, and the recent improvement in the business environment. DBJ also has a developed risk management system. However, the high delinquency ratio of 16.7% for loans extended to joint ventures between the public and private sectors (the so-called third sector), particularly in property-related projects, lifted DBJ's total reported NPL ratio to 3.3% of total assets, which is still low by Japanese standards. DBJ's total asset size, at ¥15.2 trillion as of March 31, 2004, is average among eight government-owned financial institutions, excluding the two largest financial corporations: Government Housing Loan Financial Corp. and Japan Finance Corporation for Small Business.

**Outlook**

The stable outlook reflects that on Japan’s long-term sovereign credit ratings. It is not possible to gauge how DBJ will be affected by the restructuring of the public finance system because the government has yet to decide on the plan. However, given the early indication by the review of activities in governmental financial institutions, the impact of reform, if any, will be relatively small for DBJ. Over the medium to longer term, Standard & Poor's Ratings Services expects capital markets to become more developed and be able to fulfill many of DBJ's existing financing activities, particularly those for financially stronger corporations.
Development Bank of Kazakhstan

**Major Rating Factors**

**Strengths:**
- Strong sovereign support.
- Clearly defined and strategic public policy role.

**Weaknesses:**
- Difficult operating environment, with limited opportunities in the non-extractive sectors.

**Rationale**

The ratings on the Development Bank of Kazakhstan (DBK) reflect the clearly defined and strategic public policy role assigned to it by the government of the Republic of Kazakhstan (foreign currency BBB-/Stable/A-3; local currency BBB/Stable/A-3). DBK’s 100% state ownership also ensures strong implicit sovereign support. DBK is the primary vehicle in providing long-term credit to the non-extractive sectors of the Kazakh economy, and expanding these sectors is one of the main strategic development targets of the government. The sovereign maintains an arm’s-length relationship with DBK and does not guarantee the bank’s obligations, although it keeps the bank well capitalized relative to the size of its business.

In 2004, the government reaffirmed its support for the bank by increasing DBK’s capital to Kazakh tenge (KZT) 48.6 billion (about $371.9 million), from KZT37.7 billion in 2003, and granting DBK a 15-year budgetary loan of KZT4.3 billion. The increase in DBK’s capital is an integral part of the first stage of the government’s 2003-2015 strategic development program. The authorities are also closely involved in defining DBK’s strategy, as well as controlling the bank through the board of directors. The head of the Senate Office at the parliament of the Republic of Kazakhstan, Yerzhan Utembayev, currently heads the board. Even though the bank is not subject to the National Bank of Kazakhstan’s (NBK) prudential regulation, it complies with most of the NBK’s requirements. Furthermore, DBK regularly reports its financial performance to the NBK.

In view of the substantial development needs in Kazakhstan’s infrastructure and manufacturing sectors, DBK has a vital role to play for many years to come. Total assets amounted to KZT99.6 billion at year-end 2004, mainly reflecting the bank’s equity capital and increasing bond issues. Loan commitments have been built up since the inception of the bank, and at year-end 2004, DBK had a portfolio of disbursed investment projects and export operation loans with a total volume of $310.2 million. The bank is expected to expand its loan portfolio prudently in a high-risk market environment. Although DBK’s Memorandum on Credit Policy limits total liabilities to 600% of the bank’s capital, management policies have capped the bank’s leverage at a borrowed funds-to-capital ratio of 100%.

**Outlook**

The stable outlook on DBK reflects Standard & Poor’s view that government support will remain strong, as demonstrated by past capital increases and the expected increase in the bank’s capital. For the foreseeable future, no changes are expected in the policy and regulatory framework that would weaken the bank’s key policy role in the government’s development plans. Nevertheless, deviation from DBK’s policy role, or signs of weakening government support, would result in downward pressure on the ratings.
Rationale
The ratings on Korea Development Bank (KDB) are based on the Bank’s public policy role as the primary governmental financial institution that extends medium- to long-term financial facilities in support of the Korean government’s (foreign currency A-/Stable/A-2, local currency A+/Stable/A-1) industrial policy objectives. The Bank is fully owned by the government.

The ratings also incorporate the strong direct support from the Korean government, including capital injections and provision of loans. Since 1998, the government has injected Korean won (W) 10.4 trillion ($8.8 billion) of cash and securities to strengthen the Bank’s capital. In addition, the government subordinated its lending to KDB below the Bank’s other obligations, and revised the Bank of Korea Act in 1998 to allow KDB access to immediate funding support from the central bank.

In addition, the ratings reflect the government’s legal obligation to maintain the Bank’s solvency. Standard & Poor’s, however, regards this statutory obligation as only a sign of the government’s commitment to support KDB, rather than a direct guarantee of timely payment for all of the Bank’s obligations. Taking into account the Bank’s robust policy role, its size in the economy, the strong government support, and the lack of alternative suppliers of long-term credit, Standard & Poor’s equalizes its ratings on KDB with those on the sovereign.

Since its establishment in 1954, KDB has actively supported the Korean government’s industrial policy to expedite the growth and industrialization of the domestic economy. Under the current government’s industrial policy, the Bank significantly increased its support for high-tech and information-related industries, and promising small and midsize enterprises (SMEs). The Bank also took on a prominent and active role in the restructuring of the Korean corporate and financial sectors after the 1997 Asian financial crisis.

Outlook
The stable outlook reflects that on Korea’s long-term sovereign ratings. It also reflects the expectation that KDB’s public policy role would remain intact in the medium term, as the Korean government is expected to remain engaged in active economic management. Furthermore, capital markets in Korea are still developing. Of the three main Korean sovereign-supported financial institutions, KDB’s role is the least easily fulfilled by the private sector; the other two entities are Export-Import Bank of Korea (Kexim; foreign currency A-/Stable/A-2) and Industrial Bank of Korea (IBK; BBB+/Stable/A-2). In addition, KDB is much larger than Kexim and IBK in terms of asset size.

The government has indicated that it has no plans to privatize KDB. Nevertheless, the Bank’s policy role could diminish in the longer term if the government were to embrace a more far-reaching, laissez-faire attitude toward economic development. This is balanced, however, by the likelihood of KDB having to play a major role in the development of North Korea if and when the two Koreas ever reunify.
Rationale
With total assets of about South African rand (R) 24 billion ($3.5 billion) at the end of March 2004, the Development Bank of Southern Africa Ltd. (DBSA) remains one of the largest government-owned Development Finance Institutions (DFI) in the Republic of South Africa (foreign currency BBB/Stable/A-3; local currency A/Stable/A-1).

DBSA is wholly owned by the Republic and represents the South African government’s primary vehicle to accelerate sustainable socioeconomic development by funding physical, social, and economic infrastructure in the country’s municipal and utilities sectors and in the countries of the Southern African Development Community (SADC). This role ensures strong implicit and explicit government support. Nevertheless, in line with its market-oriented policy stance, the government maintains an arm’s-length relationship with DBSA.

The Bank’s management, through its Vision 2014 program, has defined a clear strategy within the government’s development objectives for the period from fiscal year 2004/2005 (ending March 31, 2005) to 2013/2014. This plan is aimed at building the Bank’s franchise value by playing multiple roles in combating the infrastructure backlogs in South Africa and the SADC region.

Over the planning period, the Bank intends to invest R45.6 billion on infrastructure development and more than R1.0 billion on technical assistance, capacity-building grants, and knowledge development. As a result, DBSA is expected to remain South Africa’s largest municipal lender and provider of assistance for local government capacity-building and for the government’s Black Economic Empowerment (BEE) and labor market initiatives.

At financial year-end 2003/2004 (March 31, 2004), DBSA’s outstanding loan commitments totaled R15.6 billion, of which about 73% was in South Africa and the remainder in SADC countries. DBSA’s prudent management within a difficult operating environment has kept nonperforming loans (NPLs) at a low level of 3.10% of gross loans at the end of March 2004, and these are more than fully provisioned. Due to a sharp increase in DBSA’s allocation to its Development Fund, net income fell to 3.4% of average assets in financial year 2003/2004 (from 6.6% in 2002/2003). Nevertheless, DBSA continues to maintain substantial capital levels relative to the size of its business, and its asset and liability management policies are conservative.

The South African government generally does not guarantee DBSA’s debt. As in previous years, however, the government has not ruled out the possibility of guaranteeing the Bank’s foreign debt issues.

Outlook
The stable outlook reflects Standard & Poor’s expectation that DBSA will retain its strong public policy mandate for the foreseeable future, ensuring robust government support. It also reflects the Bank’s healthy capitalization and expectations that DBSA will maintain a sound financial profile and prudent management policies.
The rating on Banco de Comercio Exterior de Colombia S.A. (BANCOLDEX), the Republic of Colombia’s state-owned development bank, reflects the support of the sovereign and the bank’s record of good financial performance since its 1992 inception. BANCOLDEX formally took over a large part of the assets and liabilities of Instituto de Fomento Industrial (IFI), which ceased operations in 2003 as part of the government’s strategy to rationalize the public sector financial system. As a result, BANCOLDEX’s role was changed from strictly dealing with export finance and promotion to more broadly supporting small and midsize business development. BANCOLDEX now will play a central economic policy role in promoting the country’s small and midsize enterprises (SMEs), financing their activities by providing wholesale credit at attractive rates by offering loans through private financial intermediaries. The bank is 97%-owned by the Colombian government, and will likely remain under almost full government control in the medium term. BANCOLDEX remains the government’s key vehicle to support SMEs, especially the export sector.

The bank had assets of US$1.55 billion as of Dec. 31, 2004, a reduction of almost 3.5% from last year. Its loan portfolio is US$1.4 billion. Profitability in 2004 was up 11.5% from 2003, and amounted to US$14.1 million.

BANCOLDEX’s dynamic management has effectively guided the bank through Colombia’s changing financial system, helping it to maintain the strong asset quality, capitalization, and profitability that have distinguished it since inception. Even after its amalgamation with IFI, the bank’s credit quality should remain above that of the overall financial system. Standard & Poor’s expects BANCOLDEX to retain its role as Colombia’s primary financier and nurturer of SMEs, given the sector’s importance to the country’s economy, and anticipates sovereign support to continue in the medium term. BANCOLDEX could continue to play a significant role as an instrument of public policy over the long term as the Colombian economy develops, similar to that of state-owned development banks in highly industrialized countries.

**Rationale**

Major Rating Factors

*Strengths:*
- Strong sovereign support.
- Good financial management.

*Weaknesses:*
- The challenges resulting from the recent takeover of the assets and liabilities of weaker state-owned bank Instituto de Fomento Industrial.

**Outlook**

Standard & Poor’s stable outlook on BANCOLDEX’s long-term foreign currency rating reflects the stable outlook on Colombia’s long-term foreign currency sovereign credit rating. As long as the government maintains its level of debt and equity funding in, and honors its existing guarantees on, the assets of BANCOLDEX, the ratings and outlook should track that of the government. Standard & Poor’s expects BANCOLDEX’s management to successfully manage its expanded public policy role.
Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)

**Major Rating Factors**

**Strengths:**
- Explicit governments guarantee on Bancomext’s debt obligations.
- 100% state ownership.
- Good asset quality due to export credit risk insurance.

**Weaknesses:**
- The continuing deterioration of the bank’s balance sheet.
- Profitability constrained by the expense of providing technical assistance and promotional activities.

**Rationale**

The ratings on Banco Nacional de Comercio Exterior S.N.C.’s (Bancomext) senior unsecured debt mirror Standard & Poor’s 'BBB' long-term foreign and 'A' long-term local currency sovereign credit ratings on Mexico.

Bancomext, which is fully owned and supported by the Mexican government, is one of the government’s main instruments for promoting international trade. The bank’s primary role is to facilitate the development of Mexico’s external sector by providing financial support and technical assistance to exporters and importers. Benefiting from the full faith and credit backing of the Mexican government, Bancomext’s debt obligations are considered part of the country’s public debt. Bancomext is the third-largest development bank in Mexico, with assets of US$7.65 billion (Mexican peso [MxP] 84.40 billion) as of Dec. 31, 2004.

The bank’s loan book totaled US$5.8 billion at year-end 2004—20% decrease from 2003, reflecting more conservative lending practices, loan repayments and continuing low credit demand. Asset quality has improved from last year. In this regard, delinquency ratios, measured as non-performing loans to total loans, in 2004 reached 8.5%, compared with 10% at year-end 2003.

Promotional activities and technical assistance to exporters are expensive, particularly since no fees are charged for the latter service. These activities are reflected in Bancomext’s reported net losses of US$73.23 million at year-end 2004 and US$64.71 million at year-end 2003. However, 2004 operational results at US$64.1 million still exceeded the US$64.7 million in 2003, mainly due to an important cost restructuring process that Bancomext began in 2001. The difference between the operational loss and the net loss is an adjustment of US$9.1 million due to changes in accounting policies. Costs from operations continued to decrease in 2004, to MxP1.8 billion from MxP2.1 billion in 2003. Bancomext’s capital has also decreased over the past few years, due not only to reported losses, but also to government withdrawals.

Standard & Poor’s expects Bancomext to continue to enjoy support from, and full ownership by, the Mexican government. Facilitating the external sector’s expansion into the international arena continues to be a key policy goal of the government, and the bank will therefore continue to play its important role.
Export Development Canada

Major Rating Factors

Strengths:
- Its status as an agent Crown Corporation (agent of Her Majesty in right of Canada).
- 100% government ownership.
- Explicit government guarantee.

Weaknesses:
- High concentration of loan portfolio in the aerospace industry.

Rationale

The ratings on EDC are supported by the expectation that EDC will continue to play a key role in financing and facilitating Canadian export trade and will receive the government’s full support where appropriate.

EDC was established in 1969 to support and develop (directly or indirectly) Canada’s capacity to engage in export trade. In accomplishing this objective, EDC uses both traditional and new services tailored to the needs of its 7,000 or so customers. Traditional tools include providing insurance to Canadian exporters against nonpayment of credit extended to foreign purchasers, trade financing (direct lending and guarantees), and contract bonding. New venues for EDC include leasing and conditional sales agreements; the formation of subsidiaries, partnerships, equity investments in private sector companies; and other specialized services to exporters.

The Export Development Act calls for a 15-member board appointed by the government to oversee EDC’s operations and formulate policy. The corporation is accountable to the Canadian parliament through the minister of international trade. As with other agent Crown Corporations, EDC must submit both corporate and specific plans for borrowing in the public debt market to the minister of finance for approval.

With Canadian dollar (C$) 21.5 billion (US$17 billion) in loans receivable at year-end 2003, EDC is a significant source of financing for Canadian export trade. Facilitating C$52 billion of Canadian business and investment (a 1.2% increase over 2002), EDC supported roughly 14% of total exports of goods and services in Canada that year. Small and midsize enterprises continue to play an important role in EDC’s business, accounting for over 90% of the company’s customer base (emphasizing the EDC’s public policy mandate) and 20% of its export volume.

EDC’s return on average assets stood at 0.7% in 2003, only slightly higher than 0.5% a year earlier. Return on equity improved to 7.3% in 2003 from 5.9% in 2002, above the 2003 average Canadian long-term bond yield of 5.3%.

EDC fulfilled its self-sustainability mandate by almost doubling its retained earnings since 1997. Retained earnings reached 56% of total shareholders’ equity at year-end 2003. As EDC has been consistently profitable, there have been no capital increases by the government of Canada.

The corporation’s debt is limited by EDA to 15x EDC’s shareholders’ equity as of the previous fiscal year-end, or to C$31.2 billion maximum for 2003. Debt stood at 53% of the authorized limit in 2003. The act also limits EDC’s contingent liabilities to the greater of C$20 billion or 10x authorized capital. The corporation reached 81% of the limit at year-end 2003, with contingent liability programs equal to C$16.2 billion.
Private Export Funding Corp.

### Major Rating Factors

**Strengths:**
- Low embedded risk in asset base.
- Franchise value that allows it to create efficient funding mechanisms to finance U.S. exports.

**Weaknesses:**
- High leverage.

### Rationale

The ratings on Private Export Funding Corp. (PEFCO) are supported by the low embedded risk in its asset base. This is the result of its special relationship with the Export-Import Bank of the U.S. (Eximbank), which was established through an agreement that extends through Dec. 31, 2020. Under the agreement, Eximbank guarantees timely payment of the principal and interest on all PEFCO’s loans and of the interest on PEFCO’s long-term secured notes. Eximbank is a U.S. government agency, the guarantees of which are backed by the full faith and credit of the U.S. government and have allowed PEFCO to never experience a nonaccrual loan. At the same time, PEFCO remains a highly leveraged institution, with shareholders’ equity of 1.38% of total assets as of Sept. 30, 2004.

Assisted by a US$290 million OPIC loan transaction, the amount of total loans outstanding has recovered in fiscal 2004 to US$4.5 billion, compared with US$4.0 billion in fiscal 2003, an increase of 12.6%, as new loan commitments were US$1.3 billion during same period. Net financing income has also recovered to US$6.2 million in 2004 from the previous year’s loss of US$3.5 million as financing margins improved, primarily because of loan growth.

PEFCO’s franchise value has always been and remains a factor of its ability to create efficient funding mechanisms to finance U.S. exports. Although the core direct lending business is still generated by a small group of shareholders, the Small Business Program continues to grow and attract business. The program’s outstanding loan balance at year-end 2004 was $448 million, an increase of 13% from previous year-end of $397 million. Although the increasing interest rate environment should help PEFCO to recover from the low profitability levels of recent years, PEFCO will have to obtain more new business from its shareholders if it is to preserve its franchise value.

### Outlook

The negative outlook on PEFCO reflects the expectation that profit or capitalization erosion could put downward pressure on the ratings. Conversely, the ability to generate higher levels of new business consistently and improve profitability and capitalization levels would stabilize PEFCO’s credit standing. The ‘AAA’ rating on PEFCO’s first indenture notes reflects Eximbank’s guarantee on the interest on the notes and on the loans they finance.
Rationale

The ratings on Czech Export Bank (CEB) are based on the Czech Republic’s (foreign currency A-/Stable/A-2; local currency A/Stable/A-1) unconditional and irrevocable guarantee to the issuer and its issues, and therefore reflect the ratings on the sovereign. CEB’s obligations are assumed for the purpose of providing preferential export financing and are, by law, guaranteed by the state. Only a low percentage of CEB’s loan portfolio is provided without state participation.

Incorporated in March 1995, CEB is a 100% state-supported government export credit agency, with 69.7% of its share capital held by the Czech government, and the remaining 30.3% held by the fully state-owned Czech Export Guarantee and Insurance Corporation (EGAP). By law, at least two-thirds of CEB must be owned by the state.

As an integral part of the economic and pro-export policy of the Czech government, CEB is responsible for providing preferential long- and short-term financing, export credits, financing of export production, investment credits, and export-related financial services. This role was most recently reaffirmed through a key government document in December 2003.

Given CEB’s moderate size, the potential to diversify is more limited than in the case of similar institutions in larger industrialized countries. Concentration risk is therefore important, but it is mitigated by the fact that a significant proportion of loans are insured by EGAP, strengthening CEB’s asset quality.

Outlook

The stable outlook on CEB reflects that on the Czech Republic. It is expected that CEB will continue to play an important role in the Czech government’s economic development plans and policies. This should enable the bank to maintain its public-law status, and therefore, its credit support from the sovereign’s guarantee.
Eksportfinans ASA

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Credit ratings
Foreign currency AA+/Stable/A-1+
Local currency AA+/Stable/A-1+

Rationale
The ratings on Norway-based Eksportfinans ASA are based on the institution’s low-risk loan portfolio, high liquidity, and robust risk-adjusted capital base. Profitability, however, is under pressure from declining margins, and the group’s larger exposure to lower-margin lending to municipalities following the acquisition of Kommunekreditt Norge (Kommunekreditt). The ratings are enhanced by the Eksportfinans’ status as the sole agency of the Norwegian government for providing export credit to Norwegian corporations, although Standard & Poor’s considers that Eksportfinans’ public policy activities as a proportion of its balance sheet are diminishing.

To a significant extent, the ratings also reflect Standard & Poor’s opinion that the government support for Eksportfinans is robust. The ratings, however, are not commensurate with the sovereign ratings on the Kingdom of Norway (AAA/ Stable/A-1+), according to prevailing rating criteria. This is due to the absence of explicit support in the form of state guarantees on the funding side and the government’s ownership of only 15% of the company.

Eksportfinans finances Norwegian exports; provides medium- and long-term credit to promote exports; and, on behalf of the Kingdom of Norway, manages government support schemes for export credits and grants credits to developing countries. In addition, through its fully owned subsidiary Kommunekreditt, Eksportfinans is Norway’s second-largest specialized municipality lender.

Eksportfinans’ consolidated assets at Dec. 31, 2004, were Norwegian krone (Nkr) 109.4 billion ($17.6 billion at Nkr6.21 to $1). Loan asset quality remains excellent, with the whole of the parent company’s loan portfolio either guaranteed by the Norwegian government or by domestic and foreign banks, or consisting of loans to Norwegian municipalities. In addition, at year-end 2004, 33% of assets consisted of liquid investments, in compliance with the group policy of constantly maintaining liquidity well above 30% of total assets.

Capital adequacy for the group remains robust, with an adjusted common equity (ACE)-to-risk assets ratio of 10.9% at Dec. 31, 2004. Although profitability has exhibited a consistent weakening trend over the past decade, Standard & Poor’s considers returns to be adequate in view of Eksportfinans’ public policy role and given that it is not under any shareholder pressure to meet higher profitability targets.

Outlook
The stable outlook reflects the continuation of Eksportfinans’ close ties with Norway’s national and local governments, as well as good relationships with existing shareholders. The outlook also reflects the company’s continued strong credit fundamentals, despite the weak profitability, including expected maintenance of robust capitalization. The ratings could come under some pressure if there were a substantial deterioration of capital ratios and/or profitability, or excessive reliance on returns from the securities portfolio investment to maintain existing profitability levels. On the other hand, a clear demonstration of support by the government through the issuance of an explicit guarantee could enhance the ratings. Standard & Poor’s will monitor any implications for Eksportfinans’ strategy resulting from any material change in the company shareholding structure that may occur following the merger in 2004 of the two former main shareholders into DnB NOR Bank ASA (A/Positive/A-1).
Export Credit Bank of Turkey

Major Rating Factors
Strengths:
- Credit risk limited to relatively strong Turkish banks and the Turkish government.
- Demonstrated support from the Turkish government.
- Increasing profitability.

Weaknesses:
- Low liquidity and limited funding base.
- Concentrated credit portfolio.
- Decreasing franchise value.

Rationale
The ratings on Export Credit Bank of Turkey (Türk Eximbank) reflect those of its sole owner, the Republic of Turkey (foreign currency BB-/Stable/B; local currency BB/Stable/B). As the government remains committed to an export-driven economic growth strategy, and as a relatively high interest rate environment persists (notwithstanding recent progress), Türk Eximbank plays a crucial role in providing credit and political risk insurance to support exports at rates below those from commercial sources.

Although Türk Eximbank seeks to maintain its "market share", the percentage of Turkey's exports it backs has been falling steadily in recent years, and at year-end 2004 stood at about 10%, down from 13% in 2003. Given its public policy role, financial indicators take secondary place to its business franchise. Government support has been demonstrated by repeated capital injections, a counter-guarantee on the Bank's medium-term loans, and a tax exemption on the Bank's income.

Moreover, Türk Eximbank is an important foreign policy tool to the government, directing financial assistance to countries in the Black Sea region and in Central Asia. As a result, full support from the Turkish government is likely to be sustained in the medium-to-long term.

The ratings on Türk Eximbank are also supported by its financial profile. Its embedded credit risk mostly consists of exposure to relatively strong Turkish banks and, ultimately, to the Republic of Turkey. With respect to the Bank's wholesale funding base, continuous economic and financial support from the international community, including the International Bank for Reconstruction and Development (World Bank; AAA/Stable/A-1+) and the IMF, in addition to support from the Turkish government commitment, provides the Bank with uninterrupted access to domestic and international financial markets.

Outlook
The ratings on Türk Eximbank are the same as the foreign currency ratings on the Republic of Turkey. As long as support from the state continues, any change in the ratings on the Republic will result in a similar action on the ratings on Türk Eximbank. In the longer term, improving the Bank's credit standing will hinge on solidifying its franchise value, obtaining a more diversified funding base, and improving its capitalization rate.
Swedish Export Credit Corp.

**Rationale**

The ratings on Swedish Export Credit Corp. (also known as SEK) reflect the high creditworthiness of its owner, the Kingdom of Sweden (AAA/Stable/A-1+). In addition, the ratings are supported by satisfactory capitalization and excellent asset quality. The ratings are constrained, however, by the limited scope of SEK’s core business franchise, and the company’s need to adapt to a changing market environment, where national borders are becoming less important.

The Swedish government has owned 100% of SEK since June 2003. At the time that the government became the sole owner, SEK raised hybrid capital instruments to offset the impact of ABB Ltd.’s (BB+/Stable/B) exit. To allow the company to restore core capitalization, the Swedish government has stated that SEK will have a restrictive dividend policy. The government received no dividend for 2003 and the board has proposed that no dividend shall be paid for 2004.

SEK’s stated ambition of rebuilding its capital to pre-June 2003 levels in the short to medium term is considered a positive factor that balances the deterioration of capital quality in the short term. In addition, the fact that the Swedish government is the sole owner of the company eliminates uncertainty over ownership.

SEK is a specialized provider of long-term financial solutions. Asset quality is excellent, and risk concentrations that arise as a result of the wholesale nature of SEK’s business are material, but balanced against the use of guarantees and other risk mitigants.

**Outlook**

The stable outlook reflects the Swedish government’s commitment as a long-term owner of SEK. It also reflects the expectation that the company’s strategy—as an originator and underwriter of debt issuance, in addition to its bilateral lending operations—will be maintained, as well as management’s continued commitment to maintaining the company’s low-risk profile. The stable outlook also reflects the expectation that SEK’s equity capital will be rebuilt in line with the risk profile of the company and its stated policy of having capital that is well above the regulatory minimum.

A higher rating could be achieved if the Swedish government were to explicitly guarantee either the assets or the liabilities of the company, or if SEK was so closely integrated with the government that it would deemed to be sovereign equivalent.

The outlook or the ratings could come under pressure if the rebuilding of core capitalization does not take place as planned, and/or if trends in asset quality become a concern.
Rationale
The Export Finance & Insurance Corp.'s (EFIC) ratings reflect the guarantee by the Commonwealth of Australia (AAA/Stable/A-1+).

In addition to the guarantee, further explicit government support underpins credit quality. Credit risk exposures and commitments undertaken as part of the 'national interest' are assumed by the Commonwealth. National interest account exposures represent 67% of EFIC's A$3.6 billion on- and off-balance sheet total exposures and commitments. The remaining A$1.2 billion exposures and commitments are deemed to be under the 'commercial account'. These exposures are borne in the first instance by EFIC and backed by a capital base of A$266 million. If this capital base proves inadequate, further support is provided in EFIC’s legislated ability to call on up to A$200 million extra capital from the Commonwealth. If this also proves to be inadequate, EFIC may borrow extra funds from the Commonwealth or the private sector, with the benefit of the guarantee. This ultimately ensures the ability of EFIC to meet its obligations.

EFIC’s government support reflects its strategic importance to the national economy. EFIC is Australia’s official export credit agency, using its insurance and finance products to support export projects that banks and commercial insurers might have difficulty covering because of size or associated transaction risks.

EFIC is a statutory corporation established by the Commonwealth under the EFIC Act (1991).

Importantly, all commercial account insurance liabilities and loan defaults and re-schedulings have been absorbed by EFIC’s capital base. The callable capital has never been required and the Commonwealth guarantee has never been called upon. Commercial account profitability was strong at A$27.7 million in fiscal 2004, or 2.5% of average assets. However, asset quality is fairly weak. Even for the commercial account, non-performing loans were A$1.5 million net of provisions, while restructured loans were A$81 million. EFIC estimates the total weighted average credit risk of commercial account exposures to be consistent with a 'BB' credit rating.

However, the Commonwealth’s total exposure through guaranteed loans, other liabilities, and off-balance sheet obligations is only about A$4.2 billion as at June 30, 2004. This equates to only about 1.9% of Commonwealth general government revenue, or 0.5% of GDP. The Commonwealth could easily meet these obligations without adversely affecting credit quality.

Outlook
The stable outlook reflects that for the Commonwealth of Australia.
Rationale

The Export-Import Bank of the Republic of China (Taiwan Eximbank) is Taiwan’s official export credit agency, and supports the government’s economic and trade development strategy. The Bank fulfils its public policy role by extending medium- and long-term loans and guarantees, particularly for capital goods exports. The Bank also provides export credit insurance.

Taiwan Eximbank was incorporated in 1979 under the Export-Import Bank of the Republic of China Act (Eximbank Act). The Bank is fully owned by the government and is supervised by the Ministry of Finance (MoF). The MoF appoints the Bank’s board of directors, board of supervisors, the chairman, and the president. Taiwan Eximbank also requires the MoF’s approval when it raises funds from foreign institutions, and when it issues debt securities in the domestic and foreign capital markets.

The government’s ownership of the export credit agency is not a guarantee of government assistance in times of financial distress, or an assurance to maintain Taiwan Eximbank’s solvency. However, given its public policy role, Standard & Poor’s is likely to classify Taiwan Eximbank as either a government-supported entity that is highly integrated with the government, or a policy-based institution. The credit standing is likely to be closely linked to that on the Taiwanese government.

The government provides direct support to Taiwan Eximbank, amounting to approximately 11% of its total funding, through the allocation of capital from the National Treasury, and appropriations from various government-related development funds such as the Executive Yuan’s (Cabinet) Development Fund, the Small and Medium-sized Business Development Fund and the International Economic Cooperation and Development Fund. Under the Eximbank Act, the government is also obligated to inject funds from the annual budget to compensate Taiwan Eximbank’s losses, if the Bank’s reserve fund is insufficient. The majority of the Bank’s remaining funding is met through loans from financial institutions and issuances of debt securities in the domestic market. Retained earnings, capital surplus, and equity adjustments make up the rest of the funding.

At end 2003, Taiwan Eximbank’s outstanding loans stood at NT$98.9 Billion (US$2.9 Billion), equivalent to 0.7% of outstanding loans in the Taiwan banking system (including overseas banking units and branches). Like other export credit agencies, Taiwan Eximbank’s profitability is low, with its return on average assets (ROAA) at 0.8%. However, with an adjusted total equity to loan ratio of 17%, the Bank has fairly strong capitalization.

In the near-to-medium term, Taiwan Eximbank is expected to maintain its crucial role in the provision of financing and insurance to exporters, given the importance of exports to Taiwan’s economy.
Export-Import Bank of India

**Rationale**

The issuer credit ratings on the Export-Import Bank of India (India EXIM) are identical to those on the Republic of India (BB+/Stable/B), reflecting its importance as a public policy bank. The principal source of risk for India EXIM is the sovereign risk, due largely to the persistent high public sector deficits of the government of India.

As a government agency, India EXIM is exposed to this risk via the consequent impairment of the government’s fiscal flexibility, which constrains its capacity to extend capital support or assistance in case of financial distress. The ratings also incorporate government ownership of and support for India EXIM, and reflect the bank’s stand-alone credit features of a record of profitability and solid capitalization.

Established by an Act of Parliament in 1981, India EXIM’s designated mandate is broadly defined as creating export capability. As such, the bank’s role goes beyond the provision of simple trade finance usually associated with EXIM banks, and extends to activities collectively termed as “advisory services” and “promotional programs”.

Since its inception, India EXIM has enjoyed strong government support, notably through capital infusions, interest equalization, and loan guarantees, reflecting the government’s commitment to gradually expand both the scale and scope of its operations. The government wholly owns the bank, and appoints the Board of Directors, which includes representatives of related ministries such as Ministry of Finance and the Reserve Bank of India.

Despite its public role, India EXIM operates on a commercial basis and with a fair degree of autonomy, and competes with private sector banks in most of its activities. Its commercial orientation is highlighted by a record of modest, but consistent profitability -- averaging 3.0% (profits before tax to assets) in the past 10 years to 2004-2005. Profitability could, however, come under further pressure as competition increases and lending margins fall.

India EXIM’s strong capitalization also underpins its operations. Its ratio of total equity to assets was a solid 13.6%, in fiscal year 2005, but this is below earlier levels of more than 20%, reflecting the bank’s aggressive loan book expansion of recent years. This compares favorably with capitalization at some other sovereign supported banks, such as China EXIM (about 2.3%) The bank received government capital injections totaling Indian rupee (Re) 3.5 billion (US$81.0 million) in the past six fiscal years to 2005 in paid-up capital alone.

The asset quality of the bank is on par with commercial banks in the country, with non-performing assets (NPA) of 7% of the total (on a 180-day basis) in 2004 (2005 fiscal year figure not yet available), down from 9% of the total in 2003. Of some concern is India EXIM’s concentrated credit exposure, whereby individual borrowers hold a significant portion of its loans. Borrower concentration is also evident among NPAs. This risk, however, is considerably alleviated by a very high ratio of capital to risk assets of 21.6% as at March 2005, and by adequate provisioning, which makes for an NPA ratio net of provisions of 0.85%, compared with over 2% systemwide.

**Outlook**

The stable outlook reflects that on India’s long-term sovereign ratings. Standard & Poor’s expects that India EXIM will remain an important instrument for the government in its medium-to-long term export-development strategy. Proposed capital support from the government over five years, if continued, will further enhance its strong capital base. Standard & Poor’s believes the public policy role of India EXIM will not be changed in the medium term, but if there is a change in government policy that adversely affects India EXIM’s policy role, the credit ratings on the bank could be affected.

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**Major Rating Factors**

**Strengths:**
- Full government ownership, and record of sovereign support.
- Consistent profitability.
- Strong capitalization.

**Weaknesses:**
- Relatively high borrower concentration.
- Rising competition from commercial banking sector.
Export-Import Bank of Korea

Major Rating Factors

Strengths:
- Strong public policy role.
- Government obligation to maintain KEXIM’s solvency.

Weaknesses:
- Low profitability.

Rationale

The ratings on the Export-Import Bank of Korea (Kexim) are based on its public policy role. As the country’s official export credit agency, Kexim provides financial facilities in support of the Korean government’s (foreign currency A-/Stable/A-2; local currency A+/Stable/A-1) export-led growth strategy and foreign trade and investment policies. The Bank is owned and controlled by the government.

In addition, the ratings incorporate strong direct support from the government, including capital injections and the provision of loans. Since 1998, Kexim has enjoyed repeated capital injections, totaling Korean won (W) 1.9 trillion (US$1.6 billion), from the government. The ratings also take into account the government’s legal obligation to maintain the Bank’s solvency. Standard & Poor’s, however, views this statutory obligation only as a sign of the government’s commitment to support Kexim, rather than a guarantee of timely payment for all the Bank’s obligations. Nevertheless, reflecting the Bank’s robust policy role and strong governmental support, Standard & Poor’s equalizes its ratings on Kexim with those on the sovereign.

The ratings on Kexim are constrained by its low profitability. As a state-owned bank with a public policy mandate, Kexim is not primarily concerned with profit maximization and its net interest margin has been low historically. Its margin declined in 2003 to 0.99%, from 1.35% in 2002, and might not improve as interest rates rise globally.

The proportion of Kexim’s loans reported "substandard" or below improved to 1.14%, from 2.33% in 2003, due to the progress in resolving delinquent loans and stabilizing domestic demand, which had been adversely affected by the substantial delinquency of credit card debt since 2002.

Outlook

Kexim’s stable outlook reflects that on Korea’s long-term sovereign credit ratings. Standard & Poor’s expects the Bank’s public policy role to remain intact in the near-to-medium term, as the government is expected to remain engaged in active economic management. So far, the government has not shown any intention to privatize the Bank. Nevertheless, the Bank’s public policy role could diminish in the longer term if the government were to embrace a more far-reaching “laissez-faire” stance toward economic development.
Export-Import Bank of China

Major Rating Factors

**Strengths:**
- Strong public policy role.
- The 100% state ownership and financial support.

**Weaknesses:**
- Lack of explicit guarantee by sovereign.
- High banking industry risk in China.

Rationale

The ratings on the Export-Import Bank of China (China EXIM) are the same as those assigned to the People’s Republic of China (BBB+/Positive/A-2), reflecting the strong support from the government, its sole owner, and the bank’s policy role in promoting export financing. The ratings also reflect China EXIM’s key role as the country’s conduit for foreign official funding for projects within China, as well as for Chinese government concessional lending to other countries.

China EXIM was established in 1994 as one of three policy banks, to promote Chinese exports, similar to other countries’ export credit agencies, by providing financing products. The bank is wholly owned by the central government through the Ministry of Finance (MoF), but like the other Chinese policy banks, it does not directly receive any central government guarantees on any portion of its liabilities, except for the foreign government loans to China. This is in contrast to similar export promotion institutions of other governments. The policy banks, are also the only financial institutions other than the People’s Bank of China (PBOC), the central bank, that report directly to the State Council, China’s highest executive organ. The central government does, however, support China EXIM’s capital requirements (through the central bank and the MoF) by way of fiscal allocations. It also guides China EXIM’s funding and business strategy, although the bank enjoys relative autonomy in its project evaluation and approval process, and short-term liquidity support from PBOC. In particular, the bank receives interest subsidies from the MOF for policy loans extended at below its own cost of funding. This is stronger and more explicit support than that provided to other Chinese state-owned commercial financial institutions, and to other policy banks.

China’s WTO membership has imposed stricter rules on government subsidies and export financing. However, given the government’s emphasis on trade promotion and exports, Standard & Poor’s believes that China EXIM’s policy role and the government support for it will be undiminished in the medium term.

China EXIM is significantly smaller than the two other policy banks in terms of assets; the three policy banks make up about one-tenth of the banking system. China EXIM is believed to have better asset quality than other banks in the system, due to its export-orientated clientele and the self-liquidating nature of its loans.

Outlook

The stable outlook on China EXIM reflects the uncertain financial arrangement between the bank and the sovereign. The lack of statutory or ultimate guarantees and China’s opaque policy environment may imply a degree of uncertainty incompatible with higher rating categories. Any further upgrades for the bank, in line with the sovereign, will require a closer re-examination of the relationship between the government and the bank, and the support mechanisms to avoid default, especially timely financial backing. A weakening of its policy role or in the level of support from the government, or a reduction in the sovereign’s ability to support the bank, would weaken China EXIM’s credit rating.
Export-Import Bank of Malaysia Berhad

Rationale
The Export-Import Bank of Malaysia Berhad (Exim Bank) is Malaysia’s export credit agency. It promotes exports through the provision of medium-to-long term credit and guarantees. In addition, the bank extends financing to Malaysian companies to support their overseas investments. Malaysia Exim also administers the government’s Export Credit Refinancing (ECR) scheme, on behalf of the Malaysian Ministry of Finance (MoF). Under the scheme, the government channels funding to Malaysia Exim, which uses the funds to provide financing to exporters at competitive rates via commercial banks in Malaysia.

Malaysia Exim was incorporated on Aug. 29, 1995, as a wholly owned subsidiary of Bank Industri & Teknologi Malaysia Berhad (Bank Industri; another 100% government-owned financial institution). Like its parent, Exim Bank is designated as one of six development financial institutions under the Development Financial Institution Act 2002 (DFIA). Under the Act, Bank Negara Malaysia (BNM), the central bank, regulates and supervises Malaysia Exim to ensure that the bank’s activities are in line with the government’s objectives and the efficient implementation of the bank’s mandated role. The MoF holds one special share in Exim Bank that enables it to appoint one director to the bank’s Board of Directors.

The government has mooted a plan to merge Malaysia Exim with its sister agency Malaysia Export Credit Insurance Berhad in 2005, as part of an overall reorganization of development financial institutions. Although it will probably result in Malaysia Exim’s removal from the Bank Industri Group, it should not result in any material change in the bank’s mandate or perceived support from the government.

The government ownership in itself is not a guarantee of government assistance in times of financial distress, or an assurance that the government will maintain Malaysia Exim’s solvency. Given its public policy role, however, Standard & Poor’s is likely to classify Malaysia Exim as either a government-supported entity that is highly integrated with the government, or a policy-based institution. The bank’s credit standing is likely to be closely linked with Malaysia.

The government provides direct support to Malaysia Exim through loans that amount to 70% of total funding, which are mostly used for the ECR scheme. The rest of the bank’s fundings are mainly sourced through advances from Bank Industri that include government-guaranteed loans from Japan Bank for International Cooperation (JBIC; AA-/Stable/A-1+), and borrowings from foreign institutions, which make up 15% and 10% of the total funding, respectively.

At the end of 2003, Malaysia Exim’s outstanding loans, including loans disbursed under the ECR Scheme, amounted to Malaysian ringgit 2.3 billion (US$0.6 billion), or equivalent to about 0.4% of total outstanding loans in the banking system (including commercial banks, finance companies, merchant banks, and development financial institutions). About 90% of Malaysia Exim’s lending was extended to overseas projects, while the rest of the loans were for export financing. Like many other export credit agencies, Malaysia Exim’s profitability is low, with returns on average assets (ROAA) at 2.9%. However, the bank’s adjusted total equity to loans at 16% is fairly healthy.

The bank is likely to maintain a crucial role in the provision of financing to exporters and overseas projects, given the importance of exports to the Malaysian economy.
Export-Import Bank of Thailand

Rationale
The Export-Import Bank of Thailand (EXIM Thailand) is the country’s official export credit agency that supports the development of Thailand’s exports, overseas investments, and foreign investment in the domestic market. The Bank fulfills its public policy role by extending medium-to-long term credit, export-related guarantees, and export credit insurance to domestic exporters and investors.

Established in 1993 under the Export-Import Bank of Thailand Act (EXIM Act), EXIM Thailand is 100%-owned by the government and supervised by the Ministry of Finance. The appointment of the Bank’s president is subject to the approval of the finance minister, while half of its board of directors is made up of officials from various ministries and the Bank of Thailand, the central bank.

The government’s ownership, in itself, is not a guarantee of government assistance in times of financial distress, or an assurance that the government will maintain the Bank’s solvency. However, given its public policy role, Standard & Poor’s is likely to classify EXIM Thailand as either a government-supported entity that is highly integrated with the government, or a policy-based institution. The Bank’s credit standing is likely to be closely linked with that of Thailand.

The government provides direct lending to EXIM Thailand. Bank’s total funding. Under the EXIM Act, the government is also obligated to allocate funds from its annual budget to compensate losses incurred by the Bank that arise from policy-related loans and export credit insurance. The rest of the Bank’s funding is mainly made up of borrowings from local and foreign banks, issuance of debt securities and customer deposits.

At the end of 2004, the Bank’s outstanding loans stood at Thai baht 48.6 billion (US$1.2 billion), equivalent to 1.0% of the Thai banking system’s outstanding loans. Like many other export credit agencies, Exim Thailand’s profitability is low, with return on average assets (ROAA) at 0.9%. Nevertheless, the Bank’s capitalization is strong, with the ratio of adjusted total equity to loans at 30%.

EXIM Thailand’s public policy role is likely to remain robust in the near-to-medium term, given the importance of exports to Thailand’s economy. The Bank is expected to remain an important conduit for the government to promote and support trade and investment.
Japan Bank for International Cooperation

Credit analyst
Takahira Ogawa, Singapore
(65) 6239-6342

Credit ratings
Foreign currency
AA-/Stable/A-1+
Local currency
AA-/Stable/A-1+

Rationale
The ratings on Japan Bank for International Cooperation (JBIC) are based on its public policy role as the primary governmental financial institution that extends financial facilities to promote and support the Japanese government’s (AA-/Stable/A-1+) external policy objectives. The Bank is an integral part of the government’s overall mechanism for advancing Japan’s relations with other countries.

The ratings also incorporate the support that JBIC receives from the government, including capital contributions, low-cost funding from the Fiscal Investment and Loan Program (FILP), guarantees for debt issuance, and managerial support. In addition, the Japanese government (the Bank’s main creditor) has subordinated its lending to JBIC to below the Bank’s own bonds. Taking into account the Bank’s robust policy role, and the strong direct government support that it receives, Standard & Poor’s equals its ratings on JBIC with those on the sovereign.

JBIC was established on Oct. 1, 1999, through the merger of the Export-Import Bank of Japan (JEXIM) and the Overseas Economic Cooperation Fund (OECF). The 100% government-owned bank has two distinct operations: International Financial Operations (IFO) and Overseas Economic Cooperation Operations (OECO), which are operated and funded under legally separated accounts. Under the IFO account, JBIC extends financial facilities to support Japanese corporations’ trade- and overseas investment-related activities, and to assist developing countries in their economic structural adjustment programs.

Under the OECO account, the Bank provides concessiory funds, mainly in the form of Official Development Assistance (ODA) loans, to help developing countries in reducing poverty, restructuring their economies, and enhancing social development. In conducting its businesses, the Bank is prohibited from competing with private sector financial institutions.

According to JBIC’s budget for fiscal 2005 (ending March 31, 2006), which was approved by parliament together with the national budget, disbursement of new loans and investments are planned at ¥1.82 trillion ($17 billion), slightly lower than in fiscal 2004. On the other hand, the size of nonguaranteed FILP agency bonds is being increased to ¥260 billion from ¥240 billion in 2004.

Outlook
The outlook reflects that on Japan’s long-term sovereign credit ratings. Although the government has yet to finalize its plan on how to restructure, integrate, or abolish its eight governmental financial institutions, including JBIC, the Bank is unlikely to be significantly affected since most of its activities cannot be easily replaced by private commercial banks. Standard & Poor’s expects JBIC’s status as a key public policy bank to remain intact in the near to medium term.

In addition, government lending should remain the main source of funding for both of the Bank’s accounts. Even though as part of the reform of the FILP system, JBIC started (in 2001) to issue bonds without government guarantee to finance the operations of its IFO account, the shift to a greater share of nonguaranteed financing for the account is expected to remain gradual. On the other hand, given its ODA-focused activities, the OECO account should continue to receive funding from the government.

Major Rating Factors

Strengths:

- Strong public policy role.
- Strong direct support by the government.

Weaknesses:

- Low profitability.

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Credit analyst
Agost Benard, Singapore
(65) 6239-6347
Credit ratings
Not rated

Philippe Export Import Credit Agency (Philexim)

Rationale
The Philippine Export Import Credit Agency (Philexim) is a wholly owned government institution attached to the Department of Finance. This status entails administrative supervision by the department, although Philexim also operates on an autonomous basis.

Established as the Philippine Export and Foreign Loan Guarantee Corp. (Philguarantee) on Jan. 31, 1977, by a presidential decree, the corporation was renamed the Trade and Investment Corporation of the Philippines (TIDCORP), and granted expanded functions on Feb. 12, 1998. To strengthen its role in the development and expansion of international trade, as well as to effectively respond to the economic requirements of the country, TIDCORP was designated as the Philippine Export Import Credit Agency (Philexim) by a presidential decree on March 18, 2002.

The Bank’s official mandate is to contribute to the country’s economic development by providing direct loans, loan guarantees, export credit insurance, and technical assistance services. Its mission is to stimulate, increase, and develop the export of goods and services, by assuring access to trade finance for viable exporters, especially small and midsize ones, and generate employment in the export sector. Besides, its programs and services aim to support projects in priority areas of the government where the country has a distinct advantage, and where foreign exchange may be saved or generated.

The TIDCORP act of 1998 defines the bank’s operations in terms of three essential functions—direct lending, loan guarantees, and trade credit insurance.

Philexim’s lending role is concentrated on short-term direct lending (81.3% of loans outstanding as at end 2003), providing funds for pre-shipment working capital for small and midsize enterprises, and the financing of export contracts and foreign trade transactions. Guarantee programs include pre-shipment export finance, trade finance, revolving export loan guarantee, general facility, and term loan guarantee. Trade credit insurance entails export credit insurance for exporters—providing up to 90% cover against risk of non-payment stemming from commercial and political risk—and domestic credit insurance, which provides the same service for local companies that are subsidiaries of foreign companies. An integral part of the bank’s functions is the technical assistance program that is designed to enhance the effectiveness of guarantees, credit insurance, and lending.

Generally speaking, government ownership of an export credit agency in itself is not a guarantee of government assistance in the event of financial distress, nor an assurance to maintain its solvency. For Philexim, however, the Philippine government extends a “full-faith” credit guarantee—if Philexim defaults, its obligations are assumed by the sovereign.

Philexim’s capitalization is determined by the government, whose commitment to the institution is evident from the successive presidential decrees expanding its role and increasing its authorized capital. A presidential decree of Jan. 11, 1985, increased the authorized capital stock of Philexim to Philippine peso (PHP) 10 billion (US$179 million) from PHP2 billion, which is fully subscribed by the government of Philippines. Paid-up capital at the end of 2003 stood at PHP4.4 billion (US$78.9 million at the then exchange rate). The ratio of paid in capital to assets at the end of 2003 was over 300%.

Compared with the PHP1.317.6 billion of commercial banks’ claims on the private sector, (at the end of 2003), Philexim’s asset size of PHP1.4 billion is minuscule. This means assistance from the sovereign would not place undue burden on government finances; in the case of a default, it would not pose a threat to the stability of the banking system. The bank was modestly profitable in 2003, having a net income over average assets of 5.6%.
## Sovereign Ratings List

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