



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

Fitch Ratings-Milan/London-07 June 2019: Fitch Ratings has maintained 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).

Fitch originally placed the programme on RWN on 11 December 2018 (see Fitch Places NORD/LB Luxembourg S.A. Covered Bond Bank's LdGPs on Rating Watch Negative' dated 11 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, which may take longer than the typical six months.

KEY RATING DRIVERS

The RWN on NORD/LB CBB's LdGPs rating reflects that on the bank's IDR. A downgrade of the bank's IDR to 'BBB-' or below would lead to a downgrade of the covered bonds programme.

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 five notches and a recovery uplift of two notches. The overcollateralisation (OC) of 23.8% that Fitch relies upon in its analysis provides more protection than the 'AAA' breakeven OC of 15.5%. This supports a 'AA' tested rating on a probability of default basis and a two-notch recovery uplift.

IDR Uplift

The IDR uplift of one notch reflects that the bank's Long-Term IDR is support-driven, LdGPs exemption from bail-in in a resolution scenario, Fitch's expectation that the resolution of the issuer would not result in the direct enforcement of recourse against the cover pool and the risk of undercollateralisation at the point of resolution assessed as low.

PCU

The five-notch PCU assessment for the programme is driven by the mandatory 180-day liquidity rule in the Luxembourgian covered bonds law. Liquid assets are included in the cover pool to match the maximum negative accumulated balance of cash flows for the next 180 days, which provides effective protection for interest and principal payments on the covered bonds.

Recovery Uplift

NORD/LB CBB's programme is eligible for a two-notch recovery uplift, as the OC given credit to offsets credit losses modelled in a 'AAA' stress scenario and we did not identify any material risks to these recovery expectations.

OC Protection

The 'AAA' breakeven OC is driven by a 'AAA' credit loss component of 15.5%. The cover pool remains internationally diversified with concentrations in Germany (44.5%), UK (18.8%) and the US (13.6%) as of March 2019; the high share of German assets results in the programme's rating being credit-linked to Germany (AAA/Stable/F1+).

As the issuer's Short-Term IDR is 'F1'/RWN, we rely in our analysis on the lowest available OC of the last 12

months.

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 German sovereign is downgraded to 'AA+' or below; or (iii) the relied-upon OC drops below Fitch's AAA' breakeven OC of 15.5%.

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 LdGP rating will be affected, among 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.

Contact:

Primary Analyst
Roberto Del Ragno
Director
+39 02 87 90 87 206
Fitch Italia S.P.A
Via Morigi, 6
20123 Milan

Secondary Analyst
Vessela Krmnicek, CFA
Senior Director
+49 69 768 076 298

Committee Chairperson
Helene Heberlein
Managing Director
+33 144 299 140

Media Relations: Athos Larkou, London, Tel: +44 20 3530 1549, Email: athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

CLOs and Corporate CDOs Rating Criteria (pub. 19 Jul 2018)

Covered Bonds Rating Criteria (pub. 04 Jun 2019)

Covered Bonds and CDOs Public Entities' Asset Analysis Criteria (pub. 09 Nov 2018)

Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds (pub. 08 Mar 2019)

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

Government-Related Entities Rating Criteria (pub. 29 Mar 2019)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 18 Apr 2019)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 18 Apr 2019)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Oct 2018)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 08 Mar 2019)

U.S. Public Finance State Revolving Fund and Municipal Finance Pool Program Rating Criteria (pub. 13 Mar 2019)

Additional Disclosures

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