

## **FITCH AFFIRMS NORD/LB LUXEMBOURG S.A. COVERED BOND BANK'S LETTRES DE GAGES PUBLIQUES AT 'AAA'**

Fitch Ratings-Frankfurt/London-26 January 2018: Fitch Ratings has affirmed NORD/LB Luxembourg S.A. Covered Bond Bank's (NORD/LB CBB, A-/Negative/F1) Lettres de Gage Publiques (LdGPs) at 'AAA' with a Stable Outlook.

### **KEY RATING DRIVERS**

The 'AAA' rating of the covered bonds is based on NORD/LB CBB's Long-Term Issuer Default Rating (IDR) of 'A-', an IDR uplift of one notch, a payment continuity uplift (PCU) of four notches, a two-notch recovery uplift and the overcollateralisation (OC) Fitch relies upon of 24%, which provides more protection than the 'AAA' breakeven OC of 14.5%.

The Outlook is Stable despite the Negative Outlook on NORD/LB CBB's IDR, reflecting the one-notch buffer against a downgrade of the bank due to different uplift factors above the bank's IDR.

Fitch has increased the breakeven OC to 14.5% from 14%. It is now driven by the 'AAA' credit loss component of 14.7%. This reflects a 6% exposure to countries rated in the 'Acat' or below and the pool's high concentration, with 343 assets assigned to 152 final guarantors. Exposures to Hungary (1.6%) and the United Arab Emirates (UAE; 2%) have been included in the cover pool. Fitch applied a 100% loss rate for the Hungarian exposure to account for extreme macroeconomic or event risks in Hungary. We applied a 0% recovery rate for NORD/LB CBB's UAE exposure, reflecting uncertainty about governmental support should the obligor default. Additionally UAE's legal environment limits recovery prospects. The programme's rating remains credit-linked to Germany (AAA/Stable/F1+) given the high share of German assets (42%).

The share of Public Private Partnerships (PPP) loans, eligible as cover assets under Luxembourgian law, has increased to about 17% of NORD/LB CBB's cover pool from about 13% as of end-2016. Fitch assumes superior recoveries (45% in AAA scenario) for these assets.

### **VARIATIONS FROM CRITERIA**

Fitch applied a variation from 'Counterparty Criteria for Structured Finance and Covered Bonds - Derivatives Addendum' published on 23 May 2017. 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.

Fitch applied a variation from 'Covered Bonds and CDOs Public Entities' Asset Analysis Rating Criteria' published on 21 December 2017 by applying a 0% recovery rate for subnational entities from UAE. NORD/LB CBB's cover pool now also includes exposure to companies owned by public entities from the UAE, for which the criteria do not specify recovery rate assumptions.

### **RATING SENSITIVITIES**

NORD/LB Luxembourg S.A. Covered Bond Bank's Lettres de Gage Publiques (LdGPs) 'AAA' rating would be vulnerable to downgrade if any of the following occurs: (i) the Issuer Default Rating (IDR) is downgraded by two more notches to 'BBB' or below; or (ii) the combined number of notches represented by the IDR uplift and payment continuity uplift is reduced to three notches or lower; or (iii) the overcollateralisation (OC) that Fitch considers in its analysis decreases below Fitch's 'AAA' breakeven level of 14.5%. 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+'.

The Fitch breakeven OC for the LdGPs rating will be affected, amongst others, by 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 to maintain the covered bond rating cannot be assumed to remain stable over time.

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Applicable Criteria

CLOs and Corporate CDOs Rating Criteria (pub. 09 Oct 2017)

<https://www.fitchratings.com/site/re/904601>

Covered Bonds Rating Criteria (pub. 01 Dec 2017)

<https://www.fitchratings.com/site/re/906615>

Covered Bonds and CDOs Public Entities' Asset Analysis Rating Criteria (pub. 21 Dec 2017)

<https://www.fitchratings.com/site/re/911872>

Fitch's Cover Assets Refinancing Spread Level (RSL) Assumptions - Excel File (pub. 30 Oct 2017)

<https://www.fitchratings.com/site/re/10008155>

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 17 Feb 2017)

<https://www.fitchratings.com/site/re/894478>

Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance – Excel File (pub. 30 Oct 2017)

<https://www.fitchratings.com/site/re/10008156>

Global Bank Rating Criteria (pub. 25 Nov 2016)

<https://www.fitchratings.com/site/re/891051>

Rating of Public-Sector Entities – Outside the United States (pub. 22 Feb 2016)

<https://www.fitchratings.com/site/re/877128>

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May 2017)

<https://www.fitchratings.com/site/re/898537>

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 23 May 2017)

<https://www.fitchratings.com/site/re/898538>

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 18 Sep 2017)

<https://www.fitchratings.com/site/re/903496>

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 17 Feb 2017)

<https://www.fitchratings.com/site/re/893890>

U.S. Public Finance State Revolving Fund and Municipal Finance Pool Program Rating Criteria (pub. 12 Oct 2017)

<https://www.fitchratings.com/site/re/904507>

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