

Erste Bank der oesterreichischen Sparkassen AG Mortgage Covered Bonds

Covered Bonds / Austria

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Contacts

Jörg Homey
+49 69 70730-740
Joerg.Homey@moodys.com
José de León
+34 91 702-6697
jose.deleon@moodys.com

Client Service Desk

Frankfurt: +49 69 70730-776
London: +44 20 7772-5454
csdlondon@moodys.com
New York: +1 212 553-1653

Monitoring

monitor.cb@moodys.com

Website

www.moodys.com

DEFINITIVE RATINGS

Cover Pool (€ million)	Ordinary Cover Assets	Covered Bonds (€ million)	Rating
1,219.4	Residential and Commercial Mortgages	951.8	Aaa

The ratings address the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

OPINION

Strengths of the Transaction

- **Sponsor Bank:** The Mortgage Covered Bonds or *Hypothekendarpfandbriefe* are full recourse to Erste Bank der österreichischen Sparkassen AG (Erste Bank) (rated **Aa3/Prime-1**).
- **The Austrian Mortgage Bank Act:** The Mortgage Covered Bonds (Covered Bonds) are issued in accordance with the Austrian Mortgage Bank Act (*Hypothekendarpfandbriefgesetz*), which explicitly protects the status of the Covered Bondholders. The Austrian covered bond legislation boasts a number of strengths, including *inter alia* the following:
 - Under the terms of the Austrian legislation, the Sponsor Bank is regulated and supervised by the Financial Supervisory Authority of Austria (*Österreichische Finanzmarktaufsicht* or FMA).
 - Covered Bonds are secured by a separated pool of assets (the Cover Pool), which are subject to conservative eligibility criteria. In general, only first-ranking mortgage loans over Austrian properties and over certain properties located in other member states of the European Economic Area and Switzerland are eligible assets. *Hypothekendarpfandbriefe* can only be issued against 60% of the market value (*Verkehrswert*).
 - In the event of a declaration of bankruptcy of Erste Bank, the Cover Pool will be segregated from Erste Bank's general insolvency estate.
 - A special cover pool administrator appointed by a court will undertake the necessary administrative measures to satisfy those claims of the creditors of the Covered Bonds.
 - A cover pool monitor (*Treuhänder*) will monitor various operations with respect to the Cover Pool on a day-to-day basis.



- **Credit Quality of the Cover Pool:**
 - The Covered Bonds are supported by a Cover Pool backed by high-quality assets. The majority of the Cover Pool assets are residential mortgages or loans secured by a multi-family property. Most of the remaining Cover Pool assets are commercial mortgage loans backed by retail properties.
 - A minimum nominal over-collateralisation of 2% has to be maintained at all times. Erste Bank has elected under the Austrian Mortgage Bank Act to include in its articles of association a requirement to match the Cover Pool and Covered Bonds in accordance with a net present value (NPV) test.
 - The quality of the collateral is seen in its Collateral Score of currently just below 10.5%.
- **Refinancing Risk:** Ability of the cover pool administrator to raise funds against the cover pool assets, for example bridge loans. Moody's understands from legal and industry advisors that the party providing bridge financing to the Cover Pool (upon the segregation of the Cover Pool) would enjoy senior status to the Covered Bondholders.
- **Market Risks:** On an NPV basis, the value of the Cover Pool assets has to match the value of the outstanding Covered Bonds. This also has to be maintained in stressed market conditions. Erste Bank opted for a "stressed" NPV calculation under its articles of association. This internal approach stresses interest rates by applying ten basis points key rate shocks of every term point extrapolated to a 100-basis-point shock.
- **De-Linkage:** Following Sponsor Bank Default,¹ the Covered Bondholders will benefit from an administrator that acts independently from the insolvency administrator of Erste Bank.

Weaknesses with Mitigants

- **Sponsor Bank:** As with most covered bonds, until Sponsor Bank Default the Sponsor Bank has the ability to materially change the nature of the programme. For example, new assets may be added to the Cover Pool, new Covered Bonds issued with varying promises and new hedging arrangements entered into. These changes could impact the credit quality of the Cover Pool as well as the overall refinancing risk and market risks. **Mitigant:** (i) the fact that the Covered Bondholders have a direct claim on the Sponsor Bank, rated **Aa3** and (ii) the controls imposed by the Austrian legislation.
- **Credit Quality of the Cover Pool:**
 - As of March 2008, the Cover Pool was geographically concentrated in Austria: around 90% of the mortgage loans in the Cover Pool are secured by properties located in Austria. The majority of the residential mortgage loans have a variable rate and are interest-only loans with a bullet repayment at maturity of the loan. **Mitigants:** Moody's collateral score model takes into account *inter alia* the impact of concentration on borrower, regional and country levels as well as the payment profile of the loans.
 - As with most covered bonds in Europe, there are few restrictions on the future composition of the Cover Pool; hence substitution risk exists. **Mitigants:** The quality of the Cover Pool, over time, will be protected by, among others, the requirements of the Austrian Mortgage Bank Act. This act sets out rules detailing which assets qualify as cover assets for Mortgage Covered Bonds in Austria. In addition, Moody's will monitor the Cover Pool. If the quality of the collateral deteriorates below a certain threshold, the Sponsor Bank would have the ability, but not the obligation, to increase the over-collateralisation in the Cover Pool. Failure to increase the level of over-collateralisation following a deterioration of the Cover Pool could lead to negative rating actions.

¹ Sponsor Bank Default is defined in Moody's rating methodology for European Covered Bonds as removal from the Cover Pool of (i) support provided by entities within the Sponsor Bank, (ii) ancillary activities of the Sponsor Bank (i.e. those not related to the Cover Pool) and (iii) usually, management functions of the Sponsor Bank.

- **Refinancing Risk:** Following a Sponsor Bank Default, to achieve timely principal payment, Covered Bondholders may need to rely on proceeds being raised through the sale of, or borrowing against, assets in the Cover Pool. Following a Sponsor Bank Default, the market value of these assets may be subject to certain volatility. **Mitigants:** (i) the high rating of the Sponsor Bank (currently rated **Aa3**): the higher the rating of the Sponsor Bank, the lower the chances of being exposed to this risk; (ii) Moody's has applied stressed refinancing margins.
- **Market Risk:** As with most of European covered bonds, there is potential for market risks. For example, following a Sponsor Bank Default, Covered Bondholders may be exposed to interest risk, which could arise from the different payment promises and durations made on the Cover Pool and the Covered Bonds. Moreover, in this transaction, there was a currency mismatch of around 33% as of March 2008. **Mitigant:** the requirement that the value of the Cover Pool has to exceed the NPV of the total of outstanding Covered Bonds issued, also in stressed market conditions.
- **Liquidity:** The programme does not benefit from any designated source of liquidity if cash flow collections are interrupted. **Mitigants:** (i) the strengths of the Austrian Mortgage Bank Act, which include the alternatives given to the cover pool administrator for raising funds against the Cover Pool; (ii) the minimum 2% over-collateralisation on a nominal basis.
- **Time Subordination:** After a Sponsor Bank Default, later-maturing Covered Bonds are subject to time subordination. Principal cash collections may be used on a first-come-first-served basis, paying earlier-maturing Covered Bonds prior to later-maturing Covered Bonds. This could lead to over-collateralisation being eroded away before any payments are made to later-paying Covered Bonds.

STRUCTURE SUMMARY

Issuer:	Erste Bank der österreichischen Sparkassen AG (Aa3/Prime-1)
Sponsor Bank:	Erste Bank der österreichischen Sparkassen AG (Aa3/Prime-1)
Structure Type:	Mortgage Covered Bonds (<i>Hypothekendarfandbriefe</i>)
Issued under Covered Bond Law:	Yes (Austrian Mortgage Bank Act)
Country Applicable Law:	Austria
Main Originator:	Erste Bank der österreichischen Sparkassen AG
Main Servicer:	Erste Bank der österreichischen Sparkassen AG
Intra Group Swap Provider:	n.a.
Monitoring of Cover Pool:	Cover pool monitor (<i>Treuhänder</i>), mandatory by operation of the Austrian Mortgage Bank Act
Trustee:	n.a.
Timely Payment Indicator (TPI):	Probable

COVERED BONDS SUMMARY

Total amount of Covered Bond issuance outstanding:	€ 951,828,528
Currency of the Covered Bonds:	Euros (40%), Swiss francs (60%)
Extended Refinance Period:	No
Principal Payment Type:	Bullet
Interest Rate Type:	Fixed-rate bonds (98%), variable-rate bonds (2%)

COLLATERAL SUMMARY

Size of Cover Pool:	€ 1,219,360,726
Main collateral type in Cover Pool:	Residential Mortgage (34%), Multi-Family (43%), Commercial Mortgages (20%), Public-Sector assets (3%)
Main Asset Location:	Mortgage loans (97% of the Cover Pool): Austria (87.5%) and Germany (12.5%) Substitute assets (3% of the Cover Pool): Romania (75%) and Hungary (25%)
Loans Count:	4,117
Currencies:	Euros (73%), Swiss francs (27%)
Concentration of 10 biggest mortgage loans:	10.3%
WA Remaining Term:	16.5 years (all mortgage loans)
Interest Rate Type:	Fixed rate assets (8%), variable rate assets (92%)
Current Over-Collateralisation (nominal basis):	28.1%
Current Over-Collateralisation (NPV basis):	31.7%
"Committed" Over-Collateralisation:	2% on a nominal basis
Collateral Score:	Just below 10.5%
Further details:	Appendix 1
Pool Cut-Off Date:	31 March 2008

TRANSACTION SUMMARY

Moody's has assigned definitive long-term ratings of **Aaa** to the Mortgage Covered Bonds (Covered Bonds) issued by Erste Bank der österreichischen Sparkassen AG (Erste Bank or the Sponsor Bank) according to the provisions of the Austrian Mortgage Bank Act. Amongst others, the rating takes into account the following factors:

1. The credit strength of Erste Bank (rated **Aa3/Prime-1**).
2. The Austrian legal framework. Under the terms of the Austrian Mortgage Bank Act, the Sponsor Bank is regulated and supervised by the Austrian Financial Supervisory Authority. Investors will – on a *pari-passu* basis – have the benefit of a priority right in respect of a pool of assets (Cover Pool). In addition, according to the law, the nominal value of the cover pool assets has to exceed the nominal value of all outstanding Covered Bonds by 2% at all times.
3. The Cover Pool. The Covered Bonds are supported by a Cover Pool backed by high-quality assets. The majority of the Cover Pool assets are residential mortgages or loans secured by a multi-family property.
4. The non-contractual commitment by the Sponsor Bank to maintain a certain level of over-collateralisation.

The Sponsor Bank stated its intention to maintain a certain level of “uncommitted” over-collateralisation over and above the minimum legal “committed” level of overcollateralisation. Moody's has relied on this “uncommitted” over-collateralisation over and above that required by the Austrian Mortgage Bank Act when assigning the rating for Erste Bank's Mortgage Covered Bonds. However, if the Sponsor Bank were to be downgraded below a certain threshold in the single-A range, Moody's would remove the benefit of any over-collateralisation that was not “committed” from its analysis.

As is the case with other covered bonds, Moody's considers the credit strength of the transaction to be linked to that of certain parties, in particular the Sponsor Bank. Should such credit strength deteriorate, all other things being equal, the rating of the Covered Bonds might be negatively affected. However, the Sponsor Bank has the ability, but not the obligation, to commit voluntary enhancements to the transaction such as further over-collateralisation in order to increase the level of de-linkage to its credit strength.

STRUCTURAL AND LEGAL ASPECTS

Mortgage Covered Bonds are governed by the Austrian Mortgage Bank Act

Erste Bank's Mortgage Covered Bonds are governed by the Austrian Mortgage Bank Act (*Hypothekendarbankgesetz*). No structural feature outside the Austrian Mortgage Bank Act is envisaged by Erste Bank's Covered Bond Programme. It is worth noting that Erste Bank set up a pooling structure for Austrian Savings Banks (Sparkassen) and other financial institutions of the Austrian S-group under the Austrian Mortgage Bank Act, which aims to bring together mortgage loans from *inter alia* Savings Banks (following Trust Receivables) and assets from Erste Bank itself as cover assets for Erste Bank's Mortgage Covered Bonds (Pooling Structure).

Pooling of Trust Receivables

The Pooling Structure is based on the Austrian Mortgage Bank Act. According to §6(1a) of the Austrian Mortgage Bank Act, Erste Bank may use mortgage loans of another credit institution for its Cover Pool for Mortgage Covered Bonds. Such Trust Receivables are held in trust for Erste Bank by, for example, an Austrian Savings Banks under a bilateral contract between these institutions. The Savings Banks have the obligation to ensure that the Trust Receivables are compliant with the Austrian Mortgage Bank Act.

A description of the general legal framework as well as the Pooling Structure for Mortgage Covered Bonds governed by the Austrian Mortgage Bank Act is contained in Appendix 3.

MOODY'S RATING METHODOLOGY

The approach used by Moody's for rating covered bond transactions is detailed in our Rating Methodology.² The impact of the credit strength of the Sponsor Bank, quality of the collateral, refinancing and market risks are considered below.

Credit Strength of the Sponsor Bank

The Mortgage Covered Bonds are full recourse to Erste Bank (**Aa3/Prime-1**). The ratings derives from the bank's strong retail franchises throughout Austria and the more mature economies in Central & Eastern Europe (CEE), as well as its still satisfactory financial fundamentals. Moody's believes that the probability of both sector and systemic support for Erste Bank is very high.

For more information on the fundamental credit quality of the Sponsor Bank, please see Related Research: Moody's latest Credit Opinion on Erste Bank, published in March 2008.

In December 2006, Erste Bank's Supervisory Board approved a restructuring of its organisational structure. Moody's understands that during 2008 Erste Bank will be converted to the legal structure of a holding company, with the Austrian banking business as a separate legal entity. The holding company Erste Bank will provide centralised control and steering functions for the group and provide the infrastructure for local retail activities. Moody's understands that the holding company Erste Bank will be the issuer for both the Public-Sector Covered Bonds and the Mortgage Covered Bonds, when the restructuring is completed and that the vast majority of Cover Pool assets for both covered bond programmes will be transferred from other financial institutions of the group as Trust Receivables via the Pooling Structure set-up under the Austrian Mortgage Bank Act (for further details on the Pooling Structure please refer to the Appendix 3 of this report).

The Credit Quality of the Cover Pool

As of the end of March 2008, the Cover Pool comprised claims that add up to a volume of €1,219.4 million. As of the date of this report there are no Trust Receivables from Austrian Savings Banks or other financial institutions of the Austrian S-Group include in the Cover Pool. However Moody's expects this to change in due course. Around 77% of the Cover Pool assets are residential mortgages or loans secured by a multi-family property. Around 20% of the Cover Pool assets are commercial mortgages, particularly loans secured by retail properties.

The nominal value of Erste Bank's currently outstanding Mortgage Covered Bonds amounts to €951.8 million; therefore, on a nominal basis these numbers translate into an over-collateralisation of 28.1% as of the end of March 2008.

The majority of the Cover Pool assets are loans secured by properties located in Austria. As of the data of this report, within Austria the geographical focus is on Vienna and Lower Austria.

For more detailed information on the composition of the Cover Pool, please refer to Appendix 1 of this report.

Residential Mortgages

As of March 2008, around 34% of the total Cover Pool assets are residential mortgage loans denominated in euro and Swiss francs. Moody's understands that the majority of the properties securing the residential mortgage loans in the Cover Pool are houses and flats (see Appendix 1 for more details). Please note that multi-family business is discussed in section Commercial Mortgages below.

From a credit perspective, Moody's regards the following characteristics of the residential mortgage within the total Cover Pool as positive:

The Covered Bondholders benefit from a direct claim against the Sponsor Bank, rated Aa3/Prime 1

Total Cover Pool volume amounts to €1,219 million

Majority of the Cover Pool assets are loans originated in Austria

Well-seasoned residential loans

² "Moody's Rating Approach to European Covered Bonds", published in June 2005 (see Related Research).

Well-seasoned pool

- The Cover Pool consists of performing residential mortgage loans.
- Seasoning: the loans are well-seasoned, with a weighted-average seasoning of around four years.
- Granularity and diversification: the number of borrowers in the residential mortgage pool is reasonably high and the majority of the properties are located in the economically strong area of Vienna.
- Income underwriting. Moody's understands that all loans have been "income verified" and income has been confirmed to be sufficient to repay principal over the life of the loan (see Appendix 2 for more details).
- Every property financed has been individually valued either by an internal or external appraisal based on Erste Bank's own valuation guideline. By law this guideline has to be approved by the Austrian Financial Supervisory Authority. Moody's understands that in general the properties were inspected when the valuation has been done i.e. as a rule at the time of loan origination. As a rule and in line with the requirements of the Austrian legislation and Erste Bank's valuation guidelines, Moody's understands that these valuers are independent from the credit decision (see Appendix 2 for more details).

From a credit perspective, Moody's regards the following characteristics of the residential mortgage within the total Cover Pool as negative:

Some regional concentration

- Moody's has not received information on *inter alia* occupancy type. Where limited information has been provided, Moody's has made what we believe to be a conservative assumption.
- Covered Bonds may only be issued against the first 60%-LTV part of a mortgage loan according to the Austrian Mortgage Bank Act. However, based on the total loan amount – i.e. including the loan parts above the 60%-LTV-threshold, the weighted-average loan to value (LTV) of the residential mortgage loans is around 79%. Around 25% of the loans have an LTV of more than 105%. Moody's has taken both into consideration within its analysis.
- The vast majority of the loans have a variable rate (around 91%) and around 69.7% of the loans have a bullet repayment. In addition 58% of the residential mortgage loans are denominated in Swiss francs, which introduce an element of currency risk for the borrower.
- There are some regional concentration in Vienna and Lower Austria.
- Junior loans. Limited information was provided. Therefore we have made what we believe are conservative assumptions on the amount of junior-ranking loans made by third parties against properties included in the Cover Pool.

Scoring model is used to assess credit quality of residential mortgages in the Cover Pool

The above-mentioned factors have been incorporated into Moody's analysis. Moody's calculates a Collateral Score based on the characteristics of the residential loan pool using a scoring model in order to assess the credit quality of this portion of the Cover Pool.

Multi-family loans and commercial mortgages account for around 63% of the total Cover Pool

Commercial Mortgages

As of March 2008, around 63% of the total Cover Pool assets are multi-family loans and commercial mortgages, of which the vast majority are secured by properties located in Austria. Loans secured by properties outside Austria account for around 10% of the exposure to commercial properties (including multi-family) and loans secured with a property located in Germany. Retail buildings and multi-family buildings account for the vast majority of the commercial mortgages in the Cover Pool. See Appendix 1 for more information on the Cover Pool.

From a credit perspective, Moody's views the following characteristics of the commercial mortgages loan pool as positive:

High proportion of retail and multi-family

- The Cover Pool exclusively consists of performing commercial mortgage loans. Covered Bonds may only be issued against the first 60%-LTV part of a mortgage loan according to the Austrian Mortgage Bank Act. However, based on the total loan amount – i.e. including the loan parts above the 60%-LTV-threshold the weighted-average LTV is currently around 66%. Moody's has taken both into consideration within its analysis.
- A high proportion of the commercial mortgages are multi-family and also retail. The majority of the multi-family business are loans to limited profit housing associations

(*Gemeinnützige Bauvereinigungen*). These housing associations are regulated entities which play an important role in the Austrian social housing system. Most of them are co-operatives, or are owned by municipalities or local governments.

- The majority of the properties are located in the economically strong area of Vienna.
- Underwriting. Moody's understands that cash flows stemming from the properties have been confirmed and are assessed to be sufficient to repay principal over the life of the loan.
- Every property financed has been individually valued either by an internal or external appraisal based on Erste Bank's own valuation guideline. By law this guideline has to be approved by the Austrian Financial Supervisory Authority. Moody's understands that in general the properties were inspected when the valuation has been done i.e. as a rule at the time of loan origination. As a rule and in line with the requirements of the Austrian legislation and Erste Bank's valuation guidelines, Moody's understands that these valuers are independent from the credit decision (see Appendix 2 for more details).

From a credit perspective, Moody's regards the following portfolio characteristics of the commercial pool as negative:

Some borrower concentration

- Hotels, storage facilities and industry facilities and other property types (including mixed use, land and developments) comprise around 6% of the Cover Pool. Moody's has taken the property types into consideration when analysing the credit risks of the Cover Pool assets.
- Moody's has received information on the largest obligors in the Cover Pool. Based on this information, there is some borrower concentration, as the 20 largest obligors comprise around 52% of the commercial mortgage part of the Cover Pool.
- Apart from the data on the largest obligors Moody's has received stratified data which may mean analysis has been completed on a less precise basis than is usually the case. Moody's believes it has made conservative assumptions to adjust for this.
- There is some regional concentration in Vienna and – to a lesser extent – Lower Austria.
- Junior loans. Limited information was provided on junior loans. Therefore we have made what we believe are conservative assumptions on the amount of junior-ranking loans made by third parties against properties included in the Cover Pool.

A Monte Carlo simulation is used to assess credit quality of commercial mortgages in the Cover Pool

The above-mentioned factors have been incorporated into Moody's analysis. Moody's calculates a Collateral Score based on the characteristics of the commercial portion of the pool using a Monte Carlo simulation approach in order to assess the credit quality of this portion of the Cover Pool. Moody's commercial calculator takes into account *inter alia* the impact of concentration on borrower, regional and country levels as well as the different types of properties securing the loan.

Results of the Collateral Analysis

Collateral Score reflects adjustments made to the analysis

The result of the Cover Pool analysis is the Collateral Score.³ Moody's calculates a Collateral Score based on the credit quality of the Cover Pool assets as described above. In addition, the Collateral Score published in this report reflects all adjustments made; this number therefore includes the cushion built in to address the factors described above. For this transaction, the Collateral Score is currently just below 10.5%.

Substitution risks are mitigated by the Austrian Mortgage Bank Act

As with most covered bonds in Europe, there are few restrictions or limitations on the future composition of the Cover Pool. This may have the effect of creating substitution risk. Mitigants to substitution risk, which should protect the quality of the Cover Pool over time, include:

- Requirements of the Austrian Mortgage Bank Act: The quality of the Cover Pool, over time, will be protected by, among others, the requirements of the Austrian Mortgage Bank Act. This act sets out rules detailing which assets qualify as cover assets for Mortgage Covered Bonds in Austria. One example is the low LTV threshold on

³ The Collateral Score can be seen as the amount of risk-free enhancement required to protect a **Aaa** rating from otherwise unsupported assets – therefore, the stronger the credit quality of the collateral, the lower the collateral score. This only considers the credit deterioration of the assets and ignores any risk from refinancing and market risk (see Rating Methodology "Moody's Rating Approach to European Covered Bonds").

mortgages against which *Hypothekendarlehenbriefe* can be issued (just 60%). In addition, Moody's will monitor the Cover Pool.

- Erste Bank has stated its intention to remove any loan from the Cover Pool which is provisioned or in foreclosure proceedings.
- The Cover Pool composition will be monitored. If the quality of the collateral were to deteriorate below a certain threshold, the Sponsor Bank would have the ability, but not the obligation, to increase the over-collateralisation in the Cover Pool in order to support the current rating. If additional over-collateralisation was not added following a marked deterioration of the collateral, this could lead to a negative rating action.

Refinancing the Cover Pool

Following a Sponsor Bank Default, when the “natural” amortisation of the Cover Pool assets alone cannot be relied on to repay principal, Moody's assumes that funds must be raised against the Cover Pool at a discount if Covered Bondholders are to receive timely principal payment. After a Sponsor Bank Default, the market value of these assets may be subject to certain volatility. Examples of the stressed refinancing margins used by Moody's for different types of prime-quality assets are published in Moody's method piece. An update on the stressed refinance margins used has been published in February 2008 (please see Related Research: “Moody's Rating Approach to European Covered Bonds”, published in June 2005 and Press Release: “Moody's announces update of covered bond refinance stresses following credit crisis”, published in February 2008.).

Aspects specific to this programme that are refinancing positive include:

- Austrian Mortgage Bank Act: The cover pool administrator has the ability to transfer the Cover Pool together with the Covered Bonds or sell the cover pool assets and to raise funds against the cover pool assets, for example bridge loans.
- The credit quality of the Cover Pool, which is reflected in the Collateral Score. The higher credit quality of the Cover Pool will lead to a lower write-off for losses and lower refinancing margins will be applied.

Aspects specific to this programme that are refinancing negative include:

- All Covered Bonds issued under the programme are bullet. Furthermore, the programme does not benefit from any contractual provisions to allow for an extension of a principal refinancing period.
- During the entire life of the loan, an administrator of the Cover Pool may be unable to change the rate charged to the underlying borrowers.

Market Risk

As with the majority of European covered bonds, there is potential for market risks. For example, following a Sponsor Bank Default, Covered Bondholders may be exposed to interest risk, which could arise from the different payment promises and durations made on the Cover Pool and the Covered Bonds. Following a Sponsor Bank Default, the Moody's Covered Bond Model looks separately at the impact of increasing and decreasing interest rates on the expected loss of the Covered Bonds, taking the path of interest rates that leads to the worst result. The interest and currency stressed rates used over different time horizons are published in Moody's Rating Methodology (please see Related Research: “Moody's Rating Approach to European Covered Bonds”, published in June 2005).

Table 1:

	Assets (%)	Liabilities (%)	WAL assets (years)	WAL liabilities (years)
Fixed rate	8.4	98.2	6.9	7.7
Variable rate	91.6	1.8	12	2.2

WAL = weighted average life (time to reset)

All Covered Bonds issued under this programme are bullet

Cover test on NPV basis, including stress tests

Aspects specific to this programme that are market risk positive include:

- The exposure to market risk is mitigated by the cover test on an NPV basis, taking stressed interest rate scenarios into consideration.
Interest rate risk is mitigated by the “stressed” net present value calculation opted for by Erste Bank under its articles of association (NPV test). This internal approach stresses interest rates by applying ten basis points key rate shocks of every term point extrapolated to a 100-basis-point shock. As of March 2008, Erste Bank had not entered any swaps into the Cover Pool register of its Mortgage Covered Bonds.
- The portion of variable-rate assets is around 92%.

Currency mismatch of around 33% as of March 2008

Aspects specific to this programme that are market risk negative include:

- The majority of Erste Bank’s outstanding majority Covered Bonds are denominated in Swiss francs while the majority of the cover pool assets are denominated in euros. In its analysis, Moody’s has assumed a 33% currency mismatch across this programme.
- Some interest rate risk exists, because around 98% of the outstanding covered bonds have a fixed rate (see also Table 1), while the majority of the Cover Pool assets have a variable rate. Following Sponsor Bank Default and in a scenario of falling interest rates – *ceteris paribus* – losses for the Cover Pool may arise due to lower interest payments on the Cover Pool assets while the obligation of fixed rate interest payments remains unchanged.

The exposure to interest rates risk is mitigated by the NPV test, taking stressed interest rates scenarios into consideration

The result of Moody’s calculations was that the more stressful scenario is currently one of decreasing interest rates, as a potential interest payments received from the Cover Pool assets may fall below the coupon payment obligation under the outstanding fixed rate Covered Bonds. Interest rate risk is partially mitigated by the over-collateralisation based on the NPV test. The NPV test applied by the Sponsor Bank partially protects the assets against interest rate movements. However, the stresses applied by Moody’s approach when modelling interest rate shifts exceed this level.

In the case of an insolvency of the Sponsor Bank, Moody’s does not currently assume that the special cover pool administrator would always be able to efficiently manage any natural hedge between the Cover Pool and the Covered Bonds.

LINKAGE

All Covered Bonds are linked to the Sponsor Bank

All Covered Bonds are linked to the Sponsor Bank. As a result, the Covered Bonds will come under increasing rating stress as the Sponsor Bank’s credit strength deteriorates. Reasons for this include:

- Refinancing risk: following a Sponsor Bank Default, if principal receipts from collections of the Cover Pool are not sufficient to meet the principal payment on a Covered Bond, funds may need to be raised against the Cover Pool. However, the fact that the Sponsor Bank has defaulted may negatively impact the ability to raise funds against the Cover Pool.
- The exposure of the programme to the choices of the Sponsor Bank. For example, prior to a Sponsor Bank Default, the Sponsor Bank may add new assets to the Cover Pool, issue further bonds and enter new hedging arrangements. Each of these actions could negatively impact the value of the Cover Pool.
- More generally, by the incorporation of the strength of the Sponsor Bank into Moody’s rating method.

As a result of this linkage, the probability of default of the Covered Bonds may be higher than expected for **Aaa** rated senior unsecured debt. However, Moody’s primary rating target is the expected loss, which also takes severity of loss into account. In this case, the severity of loss is consistent with a **Aaa** rating.

TPIs assess the likelihood that a timely payment will be made

Moody’s Timely Payment Indicators (“TPIs”)⁴ assess the likelihood that a timely payment will be made to Covered Bondholders following a Sponsor Bank Default, and thus determine the maximum rating a covered bond programme can achieve with its current structure while allowing for the addition of a reasonable amount of over-collateralisation.

⁴ See Moody’s Rating Methodology: “Timely Payment in Covered Bonds following Sponsor Bank Default” published March 2008

Having an independent cover pool administrator may reduce potential conflicts of interest between the Covered Bond investors and other creditors

Aspects specific to this programme that are TPI-positive include:

- Austrian Mortgage Bank Act, including:
 - At the time of a declaration of bankruptcy of the Sponsor Bank, a cover pool administrator will take over management responsibility of the Covered Bond programme. The cover pool administrator will act independently from the insolvency administrator of the Sponsor Bank. Having an independent cover pool administrator may reduce potential conflicts of interest between the Covered Bond investors and other creditors.
 - Set-off: Moody's understanding from legal and industry advisors with respect to Austrian Mortgage Covered Bonds is that set-off risk for loans registered in the Cover Pool (including Trust Receivables) is excluded by the operation of the Austrian Mortgage Bank Act.
 - The ability of the cover pool administrator to raise funds against the cover pool assets, for example, bridge loans. Moody's understanding from legal and industry advisors is that the party providing bridge financing to the Cover Pool (upon the segregation of the Cover Pool) would enjoy senior status to the Covered Bondholders.

All outstanding Covered Bonds are bullet without any extension period

Aspects specific to this programme that are TPI negative include:

- All Covered Bonds outstanding have a bullet repayment at maturity, without any extension period for the repayment of the bonds.
- The programme does not benefit from any designated source of liquidity if cash flow collections are interrupted.
- Commingling risk: Moody's understands that, upon the appointment of the cover pool administrator, the latter has priority claim on all cash flows stemming from the Cover Pool assets. However, the cover pool administrator has to separate these cash flows from other cash flows to the Sponsor Bank before payment is made to Covered Bondholders.
- Type of Assets: Some part of the cover pool assets are commercial mortgage loans.

Based on the considerations discussed above, Moody's has assigned a TPI of "Probable" to this Covered Bond programme.

MONITORING

The Issuer is expected to deliver certain performance data to Moody's on an ongoing basis. In the event that this data is not made available to Moody's, Moody's ability to monitor the ratings may be impaired. This could negatively impact the ratings or, in some cases, Moody's ability to continue to rate the Covered Bonds.

RELATED RESEARCH

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions, please refer to the following reports:

Rating Methodologies

- Moody's Rating Approach to European Covered Bonds, June 2005 (English version - SF57011)
- Moody's Rating Approach to European Covered Bonds, July 2005 (German version – SF58550)
- Timely Payment in Covered Bonds following Sponsor Bank Default, March 2008 (SF109992)

Special Reports

- 2007 Review & 2008 Outlook Covered Bonds: Strong Market Growth in 2007 but Credit Challenges Lie Ahead, February 2008 (SF121193)
- European Covered Bond Legal Frameworks: Moody's Legal Checklist, January 2006 (German version – SF67969)
- European Covered Bond Legal Frameworks: Moody's Legal Checklist, December 2005 (English version – SF66418)

Credit Opinion

- Moody's Global Credit Research – Credit Opinion: Erste Bank der österreichischen Sparkassen AG, 28 March 2008

Announcement

- Moody's Announcement: Moody's announces update of covered bond refinance stresses following credit crisis, 29 February 2008

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

APPENDIX 1: COVER POOL INFORMATION

Residential Mortgage Loans (CHF)

Overview

Collateral Score:	–
Asset balance:	243,016,933
Average loan balance:	176,740
Number of loans:	1,375
Number of borrowers:	1,307
Number of properties:	1,790
WA Remaining Term (in months):	233
WA Seasoning (in months):	34

Details on LTV

WA current LTV (*):	86.0%
WA Indexed LTV:	n/a
Valuation type:	Market Value (Verkehrswert)
LTV threshold:	60%
Junior ranks:	n/d
Prior ranks:	24.4%

(*) Based on original property valuation

(**) Refers to Borrowers with previous missed payments, Borrowers with a previous personal bankruptcy or Borrowers with record of court claims against them at time of origination

(***) n/d : information not disclosed by Issuer

(****) This "other" type refers to loans directly to Housing Cooperatives and to Professional Landlords

Specific Loan and Borrower characteristics

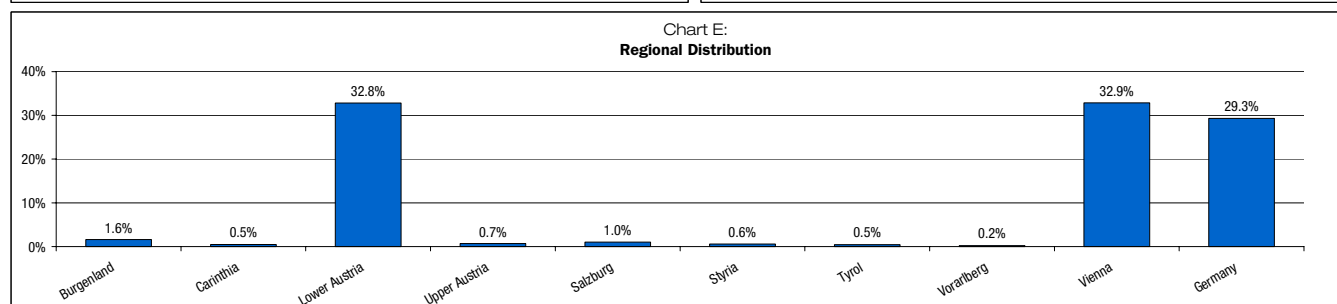
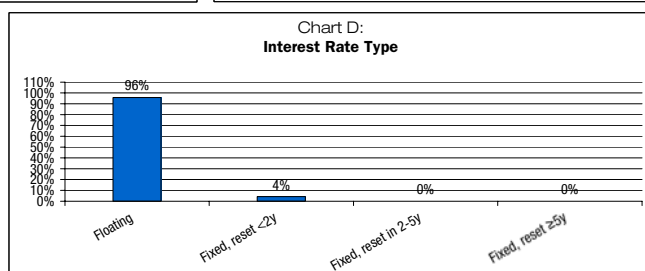
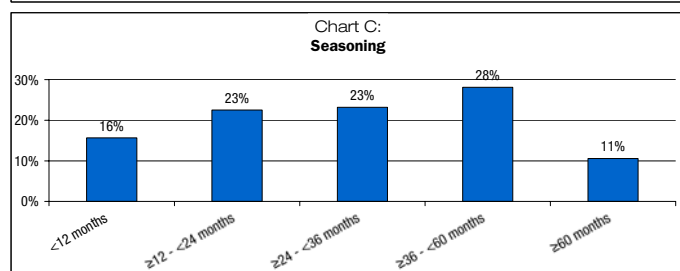
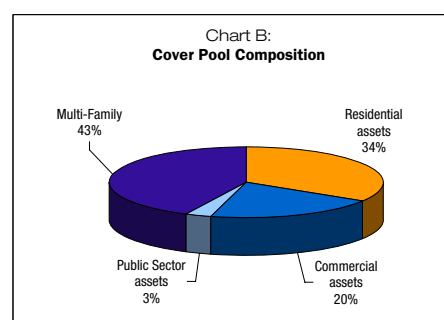
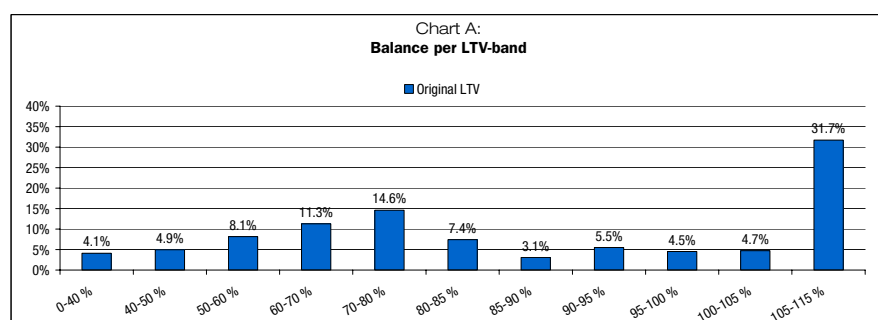
Loans benefiting from a guarantee:	n/d
Interest Only Loans:	94.5%
Loans for second homes / Vacation:	n/d
Buy to Let loans / Non owner occupied properties:	n/d
Limited income verified	0.0%
Adverse Credit Characteristics(**):	0.0%

Performance

Loans in arrears (≥ 2months - < 6months):	0.0%
Loans in arrears (≥ 6months - < 12months):	0.0%
Loans in arrears (> 12months):	0.0%
Loans in a foreclosure procedure:	0.0%

Multi-Family Properties

Loans to tenants of tenant-owned Housing Cooperatives:	n/a
Other type of Multi-Family loans (****)	n/a



Residential Mortgage Loans (EUR)

Overview

Collateral Score:	–
Asset balance:	170,708,528
Average loan balance:	117,245
Number of loans:	1,456
Number of borrowers:	1,235
Number of properties:	1,771
WA Remaining Term (in months):	158
WA Seasoning (in months):	67

Details on LTV

WA current LTV (*):	69.9%
WA Indexed LTV:	n/a
Valuation type:	Market Value (Verkehrswert)
LTV threshold:	60%
Junior ranks:	n/d
Prior ranks:	25.4%

(*) Based on original property valuation

(**) Refers to Borrowers with previous missed payments, Borrowers with a previous personal bankruptcy or Borrowers with record of court claims against them at time of origination

(***) n/d : Information not disclosed by Issuer

(****) This "other" type refers to loans directly to Housing Cooperatives and to Professional Landlords

Specific Loan and Borrower characteristics

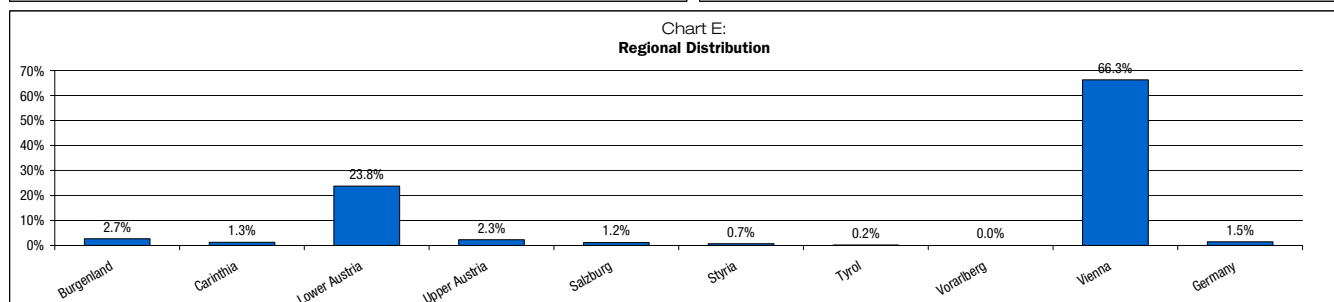
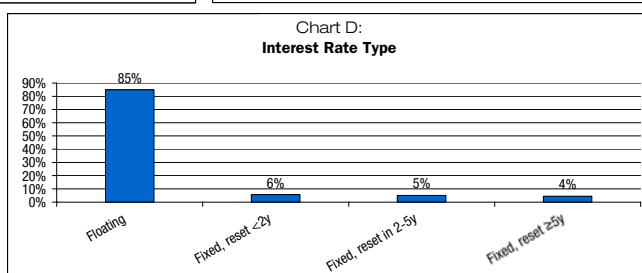
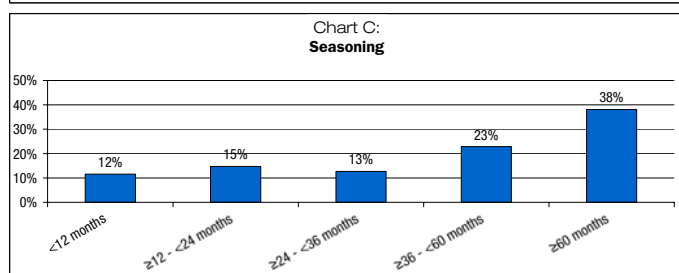
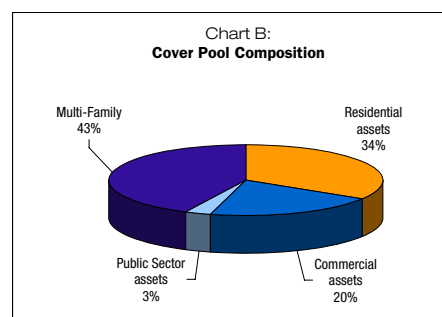
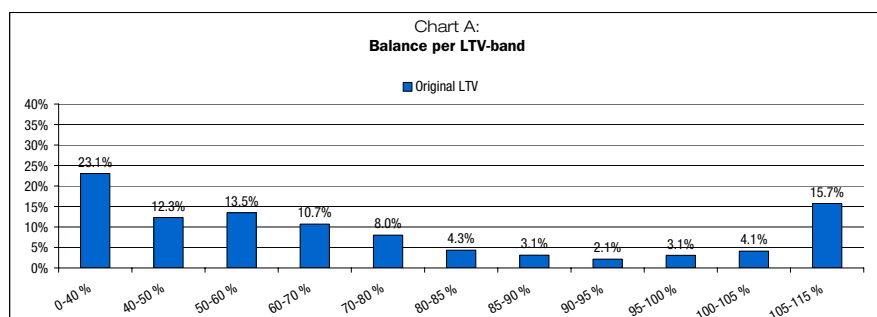
Loans benefiting from a guarantee:	n/d
Interest Only Loans:	34.3%
Loans for second homes / Vacation:	n/d
Buy to Let loans / Non owner occupied properties:	n/d
Limited income verified	0.0%
Adverse Credit Characteristics(**):	0.0%

Performance

Loans in arrears (≥ 2months - < 6months):	0.0%
Loans in arrears (≥ 6months - < 12months):	0.0%
Loans in arrears (> 12months):	0.0%
Loans in a foreclosure procedure:	0.0%

Multi-Family Properties

Loans to tenants of tenant-owned Housing Cooperatives:	n/a
Other type of Multi-Family loans (****)	n/a



Commercial Mortgage Loans (including Multi-Family)

Overview

Collateral Score:	--
Asset balance:	765,635,265
Average loan balance:	595,362
Number of loans:	1,286
Number of borrowers:	712
Number of properties:	2,063
Largest 10 loans:	10.3%
Largest 10 borrowers:	38.2%
WA Remaining Term (in months):	195
WA Seasoning (in months):	33
Main Countries:	Austria
	Germany
	-

(*) Based on original property valuation

(**) n/d : Information not disclosed by Issuer

Specific Loan and Borrower characteristics

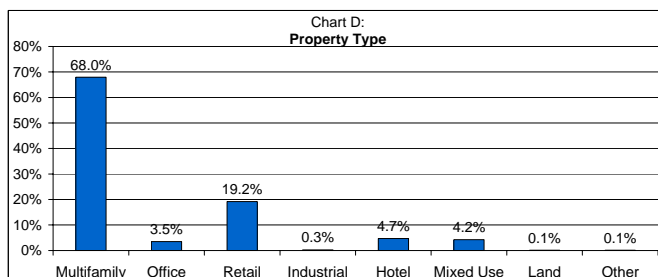
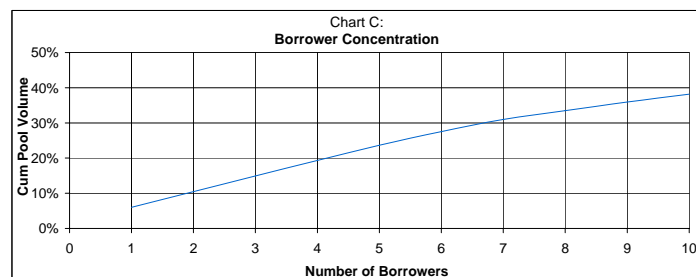
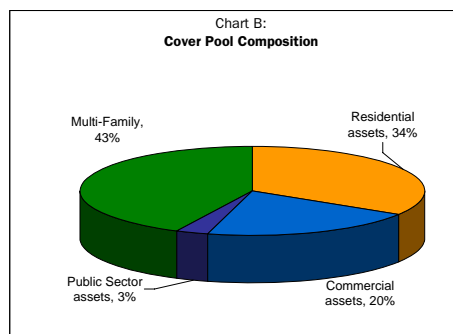
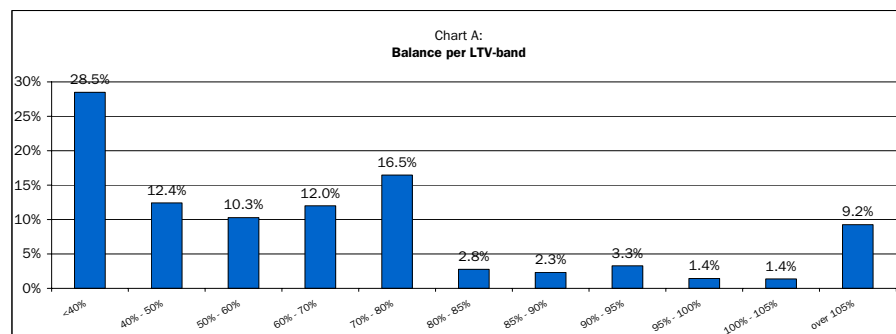
Bullet loans:	11.6%
Loans in non-domestic currency:	11.5%
Interest Rate Type (% fixed rate):	19.4%

Performance

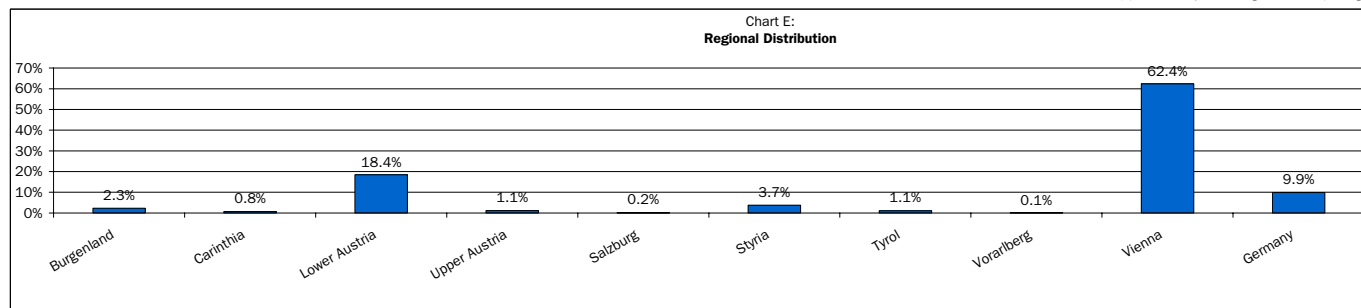
Loans in arrears (≥ 2months - < 6months):	0.0%
Loans in arrears (≥ 6months - < 12months):	0.0%
Loans in arrears (> 12months):	0.0%
Loans in a foreclosure procedure:	0.0%

Details on LTV

WA current LTV (*):	65.5%
WA Indexed LTV:	n/a
Valuation type:	Market Value (Verkehrswert)
LTV Threshold:	60%
Junior ranks:	n/d
Prior ranks:	0.0%



(*) Multi family according to Issuer reporting



Qualitative Collateral Information

All Cover Pool characteristics are actual level (not assumed levels) based on reporting from Erste Bank.

As of the date of this report there are no Trust Receivables from Austrian Savings Banks or other financial institutions of the Austrian S-Group in the Cover Pool. However Moody's expects this to change in due course.

APPENDIX 2: INCOME UNDERWRITING AND VALUATION

1. Income Underwriting

1.1	Is income always checked?	Yes
1.2	Does this check ever rely on income stated by borrower ("limited income verification") income stated by the borrower?	No
1.3	Percentage of loans in Cover Pool that have limited income verification	0%
1.4	If limited income verification loans are in the Cover Pool, describe what requirements lender has in place for these loans.	Not applicable
1.5	Does income in all cases constrain the amount lent (for example through some form of Income Sufficiency Test ("IST").	Yes
1.6	If not, what percentage of cases are exceptions.	No exceptions.
For the purposes of any IST		
1.7	Is it confirmed income after tax is sufficient to cover both interest and principal.	Yes
1.8	If so over what period is it assumed principal will be paid (typically on an annuity basis)? Any exceptions?	Loans with payment of interest and principal are typically on an annuity basis, which determines the duration of the loan. This type of residential mortgage loans has a duration of up to 35 years. There are also loans with only interest payments and a bullet repayment of the principal with usually a maturity of 20 years, only in exceptional cases up to 25 years of maturity.
1.9	Does the age of the borrower constrain the period over which principal can be amortised?	No
1.10	Are any stresses made to interest rates when carrying out the IST? If so when and for what type of products?	In cases of variable rate loans the current interest rate is taken into consideration.
1.11	Are all other debts of the borrower taken into account at point loan made?	Yes
1.12	How are living expenses of the borrower calculated? And what is the stated maximum percentage of income (or income multiple if relevant) that will be relied on to cover debt payments. (specify if income is pre or post tact)	Expenses take into account <i>inter alia</i> the number of persons living in the household and are based on standard indices prepared by the public statistic office. The maximum ratio of total debt to net income may not exceed a certain level.
Other comments		None

2. Valuation

2.1	Are valuations based on market or lending values?	<p>Market Value (<i>Verkehrswert</i>). In general the Market Value shall be based on the long-term capability of the property to generate rent income (Income Method or <i>Ertragswertverfahren</i>) or the long-term real value of the property (Cost Method or <i>Sachwertverfahren</i>). The results of this exercise may not exceed the Market Value based on comparable properties (<i>Vergleichswert</i>).</p> <p>In cases of owner occupied houses or flats, the valuation may be based on comparable property prices in the relevant region (<i>Vergleichswertverfahren</i>), but only, if there is a sufficient data base to make such comparison.</p>
2.2	Are all or the majority of valuations carried out by external valuers (i.e. with no direct ownership link to any company in the Sponsor Bank group)?	The valuations are carried out by internal valuers. However, external valuers, who have to meet defined criteria, are also used from time-to-time.
2.3	How are valuations carried out where external valuers are not used?	<p>Regardless of whether internal or external valuers are used, the same valuation guideline (<i>Schätzrichtlinie</i>) set-out by Erste Bank and approved by the Austrian Financial Supervisory Authority is applied.</p> <p>Regardless of whether internal or external valuers are used, the valuation for residential mortgages loans with more than 400,000 Euros face value or commercial mortgage loans must be carried out by appraisers that are independent from the credit decision.</p>
2.4	What qualifications for external valuers require?	<p>Erste Bank's valuation guideline stipulates that the appraisers have the relevant skills and knowledge. Valuers typically have a professional background as real estate appraisers.</p> <p>In cases of residential mortgage loans with a face value of below 400,000 Euro the valuation of the property may be done by a credit officer with the proper training based on the Comparison Method (based on an internal valuation tool of Erste Bank (<i>Kurzbewertung</i>)).</p>
2.5	What qualifications do internal valuers require?	Valuers or the relevant credit officer typically have a professional background as real estate appraisers or comparable education/experience.
2.6	Do all external valuations include an internal inspection of a property?	Yes
2.7	Any exceptions?	None
2.8	Do all internal valuations include an internal inspection of a property?	No
2.9	Any exceptions?	In case of sufficient data / information (description, photos, etc.) and in case of certain financing situations (i.e. sale) the valuer may decide to abandon the internal inspection
Other comments		Not applicable

General Provisions in the Austrian Mortgage Bank Act

Erste Bank issues Covered Bonds in accordance with the Austrian Mortgage Bank Act

Erste Bank has established a Mortgage Covered Bond programme according to the Austrian Mortgage Bank Act, under which Mortgage Covered Bonds (*Hypothekendarlehen*) will be issued from time to time, in each case constituting direct, unconditional and senior obligations of the Sponsor Bank. The outstanding Covered Bonds are secured by a pool of assets (Cover Pool). Eligible assets for this Cover Pool are in general, only first ranking mortgage loans over Austrian properties and over certain properties located in other member states of the European Economic Area and Switzerland. *Hypothekendarlehen* can only be issued against 60% of the market value (*Verkehrswert*).

Upon Sponsor Bank Default, a special cover pool administrator takes over management responsibility for the covered bond programme

Upon Sponsor Bank Default, the Cover Pool will be segregated from the insolvency estate of the Sponsor Bank and a special cover pool administrator will be appointed upon the commencement of insolvency procedures. This special cover pool administrator will undertake the necessary administrative measures to satisfy claims by the creditors of the Covered Bonds by collecting claims that are due, selling individual cover assets or organising bridge financing. Moody's understanding from legal and industry advisors is that the party providing bridge financing to the Cover Pool (upon the segregation of the Cover Pool) would enjoy senior status to the Covered Bondholders.

Scenarios following a Sponsor Bank Default

Upon Sponsor Bank Default, the following scenarios may occur:

1. The special cover pool administrator may – if feasible – transfer the Cover Pool, as well as all obligations under the Covered Bonds (and the obligations vis-à-vis pari-passu creditors, such as hedge counterparties or liquidity providers) to another suitable bank, which will assume the obligations of the Cover Pool.
2. If the Cover Pool and the outstanding Covered Bonds are not transferred and the cover pool assets are not sufficient to satisfy all claims of Covered Bondholders against the Cover Pool, the special cover pool administrator may dispose of the cover pool assets, subject to the approval of the competent court. In this case, all Covered Bonds will become due and payable and the special cover pool administrator will distribute the proceeds stemming from the disposal of the cover pool assets among the Covered Bondholders on a pari-passu basis. If the proceeds are not sufficient to meet all claims of the Covered Bondholders, then the Covered Bondholders will have a senior unsecured claim against the general insolvency estate of Erste Bank.
3. If the Sponsor Bank has opted for an early redemption at present value in its articles of association, and if there is sufficient cover, the Cover Pool will not be transferred but the claims of the Covered Bondholders (and other pari-passu creditors) will be redeemed early at the then current NPV. This would also be subject to the approval of the competent court. Erste Bank has not opted for this latter alternative.

Nominal over-collateralisation of 2%

The Sponsor Bank has elected under the Austrian Mortgage Bank Act to include in its articles of association a requirement to match the Cover Pool and Covered Bonds in accordance with a NPV test. The Austrian Mortgage Bank Act in general requires the covered bond issuer to maintain a minimum 2% nominal over-collateralisation for its Covered Bonds at all times. Covered Bondholders may benefit from voluntary and prescribed over-collateralisation in the Cover Pool following the commencement of insolvency proceedings for the covered bond issuer. Claims of hedge counterparties rank equally with Covered Bond investors. As of March 2008, Erste Bank has not entered any swap into the Cover Pool register.

Commingling risk: payments and receivables on the cover pool assets are not separated from other cash flows from the Sponsor Bank prior to the declaration of bankruptcy of the Erste Bank

Erste Bank services the cover pool assets entered in the register. Payments and receivables on the cover pool assets are not separated from other cash flows from the Sponsor Bank prior to a declaration of bankruptcy of Erste Bank. Upon the commencement of insolvency proceedings, the Covered Bondholders would have a preferential claim on all receivables in the Cover Pool. The appointed special cover pool administrator will be obliged by operation of the Austrian Mortgage Bank Act to apply all collections to satisfy the preferential claims against the Cover Pool.

Set-off risk is mitigated by the operation of law

Moody's understanding from legal and industry advisors is that set-off against claims that have been entered into the Cover Pool is excluded by the operation of the Austrian covered bond legislation.

Erste Bank's Pooling Structure under the Austrian Covered Bond Legislation

Pooling of Trust Receivables

According to the Austrian Mortgage Bank Act, a covered bond issuer such as Erste Bank may use mortgage loans or public-sector loans (following Trust Receivables) of another credit institution (for example, a Savings Bank) for the cover pools of its Mortgage or Public-Sector Covered Bonds. One requirement of the Austrian Mortgage Bank Act is that the covered bond issuer and the other credit institution enter into a written agreement that sets out the obligation of the involved parties of this transaction in more detail.

Erste Bank's Pooling Structure in a nutshell: The mortgage loans or public-sector loans are held in trust for Erste Bank by Austrian Savings Banks or other financial institutions of the Austrian S-group (following Savings Banks). It is Moody's understanding from legal advisor that Erste Bank – or upon a Sponsor Bank Default, ultimately the Cover Pool – will have the right to separate the loans and assets held in trust in case of a bankruptcy of the trustee – i.e. the other financial institution, for example the Savings Bank.

Savings Bank has to supply a minimum amount of Trust Receivables ...

Under the written agreement, the Savings Bank will have the contractual obligation to ensure that the Trust Receivables transferred to Erste Bank for the benefit of the Covered Bondholder will meet the requirements of the Austrian Mortgage Bank Act. In addition, the Savings Bank commits itself to transfer a certain minimum amount of eligible loans to Erste Bank, i.e. if for example loans are repaid or become non-eligible (for example if a loan becomes non-performing), the Savings Bank has the obligation to replace these loans with new and performing loans. Moody's understands that the Savings Bank will receive a fee on an ongoing basis from Erste Bank for the transferred Trust Receivables.

... and will keep servicing these loans

Following the transfer of the loans, the Savings Bank will keep servicing these loans. However, it will not be entitled to otherwise dispose of those assets. The loans are held in trust for the ultimate benefit of Erste Bank's Cover Pool on the balance sheet of the Savings Bank. In the event of an insolvency scenario of the Savings Bank, Erste Bank may segregate the loans. Prior to the segregation of the loans, the insolvency administrator of the Savings Bank will collect the cash flows on the Trust Receivables and forward those cash flows to Erste Bank (or – in the case of Erste Bank's insolvency – to the Cover Pool). In return for the surrendered loans or forwarded cash flows, the insolvency estate of the Savings Bank will have a senior unsecured claim against Erste Bank for adequate compensation.

Moody's understands that the insolvency administrator may deduct some fees for the servicing of the Trust Receivables. These fees have been estimated to be a similar amount to the fees of the cover pool administrator and have been taken into consideration in Moody's analysis. If Erste Bank asks to segregate mortgage loans, the land register needs to be change in order to enable Erste Bank (or – in the case of Erste Bank's insolvency – the cover pool administrator) to enforce – if needed – the security. Erste Bank or – in the case of Erste Bank's insolvency – the Cover Pool, will have to bear the costs for the change in the land register. In case of Trust Receivables for the benefit of the Mortgage Covered Bonds, Moody's has taken this cost also into account when calculating the potential losses for the Mortgage Cover Pool.

Commingling mitigated via trigger

Moody's treats the commingling risk for Trust Receivables and cover pool assets from Erste Bank similarly. Similar to the cover pool management on Erste Bank's balance sheet (see sub-section directly above), Moody's understands that there will also be no separate cash management of the Trust Receivables on the Savings Bank's balance sheet from day one. In the case of the Savings Bank's insolvency, the insolvency administrator will have to isolate the cash flows on the Trust Receivables before these can be forwarded to Erste Bank. The potential commingling risk is mitigated through the contractual obligation of the Savings Bank to re-direct all payments on the Trust Receivables to a third-party bank (rated at least **Prime-1** or an equivalent rating) outside the Erste Bank group upon the breach of a certain equity ratio (trigger event).

No set-off risk for Trust Receivables by operation of the Austrian Mortgage Bank Act

Erste Bank receives the transferred loans and will enter these loans into its Cover Pool. Under the Austrian Mortgage Bank Act, a claim – i.e. a loan – may only be recorded into the cover pool register once the covered bond issuer has notified the claim's debtor of its inclusion in the register and the exclusion of set-off. In the case of mortgage loans, the evidence that the mortgage forms part of Erste Bank's cover pool must be recorded in the land register as well (so-called *Kautionsband*). It is Moody's understanding from legal counsel that no set-off may be exercised by the borrower against the loans recorded in the Cover Pool by the operation of the Austrian Mortgage Bank Act. This applies as well for potential set-off between the Savings Banks and Erste Bank with respect of the Trust Receivables transferred under the agreement.

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