

NORD/LB Luxembourg S.A. Covered Bond Bank (/gws/en/esp/issr/89812661)



Fitch Affirms NORD/LB CBB's Lettres de Gages Publiques at 'AAA'; Outlook Stable

Link to Fitch Ratings' Report: Nord/LB Luxembourg CBB's Public Sector Lettres de Gage - Rating Action Report (<https://www.fitchratings.com/site/re/891587>)

Fitch Ratings-Frankfurt/London-05 December 2016: Fitch Ratings has affirmed NORD/LB Luxembourg S.A. Covered Bond Bank's (NORD/LB CBB, A-/Stable/F1) Lettres de Gage Publiques (LdGPs) rating at 'AAA' with a Stable Outlook following the implementation of the agency's revised Covered Bonds Rating Criteria published on 26 October 2016.

Issuer Default Rating (IDR) Uplift

Luxembourg LdGPs are eligible for a maximum IDR uplift of two notches given their exemption from bail-in in a resolution scenario, Fitch's assessment that resolution of the issuer will not result in the direct enforcement of recourse against the cover pool and the low risk of undercollateralisation at the point of resolution (see Fitch's Jurisdictional Analysis of the Risk of Undercollateralisation of Covered Bonds - Excel file).

However, Fitch has assigned NORD/LB CBB's public sector programme one-notch IDR uplift as the bank's IDR is support-driven and also because the bank does not have a Viability Rating (VR). This reflects the bank's close integration with parent Norddeutsche Landesbank Girozentrale (NORD/LB, A-/Stable/F1).

Payment Continuity Uplift (PCU)

Fitch has assigned a PCU of four notches to NORD/LB CBB LdGP based on the voluntary inclusion of liquid assets in the cover pool matching the maximum negative cumulated balance of cash flows for the next 180 days. This is one notch less than the five notches generally assigned for a six-month protection for a public sector programme, given that the commitment is voluntary as opposed to a mandatory legal obligation.

Recovery Uplift

NORD/LB CBB LdGP's public sector programme benefits from a two-notch recovery uplift, as the overcollateralisation (OC) Fitch takes into account compensates for credit losses modelled in a stress scenario corresponding to the level of the covered bond rating, and no material downside risk to recovery expectations is identified.

Breakeven OC for Ratings

Following the update of its refinancing spread levels and fire-sale discount assumptions NORD/LB CBB LdGP's 'AAA' breakeven OC has decreased to 17.5% from 19%.

A summary of rating steps for this programmes mentioned in this commentary can be found in the excel file "Luxembourg Covered Bond Programmes - Rating Action Report" dated 5 December 2016 which can be accessed in the link above.

VARIATIONS FROM CRITERIA

Fitch applied a variation from 'Counterparty Criteria for Structured Finance and Covered Bonds - Derivatives Addendum' published on 8 July 2016. Although the collateral formula is different to the calculation as per Fitch's criteria no adjustment has been made as the calculated amounts meet the expectation outlined in Fitch's counterparty criteria. Accordingly there is no rating impact from this variation.

KEY RATING DRIVERS

NORD/LB CBB Public Sector LdGPs

NORD/LB CBB's public sector covered bonds are rated 'AAA', six notches above the bank's Long-Term IDR of 'A-'. This is based on an IDR uplift of one notch, a newly assigned PCU of four notches and a recovery uplift of two notches. The OC of 24.6%, which Fitch relies upon in its analysis, provides more protection than the breakeven OC of 17.5% for a 'AAA' rating. The breakeven OC corresponds to a 'AA' tested rating on a Probability of Default (PD) basis and a two-notch recovery uplift.

The Stable Outlook on the covered bonds' rating reflects that on NORD/LB CBB's Long-Term IDR and the one-notch buffer against a downgrade of the bank due to different uplift factors above the bank's IDR.

RATING SENSITIVITIES

The 'AAA' rating would be vulnerable to downgrade if any of the following occurs: (i) NORD/LB CBB's Long-Term Issuer Default Rating (IDR) is downgraded by two or more notches to 'BBB' or below; or (ii) the OC that Fitch considers in its analysis drops below Fitch's 'AAA' breakeven level of 17.5%. If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2%, the rating would likely be downgraded to 'A+'.

Fitch's breakeven OC for a given covered bond rating will be affected by, among other factors, the profile of the cover assets relative to outstanding covered bonds, which can change over time even in the absence of new issuance. Therefore, the breakeven OC for a covered bonds rating cannot be assumed to remain stable over time.

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Applicable Criteria

Asset Analysis Criteria for Covered Bonds and CDOs of European Public Entities (pub. 20 Jan 2016) (<https://www.fitchratings.com/site/re/876457>)
Counterparty Criteria for Structured Finance and Covered Bonds (pub. 01 Sep 2016) (<https://www.fitchratings.com/site/re/886006>)

Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum (pub. 18 Jul 2016) (<https://www.fitchratings.com/site/re/884964>)
 Covered Bonds Rating Criteria (pub. 26 Oct 2016) (<https://www.fitchratings.com/site/re/888874>)
 Criteria for Country Risk in Global Structured Finance and Covered Bonds (pub. 26 Sep 2016) (<https://www.fitchratings.com/site/re/881269>)
 Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds (pub. 26 Oct 2016) (<https://www.fitchratings.com/site/re/888492>)
 Fitch's Cover Asset Refinancing Spread Level (RSL) Assumptions - Excel File (pub. 26 Oct 2016) (<https://www.fitchratings.com/site/re/888877>)
 Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 17 May 2016) (<https://www.fitchratings.com/site/re/880522>)
 Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

Related Research

Fitch's Jurisdictional Analysis of the Risk of Undercollateralisation of Covered Bonds - Excel file (<https://www.fitchratings.com/site/re/884084>)

Additional Disclosures

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