

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

Primary Credit Analyst:

Ioan Isopel, Frankfurt (49)69-33-999-306; ioan_isopel@standardandpoors.com

Secondary Contact:

Karen Naylor, London (44) 20-7176-3533; karen_naylor@standardandpoors.com

Surveillance Credit Analyst:

Ioan Isopel, Frankfurt (49)69-33-999-306; ioan_isopel@standardandpoors.com

OVERVIEW

- We have reviewed Erste Europaeische Pfandbrief- und Kommunalkreditbank's public-sector covered bonds.
- We have affirmed our 'AA+' ratings on these public-sector covered bonds following our review.
- The outlook remains stable.

FRANKFURT (Standard & Poor's) Oct. 12, 2011--Standard & Poor's Ratings Services today affirmed its 'AA+' credit ratings on Erste Europaeische Pfandbrief- und Kommunalkreditbank AG's (EEPK) public-sector covered bonds following a review. The outlook remains stable (see list below).

For our rating affirmation on EEPK's public-sector covered bonds, we have reviewed the asset and cash flow information provided as of June 30, 2011.

Our credit analysis is based on the key characteristics of the public-sector assets in the portfolio, which as of June 30 were:

Current balance of the cover pool (mil. €)	4,785
Distribution of asset type (%)	
Exposures to public-sector entities	85.3
Substitute collateral	14.7

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Country of origin (%)	
U.S.	41.71
Luxembourg	7.28
Canada	7.27
Italy	6.40
Switzerland	6.19
Germany	5.89
Other*	25.26

*Includes: Hungary, South Korea, Austria, Japan, Spain, the Netherlands, Portugal, Poland, Norway, Denmark, Ireland, Czech Republic, and France.

Concentration (%)	
By top 20 borrowers	45.03
By largest individual exposure	7.08
Weighted-average rating	W/H*
Scenario default rate (%)	W/H*

*W/H--Withheld at issuer's request.

We believe the current 'AA+' overcollateralization level needed to cover the asset default risk, according to Step 1 of our five-step analysis, is 2.5% on a nominal basis (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009).

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

The key characteristics of this assessment are:

Classification of ALMM	Low
ALMM (%)	0
Program categorization	2
Maximum potential ratings uplift (notches)	2
Maximum potential rating	AA+
Weighted-average target asset spread (bps)	W/H*
Target credit enhancement (%)	0
Available credit enhancement (%)*	8.54

*We calculate the current enhancement as (assets - liabilities)/liabilities. Bps--Basis points.

W/H--Withheld at issuer's request.

The "Low" ALMM classification reflects the relatively small difference in the maturities between assets and liabilities. The weighted-average maturity of the outstanding covered bonds is 8.41 years, whereas the weighted-average maturity of the public-sector assets in the cover pool is 9.26 years.

In our view, the Luxembourg covered bond legal framework allows us to classify the covered bond program in Category "2" of our ALMM risk analysis.

As a result of our credit and cash flow analysis, we believe that the current available credit enhancement of 8.54% in the program is commensurate with the highest potential achievable rating of 'AA+'.

Therefore, applying our covered bond criteria, the specifics of EEPK's program potentially allow for a six-notch elevation, according to Step 3 of our criteria (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009). Reflecting our assessment of the target credit enhancement, in combination with the available credit enhancement, we believe that the cover pool can support a 'AA+' rating on these public-sector covered bonds.

We have consequently affirmed our 'AA+' ratings on EEPK's public-sector covered bonds. The outlook remains stable.

The stable outlook reflects the current amount of overcollateralization provided, as well as the issuer's issuance plans and their effect on the program's target credit enhancement, and the current level of ALMM risk. We also believe that the issuer is able and willing to manage the covered bonds at the highest achievable uplift.

RELATED CRITERIA AND RESEARCH

- Covered Bond Trustee-Like Roles Come In Many Guises, Aug. 23, 2011
- Global Covered Bond Characteristics And Rating Summary Q2 2011, July 19, 2011
- Commerzbank AG, July 17, 2011
- Request For Comment: Covered Bonds Counterparty And Supporting Obligations Methodology And Assumptions, March 23, 2011
- Covered Bonds—A Primer On The Top Five Global Jurisdictions, March 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Counterparty And Supporting Obligations Update, Jan. 13, 2011
- Counterparty And Supporting Obligations Methodology And Assumptions, Dec. 6, 2010
- Covered Bond Monitor 5.0, Aug. 17, 2010
- Methodology: Credit Stability Criteria, May 3, 2010
- Ratings Lowered On Erste Europaeische Pfandbrief- und Kommunalkreditbank's Public Sector Covered Bonds, April 19, 2010
- Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds and CDOs, Aug. 5, 2010
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- S&P Changes Luxembourg BICRA To Group 2 From 1 On Vulnerability To Financial Crisis And Regulatory Environment, Jan. 22, 2009
- European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008
- Methodology & Assumptions: Applying The Derivative Counterparty Framework To Covered Bonds, Feb. 26, 2008
- All Covered Bonds Are Not Created Equal, Sept. 13, 2007

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- Revised Framework For Applying Counterparty And Supporting Party Criteria, May 8, 2007
- CDO Spotlight: Rating Approach To Synthetic CDOs Of Sovereigns Or Local And Regional Governments, May 3, 2006
- Covered Bond Monitor: Technical Note, Feb. 14, 2006
- Surviving Stress Scenarios: Assessing Asset Quality of Public Sector Covered Bond Collateral, Sept. 30, 2003
- Rating Pfandbriefe--The Analytical Perspective, Jan. 27, 2003

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/ Rating
Country: Covered bond type

RATINGS AFFIRMED; OUTLOOK STABLE

Erste Europäische Pfandbrief- und Kommunalkreditbank AG
AA+/Stable
Luxembourg: Public Lettres de Gage (public-sector covered bonds)

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