

Ratings On Erste Europaeische Pfandbrief- & Kommunalkreditbank Public-Sector Covered Bonds Put On CreditWatch Developing

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OVERVIEW

- On Dec. 7, 2011, we placed our 'A/A-1' counterparty credit ratings on Commerzbank on CreditWatch negative.
- Under our rating approach, the rating uplift for Erste Europaeische Pfandbrief- und Kommunalkreditbank's (EERP) public-sector covered bond ratings is below the maximum uplift possible.
- Therefore, we could raise, affirm, or lower our ratings on EERP's public-sector covered bonds, depending on any further rating action on the issuer.
- We have consequently placed on CreditWatch developing our ratings on EERP's public-sector covered bonds.
- We intend to resolve the CreditWatch placement of the ratings on the covered bonds following the resolution of the CreditWatch placement of the ratings on the Commerzbank, and based on updated credit and cash flow information.
- Our ratings are based on our criteria for rating covered bonds. However, certain aspects of the methodologies and assumptions underlying these criteria are under review. The ratings on all outstanding covered bonds may be affected as a result of this review.

FRANKFURT (Standard & Poor's) Jan. 11, 2012--Standard & Poor's Ratings Services today placed its 'AA+' long-term credit ratings on Erste Europaeische Pfandbrief- und Kommunalkreditbank AG's (EERP) public-sector covered bonds on CreditWatch developing (see list below).

Today's CreditWatch developing placement follows our Dec. 7, 2011, CreditWatch negative placement of our long-term and short-term counterparty credit ratings on Commerzbank AG (see "Commerzbank 'A/A-1' Ratings Placed on Watch Negative Following Sovereign Rating Action").

Under our criteria for rating covered bonds, we evaluate the maximum potential rating on a covered bond program as the bank's issuer credit rating (ICR) increased by the maximum number of notches of ratings uplift. The maximum number of notches of uplift results from our assessment and classification of the program's asset-liability mismatch (ALMM) risk and the program categorization (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009).

When determining the program categorization, we consider primarily our view of the jurisdiction of a program and its ability to access external financing or monetize the cover pool. Finally, we assign the covered bonds to one of three distinct categories. Under our criteria, to achieve the maximum potential number of notches of uplift, the available credit enhancement needs to be commensurate with the target credit enhancement.

Following our analysis, and given our view of the Luxembourgish legal framework, we have categorized EEPK's public-sector covered bonds in category "2" and determined a "low" ALMM classification. Under our criteria, these combinations enable us to assign to the covered bonds a maximum potential ratings uplift of six notches.

The issuer, EEPK, is supported by Commerzbank due to its group status. Following our CreditWatch negative placement of the counterparty ratings on Commerzbank, we have placed our ratings on EEPK's public-sector covered bonds on CreditWatch developing. This means we could raise, lower, or affirm the rating. As the 'AA+' rating on EEPK's public-sector covered bonds is below the maximum uplift possible, a downgrade of the sponsor bank by one notch could lead to an affirmation of the ratings on the covered bonds, whereas in the case of a multi-notch downgrade, we might lower the ratings. An affirmation of the counterparty ratings on Commerzbank could lead to an upgrade of the ratings on EEPK's covered bonds.

Our assumptions that we use to calculate the target credit enhancement in line with our Dec. 16, 2009 ALMM criteria are not dependent on the sponsor bank's ICR or the covered bond ratings. Therefore, any change to the ICR or to the covered bond ratings would not, all else being equal, affect the covered bonds' target credit enhancement levels.

We aim to resolve our CreditWatch developing placement of the ratings on EEPK's public-sector covered bonds shortly after we have resolved the CreditWatch placement of our counterparty ratings on Commerzbank, and based on our review of updated credit and cash flow information. We expect to affirm, raise, or lower by one notch our ratings on EEPK's covered bonds.

POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

We have taken today's rating actions on these covered bonds based on our criteria for rating covered bonds (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009).

As part of our cash flow analysis, we used Standard & Poor's Covered Bond Monitor to calculate the target credit enhancement for the covered bonds. However, the assumptions and methodologies used in this cash flow analysis are under review (see "Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds and CDOs," published on Aug. 5, 2010).

This review may result in further changes to the criteria. As a result, our future assumptions and methodologies used in our Covered Bond Monitor model may differ from our current criteria. The criteria change may affect the ratings on all outstanding covered bonds in this program. Until such time that we adopt new criteria for rating covered bonds, we will continue to rate and surveil these covered bonds using our existing criteria (see "Related Criteria And Research").

RELATED CRITERIA AND RESEARCH

- Commerzbank 'A/A-1' Ratings Placed on Watch Negative Following Sovereign Rating Action, Dec. 7, 2011
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- 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
- Use Of CreditWatch And Outlooks, Sept. 14, 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

Rating	To	From
Program/		

Ratings Placed On CreditWatch Developing

*Ratings On Erste Europaeische Pfandbrief- & Kommunalkreditbank Public-Sector Covered Bonds Put On
CreditWatch Developing*

Country: Covered bond type

Erste Europaeische Pfandbrief- und Kommunalkreditbank AG

AA+/Watch Dev

AA+/Stable

Luxembourg: Public-Sector Covered Bonds: Lettres de Gage Publiques

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