

FITCH AFFIRMS NORD/LB COVERED FINANCE BANK'S LETTRES DE GAGE PUBLIQUES AT 'AAA'

Fitch Ratings-London/Frankfurt-22 December 2011: Fitch Ratings has affirmed Nord/LB Covered Finance Bank's (NORD/LB CFB,'A'/Stable/'F1') Lettres de Gage Publiques (LdGP) at 'AAA'. The affirmation follows the agency's review of the cover pool's credit risk and the cash flow mismatches between the programme's assets and liabilities.

The rating is based on NORD/LB CFB's Long-term Issuer Default Rating (IDR) of 'A' and a revised Discontinuity Factor (D-Factor) of 18.0% (decreased from 20.6%), the combination of which still enables NORD/LB CFB's LdGP to be rated as high as 'AA+' on a probability of default (PD) basis, and 'AAA' after taking into account stressed recoveries given default. The level of overcollateralisation (OC) supporting a 'AA' rating on a PD basis and outstanding recoveries given default in a 'AAA' scenario stands at 14% compared to 20.5% previously.

The agency considers that investors' protection against liquidity gaps has improved, as less time is needed for the liquidation of assets in the event of the issuer's default than the six months horizon provided by NORD/LB CFB's internal liquidity rules. This has led to a decreased D-Factor. However, this adjustment does not change that all else being equal, the covered bonds rating could be maintained at 'AAA' as long as the issuer is rated 'BBB+' or above.

The decrease in the OC supporting a 'AAA' rating is mainly due to lower open currency exposure, as the bank has significantly reduced the amount of USD-denominated assets. Fitch compares the OC supporting a 'AAA' scenario to the lowest OC of the last 12 months, which is 21.2%. The OC supporting a given rating will be affected, among others, by the profile of the cover assets relative to outstanding LdG, which can change over time, even in the absence of new issuances.

Fitch has been provided with line-by-line pool data by NORD/LB CFB. As of September 2011, the largest debtor groups were subnationals (31%), public sector companies and public private partnerships (24%) and covered bonds (18%). The pool is geographically diversified with concentrations in Germany (31%), the US (26%) and Canada (5%). With an average credit quality equivalent, in Fitch's view, to 'A-', the agency calculated a rating default rate (RDR) of 12.0% and a rating recovery rate (RRR) of 40.8% in a 'AAA' stress scenario. Bonds represent 71% of the pool, loans 14% and Schuldscheindarlehen 12%.

Maturity mismatches are low, with a weighted average asset maturity of 7.6 years compared to 7.3 years on the liability side. The cover pool is almost evenly split between fixed and floating assets, whereas 75% of the covered bonds issued are yielding a floating rate of interest.

The cover assets are denominated in eight different currencies with EUR assets representing 65% of the total cover assets. The covered bonds issued are denominated in five different currencies with EUR liabilities representing 62% of the total covered bonds issued.

The programme also contains privileged swaps to hedge mismatches between the cover assets and the LdGP, which significantly contribute to reducing interest rate and currency mismatches. There are still open positions remaining post swaps, namely an USD position on the asset side of EUR250m. Next to the credit risk this is one of the key drivers for the current supporting OC calculated by Fitch for this programme.

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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Covered Bonds Rating Criteria', dated 12 August 2011, 'Covered Bonds Rating Criteria - Public Sector Spread Assumption Addendum', dated 28 November 2011, 'Covered Bonds Counterparty Criteria', dated 14 March 2011, 'Counterparty Criteria for Structured Finance Transaction', dated 14 March 2011, 'Counterparty Criteria for Structured Finance Transaction: Derivative Addendum', dated 14 March 2011, are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Covered Bonds Rating Criteria - Public Sector Spread Assumption Addendum
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=656912
Covered Bonds Counterparty Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=606185
Covered Bonds Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648551
Counterparty Criteria for Structured Finance Transactions
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=605425
Counterparty Criteria for Structured Finance Transactions: Derivative Addendum
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=605427

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