



Fitch Places NORD/LB Luxembourg S.A. Covered Bond Bank's LdGPs on Rating Watch Negative

Fitch Ratings-Milan/Frankfurt/London-11 December 2018: Fitch Ratings has placed the NORD/LB Luxembourg S.A. Covered Bond Bank's (NORD/LB CBB, A-/RWN/F1/RWN) 'AAA' public sector covered bonds (Lettres de Gages Publiques, LdGPs) on Rating Watch Negative (RWN).

The rating action follows Fitch placing NORD/LB CBB's Issuer Default Rating (IDR) on RWN on 7 December 2018 (see 'Fitch Places NORD/LB's VR and IDR on RWN' dated 07 December 2018 on www.fitchratings.com). Fitch will resolve the RWN on NORD/LB CBB's LdGPs following the resolution of the RWN on the bank's IDR.

KEY RATING DRIVERS

The RWN on NORD/LB CBB's LdGPs rating reflects that on the bank's IDR. The covered bonds' rating has a one-notch buffer against a downgrade of the IDR: the 'AAA' covered bonds' rating would only be downgraded if NORD/LB CBB's IDR is downgraded by more than one notch.

The LdGPs 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 payment continuity uplift (PCU) of four notches and a recovery uplift of two notches. The overcollateralisation (OC) of 23.8% (as of March 2018) that Fitch relies upon in its analysis provides more protection than the unchanged 'AAA' breakeven OC of 14.5%. The 'AAA' breakeven OC continues to be driven by a 'AAA' credit loss component of 14.7%.

RATING SENSITIVITIES

All else being equal, the 'AAA' rating of the covered bonds issued by NORD/LB CBB would be vulnerable to a downgrade if any of the following occurs: (i) NORD/LB CBB's IDR is downgraded to 'BBB' or below; (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 relied-upon OC goes below Fitch's 'AAA' breakeven OC 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+'/RWN.

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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Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018) (<https://www.fitchratings.com/site/re/10044408>)
CLOs and Corporate CDOs Rating Criteria (pub. 19 Jul 2018) (<https://www.fitchratings.com/site/re/10038306>)
Covered Bonds Rating Criteria (pub. 08 Oct 2018) (<https://www.fitchratings.com/site/re/10047240>)
Covered Bonds and CDOs Public Entities' Asset Analysis Criteria (pub. 09 Nov 2018) (<https://www.fitchratings.com/site/re/10049366>)
Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 02 Feb 2018) (<https://www.fitchratings.com/site/re/10018863>)
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>)
Government-Related Entities Rating Criteria (pub. 25 Oct 2018) (<https://www.fitchratings.com/site/re/10047173>)
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 01 Aug 2018) (<https://www.fitchratings.com/site/re/10039504>)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 01 Aug 2018) (<https://www.fitchratings.com/site/re/10039505>)
Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Oct 2018) (<https://www.fitchratings.com/site/re/10047041>)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018) (<https://www.fitchratings.com/site/re/10018549>)
U.S. Public Finance State Revolving Fund and Municipal Finance Pool Program Rating Criteria (pub. 27 Sep 2018) (<https://www.fitchratings.com/site/re/10045104>)

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