

Ratings Lowered On Erste Europaeische Pfandbrief- und Kommunalkreditbank's Public Sector Covered Bonds

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OVERVIEW

- Today's rating actions follow the application of our revised criteria for assessing asset-liability mismatch risk in covered bonds.
- We have lowered and removed from CreditWatch negative our ratings on Erste Europaeische Pfandbrief- und Kommunalkreditbank's public sector covered bonds.
- We have also assigned a stable outlook to the ratings on Erste Europaeische's public sector covered bonds.

FRANKFURT (Standard & Poor's) April 9, 2010--Standard & Poor's Ratings Services today lowered to 'AA+' from 'AAA' and removed from CreditWatch negative its credit ratings on Erste Europaeische Pfandbrief- und Kommunalkreditbank AG's (EPPK) public sector covered bonds (Public Lettres de Gage). At the same time, we assigned a stable outlook to EPPK's public sector covered bonds (see ratings list below).

Today's downgrade follows the application of our updated covered bond criteria (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published Dec. 16, 2009).

Our rating actions follow a review of the most recent asset and cash flow information provided to us as well as discussions with the issuers to understand their planned issuance profile and expected levels of credit enhancement.

Following the application of our five-step criteria process, we have assessed the current asset-liability mismatch (ALMM) risk, the programs' categorization, the maximum potential covered bond ratings uplift, the cash flow and market value risk, and the credit enhancement provided.

We use Standard & Poor's Covered Bond Monitor (CBM) for our quantitative analysis of covered bond programs. The CBM is a model that uses a Monte Carlo technique to simulate different economic stress scenarios.

We have reflected the updated covered bond criteria in the new version of the CBM (v4.2). In addition, we have recalibrated the CBM, including longer time series available for interest rates and foreign exchange rates of the various currencies included in the CBM. We used CBM v4.2 to resolve these CreditWatch placements.

For the lowered ratings, following our analysis, we believe these factors, along with other risk factors, is commensurate with a 'AA+' rating. We have consequently lowered our ratings on EEPK's public sector covered bonds. At the same time, also as part of our criteria update, we have assigned a stable outlook to these public sector covered bonds.

These stable outlooks reflect the current amount of overcollateralization provided, as well as the issuers' issuance plans and their impact on the program's target credit enhancement and the current ALMM.

For program-specific details on these factors see "Global Covered Bond Characteristics And Rating Summary," published April 9, 2010, to include the program listed below.

Under the new methodology, we calculate the maximum potential rating on a covered bond program as the bank's issuer credit rating increased by the appropriate number of notches. The maximum number of notches results from the current ALMM classification and the program categorization. To achieve the maximum achievable ratings uplift the available credit enhancement needs to be commensurate with the target credit enhancement. We have assessed the provided credit enhancement and we believe the available credit enhancement is commensurate with the target credit enhancement. As a result, the ratings on Erste Europaeische Pfandbrief- und Kommunalkreditbank AG's public sector covered bonds of 'AA+' are at the maximum achievable ratings uplift.

CREDITWATCH RESOLUTIONS

We will generally aim to resolve the remaining covered bond CreditWatch placements within 10 business days of receiving final credit and cash flow information and after discussions with issuers to understand their planned issuance profile and expected levels of credit enhancement. We will likely publish our CreditWatch resolutions and assignment of outlooks weekly.

RELATED CRITERIA AND RESEARCH

Ratings Lowered On Erste Europaeische Pfandbrief- und Kommunalkreditbank's Public Sector Covered Bonds

- Global Covered Bond Characteristics And Rating Summary, April 9, 2010
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Credit FAQ: Standard & Poor's Explains Update To Criteria For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 17, 2009

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

RATINGS LIST

Program/	To	Rating	From
Country:		Covered bond type	

RATINGS LOWERED AND REMOVED FROM CREDITWATCH NEGATIVE; OUTLOOK ASSIGNED

Erste Europäische Pfandbrief- und Kommunalkreditbank AG

AA+/Stable AAA/Watch Neg

Luxembourg: Public Lettres de Gage (public sector covered bonds)

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