MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitive Aa2 rating to NORD/LB Luxembourg S.A. Covered Bond Bank - Renewable Energy Covered Bonds

28 Jan 2020

Frankfurt am Main, January 28, 2020 -- Moody's Investors Service ("Moody's") has today assigned a definitive Aa2 long-term rating to the Renewable Energy Covered Bonds (Lettre de Gage énergies renouvelables or covered bonds) issued by NORD/LB Luxembourg S.A. Covered Bond Bank (the issuer), (deposits A3, stable; adjusted baseline credit assessment ba1; counterparty risk (CR) assessment A3(cr)), which are governed by the Luxembourg legal framework for covered bonds.

RATINGS RATIONALE

A covered bond benefits from: (1) the issuer's promise to pay interest and principal on the bonds; and (2) following a CB anchor event, the economic benefit of a collateral pool (the cover pool). The rating therefore reflects the following factors:

(1) The credit strength of NORD/LB Luxembourg S.A. Covered Bond Bank (deposits A3, stable; adjusted baseline credit assessment ba1; counterparty risk (CR) assessment A3(cr)).

(2) Following a CB anchor event the value of the cover pool. The stressed level of losses on the cover pool assets following a CB anchor event (cover pool losses) for this transaction is 34.1%.

Moody's considered the following factors in its analysis of the cover pool's value:

a) The credit quality of the assets backing the covered bonds. The renewable energy covered bonds are backed by renewable energy project finance loans. The collateral score for the cover pool is 31.3%.

b) The legal framework and the structure of the programme. Notable aspects of the legislation for the renewable energy covered bonds compared to the Luxembourg-law based public-sector covered bonds include a 12-month soft bullet maturity feature of the covered bonds.

c) The exposure to market risk, which is 18.5% for this cover pool.

d) The over-collateralisation (OC) in the cover pool is 19.4% of which NORD/LB Luxembourg S.A. Covered Bond Bank provides 2.0% on a "committed" basis (see Key Rating Assumptions/Factors, below).

The "timely payment indicator" (TPI) assigned to this transaction is Improbable. Moody's TPI framework does not constrain the rating of the covered bonds at its current level.

As per 31 August 2019, the total value of the assets included in the cover pool was approximately EUR 358.3million, comprising 25 renewable energy project loans. 20 of these projects are wind farms (85.6% of nominal value) and five are solar energy projects (14.4%). 61.3% of the total cover pool amount is backed by projects in Ireland, while the remainder is backed by projects in France, UK, Germany and Sweden.

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as: (1) a function of the probability that the issuer will cease making payments under the covered bonds (a CB anchor event); and (2) the stressed losses on the cover pool assets following a CB anchor event.

The CB anchor for this programme is CR assessment plus 1 notch.

The cover pool losses for NORD/LB Luxembourg S.A. Covered Bond Bank's renewable energy covered bonds are 34.1%. This is an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk of 18.5% and collateral risk of 15.6%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 31.3%.

The over-collateralisation in the cover pool is 19.4%, of which NORD/LB Luxembourg S.A. Covered Bond Bank provides 2.0% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aa2 rating is 8.5%, of which the issuer provides 2.0% in "committed" form. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's please refer to "Covered Bonds Sector Update", published quarterly.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which measures the likelihood of timely payments to covered bondholders following a CB anchor event. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

RATING METHODOLOGY

The methodologies used in this rating were "Moody's Approach to Rating Covered Bonds" published in February 2019, and "Project Finance and Infrastructure Asset CDOs Methodology" published in December 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING:

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to an upgrade or downgrade of the covered bonds. The TPI Leeway measures the number of notches by which Moody's might lower the CB anchor before the rating agency downgrades the covered bonds because of TPI framework constraints.

Based on the current TPI of "Improbable", the TPI Leeway for this programme is one notch. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by two notches all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain circumstances, such as: (1) a country ceiling or sovereign downgrade capping a covered bond rating or negatively affecting the CB Anchor and the TPI; (2) a multiple-notch downgrade of the CB Anchor; or (3) a material reduction of the value of the cover pool.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not use any stress scenario simulations in its analysis.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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