

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

Fitch Ratings-London/Frankfurt-11 August 2011: Fitch Ratings has affirmed NORD/LB COVERED FINANCE BANK's (NORD/LB CFB,'A'/Stable/'F1') public sector Lettres de Gage (LdG) at 'AAA'. The affirmation follows the implementation of the agency's new Covered Bonds Counterparty Criteria (dated 14 March 2011 and available at [fitchratings.com](http://fitchratings.com)).

Following the implementation, the programme's Discontinuity Factor (D-Factor) has been changed to 20.6% from 17.1%. Together with the bank's Long-term IDR of 'A', this combination continues to enable the rating to be rated as high as 'AA+' on a probability of default basis and 'AAA' when taking into account recoveries given default.. The current overcollateralisation (OC) available to investors is sufficient to sustain these levels of stresses.

All else being equal, the covered bonds can remain rated 'AAA' as long as NORD/LB CFB's IDR is at least 'BBB+', which is unchanged following the D-Factor adjustment.

The D-Factor has been updated to reflect (i) the complexity derivatives add to the alternative manager's responsibilities after issuer insolvency, notably the additional burden caused by the replacement of defaulted counterparty; this is only partly mitigated by the fact that Nord/LB CFB has entered into swap agreements with several external counterparties; (ii) the involvement of intra-group entities as swap counterparties (iii) the additional liquidity stress that termination costs may have on the cover pool, as payments potentially due to defaulted swap counterparties rank pari passu to those due to the LdG holders; (iv) the observed significant increase of liquid assets in NORD/LB CFB's cover pool which mitigates short term liquidity risk; (v) the swap documentation not being fully compliant with Fitch's criteria in terms of replacement provisions and the calculation of the collateral amount to be posted; this is counterbalanced by the fact that the rating of the counterparties currently does not constrain the rating of the LdG; and (vi) the counterparties unilaterally providing collateral in the amount of the contracts' mark-to-market value regardless of their current rating.

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Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable criteria, 'Covered Bonds Rating Criteria', dated 13 August 2010, 'Assessment of Liquidity Risks in Covered Bonds', dated 16 August 2010, 'Covered Bonds Counterparty Criteria', published 14 March 2011 are available at [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**

Covered Bonds Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=547527](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547527)

Assessment of Liquidity Risks in Covered Bonds

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=540786](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=540786)

Covered Bonds Counterparty Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=606185](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=606185)

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