

FITCH REVISES OUTLOOK FOR HFI'S PROGRAMME TO NEGATIVE; AFFIRMS LUXEMBOURG CBS ON CRITERIA AMENDMENTS

Fitch Ratings-Frankfurt/London-15 April 2014: Fitch Ratings has affirmed NORD/LB Covered Finance Bank's (CFB) and Hypothekenbank Frankfurt International S.A's (HFI) Lettres de Gage Publiques at 'AAA' and 'A', respectively. The agency has revised the Outlook on HFI's Lettres de Gage Publiques to Negative from Stable. The Outlook on CFB's Lettres de Gage Publiques remains Stable.

These rating actions follow the implementation of the agency's revised Covered Bonds Rating Criteria dated 10 March 2014 on programmes issued by Luxembourgian banks.

It also takes into account Negative Outlooks on banks' Issuer Default Ratings (IDR) announced by Fitch on 26 March 2014 (see "Fitch Revises Outlooks on 18 EU State-sponsored Banks to Negative on Weakening Support" and "Fitch Revises Outlooks on 18 EU Commercial Banks to Negative on Weakening Support"). As part of its updated covered bonds analysis, the agency has assigned IDR uplifts to each programme, where applicable.

KEY RATING DRIVERS

The Outlook on the rating of the public sector covered bonds issued by HFI has been revised to Negative from Stable following a similar rating action on the bank's IDR of 'A-' and the fact that a potential downgrade of the IDR may not be compensated as no IDR uplift has been assigned. The 'A' rating on the programme has been affirmed based on the bank's IDR of 'A-', a D-Cap of '4' and the legal minimum OC of 2% which is sufficient for a one-notch recovery uplift above the IDR.

The rating of the public sector covered bonds issued by CFB has been affirmed at 'AAA'/Stable based on the bank's IDR of 'A'/Negative, a newly assigned IDR uplift of '1', an unchanged D-Cap of 3 (moderate high discontinuity risk) and OC taken into account by the agency providing more protection than the breakeven OC for the rating.

The IDR uplift expresses Fitch's judgement of the degree of protection in the event of a bank's resolution that would be available to prevent the source of covered bonds payments switching from the issuer to the cover pool. It is derived from the following factors: Fitch's opinion of the relative ease and motivations for resolution methods other than liquidation, the importance of covered bonds to the financial markets in a given jurisdiction and the extent of buffer offered by senior unsecured debt.

In Fitch's view the use of resolution methods other than liquidation is unlikely for the HFI and CFB programmes based on their small size in relation to both their domestic market and the broader banking group to which they belong. Additionally, Luxembourg is not deemed by Fitch to be a covered bonds- intensive jurisdiction.

Protection from Fitch's estimate of long-term non-retail placed senior unsecured debt is reflected in the IDR uplift assigned to CFB's covered bonds. This is based on Fitch's estimate of the institution's long-term non-retail placed senior unsecured debt exceeding 5% of total adjusted assets on the latest available financial information.

RATING SENSITIVITIES

The 'A'/Negative rating of HFT's public sector covered bonds may be downgraded among others, if the bank's 'A-' IDR is downgraded by one or more notches to 'BBB+' or below; or the OC that Fitch considers in its analysis would no longer support recoveries sufficient for a one-notch uplift above the IDR.

The 'AAA'/Stable rating of CFB's public sector covered bonds may be downgraded among others, if (i) the bank's 'A' IDR is downgraded by two or more notches to 'BBB+' or below; (ii) the D-Cap falls by two or more categories to 1 (very high risk) or lower; or (iii) the OC that Fitch takes into account in its analysis decreases below Fitch's 'AAA' breakeven OC level of 16.0%.

In accordance with Fitch's policies CFB appealed and provided additional information to Fitch that resulted in a rating action that is different than the original rating committee outcome.

Fitch may have provided another permissible service to CFB or its related third parties. Details of this service can be found on Fitch's website in the EU regulatory affairs page.

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Additional information is available at www.fitchratings.com.

Applicable criteria: 'Covered Bonds Rating Criteria ', dated 10 March 2014, are available at www.fitchrating.com.

Applicable Criteria and Related Research:

Covered Bonds Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=738975

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