Announcement: Moody's confirms Aaa ratings assigned to Erste Group Bank mortgage and public-sector covered bonds

Global Credit Research - 24 Jul 2012

Frankfurt am Main, July 24, 2012 -- Moody's Investors Service has today confirmed the covered bonds issued by Erste Group Bank (the issuer or Erste) which are governed by the Austrian Mortgage Bank Act. This rating action concludes the review of the above ratings initiated on 6 June 2012.

RATINGS RATIONALE

Today's decision to confirm the ratings of Erste's mortgage and public-sector covered bond programmes is based on Moody's assessment that (i) the expected loss of the covered bonds are commensurate with their current ratings; and (ii) the timely payment indicator (TPI) framework does not constrain the ratings below their current level.

On 12 July 2012 Erste confirmed to hold 34.4% over-collateralisation in the mortgage covered bond programme and 21.2% over-collateralisation in the public-sector programme. Over-collateralisation which is commensurate with Moody's expected loss analysis is 29.5% for Erste's mortgage covered bonds and 17.0% for Erste's public-sector covered bonds (all numbers in present value terms).

KEY RATING ASSUMPTIONS/FACTORS

Covered bond ratings are determined after applying a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's determines a rating based on the expected loss on the bond. The primary model used is Moody's Covered Bond Model (COBOL), which determines expected loss as (i) a function of the issuer's probability of default (measured by the issuer's rating); and (ii) the stressed losses on the cover pool assets following issuer default.

The cover pool losses for Erste's mortgage covered bonds are 26.0%. This is an estimate of the losses Moody's currently models if the issuer defaults. Cover pool losses can be split between market risk of 17.5% and collateral risk of 8.5%. Market risk measures losses as a result of refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from the credit quality of the assets in the cover pool. Collateral risk is derived from the collateral score, which for this programme is currently 12.7%.

The over-collateralisation in the cover pool is 34.4%, of which 2% is provided on a "committed" basis according to the Austrian Mortgage Bank Act. The minimum over-collateralisation level that is consistent with the Aaa rating target is 29.5% (numbers in present value terms). Therefore, Moody's is largely relying on "uncommitted" over-collateralisation in its expected loss analysis.

The cover pool losses for Erste's public-sector covered bonds are 17.2%. This is an estimate of the losses Moody's currently models if the issuer defaults. Cover pool losses can be split between market risk of 13.8% and collateral risk of 3.4%. Market risk measures losses as a result of refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from the credit quality of the assets in the cover pool. Collateral risk is derived from the collateral score, which for this programme is currently 6.2%.

The over-collateralisation in the cover pool is 21.2%, of which 2% is provided on a "committed" basis according to the Austrian Mortgage Bank Act. The minimum over-collateralisation level that is consistent with the Aaa rating target is 17.0% (numbers in present value terms). Therefore, Moody's is largely relying on "uncommitted" over-collateralisation in its expected loss analysis.

All numbers in this section are based on the most recent Performance Overview . Over-collateralisation levels are based on data provided by the issuer as of 12 July 2012.

The cover pool losses are an estimate of the losses Moody's currently models if the relevant issuer defaults. Cover pool losses can be split between market risk and collateral risk. Market risk measures losses as a result of refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from the credit quality of the assets in the cover pool. Collateral risk is derived from the collateral score.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's please refer to "Moody's EMEA Covered Bonds Monitoring Overview", published quarterly.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which indicates the likelihood that timely payment will be made to covered bondholders following issuer default. The effect of the TPI framework is to limit the covered bond rating to a certain number of notches above the issuer's rating.

For Erste's public-sector covered bonds, Moody's has assigned a TPI of "High". For Erste's mortgage covered bonds, Moody's has assigned a TPI of "Probable".

SENSITIVITY ANALYSIS

The robustness of a covered bond rating largely depends on the issuer's credit strength.

The TPI Leeway measures the number of notches by which the issuer's rating may be downgraded before the covered bonds are downgraded under the TPI framework.

Based on the current TPI of "High" the TPI Leeway for Erste's public-sector covered bonds is 1 notch, meaning the covered bonds might be downgraded as a result of a TPI cap once Erste's rating is downgraded below Baa1, all other variables being equal.

Based on the current TPI of "Probable" there is no TPI Leeway for Erste's mortgage covered bonds, meaning the covered bonds might be downgraded as a result of a TPI cap once Erste's rating is downgraded below A3, all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances, such as (i) a sovereign downgrade negatively affecting both the issuer's senior unsecured rating and the TPI; (ii) a multiple-notch downgrade of the issuer; or (iii) a material reduction of the value of the cover pool.

As the euro area crisis continues, the ratings of covered bonds remain exposed to the uncertainties of credit conditions in the general economy. The deteriorating creditworthiness of euro area sovereigns as well as the weakening credit profile of the global banking sector could negatively impact the ratings of covered bonds. For more information please refer to the Rating Implementation Guidance published on 13 February 2012 "How Sovereign Credit Quality May Affect Other Ratings". Furthermore, as discussed in Moody's special report "Rating Euro Area Governments Through Extraordinary Times -- An Updated Summary," published in October 2011, Moody's is considering reintroducing individual country ceilings for some or all euro area members, which could affect further the maximum structured finance rating achievable in those countries. Moody's is also continuing to consider the impact of the deterioration of sovereigns' financial condition and the resultant asset portfolio deterioration in covered bond transactions.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in March 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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In addition to the information provided below please find on the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead rating analyst and the Moody's legal entity that has issued each of the ratings.

Patrick Widmayer
Asst Vice President - Analyst
Structured Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Juan Pablo Soriano
MD - Structured Finance
Structured Finance Group
JOURNALISTS: 44 20 7772 5456

SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454