

01 DEC 2020

# Fitch Affirms NORD/LB Luxembourg S.A. Covered Bond Bank's LdGPs at 'AAA'/Stable; Withdraws Rating

Fitch Ratings - Milan - 01 Dec 2020: Fitch Ratings has affirmed NORD/LB Luxembourg S.A. Covered Bond Bank's (NORD/LB CBB, A-/Negative/F1) legislative public sector covered bonds (Lettre de Gage Publiques, LdGPs) at 'AAA' with a Stable Outlook.

The affirmation follows a periodic review of the programme and the update of its Covered Bonds and CDOs Public Entities Asset Analysis Criteria published on 16 October 2020.

The rating has subsequently been withdrawn for commercial reasons. Accordingly, Fitch will no longer provide rating or analytical coverage on NORD/LB CBB's LdGPs.

## KEY RATING DRIVERS

The covered bonds' 'AAA' rating is based on NORD/LB CBB's 'A-' Issuer Default Rating (IDR) and on the various uplifts above the IDR granted to the programme. It also considers the overcollateralisation (OC) protection for covered bond holders. The Stable Outlook reflects the two-notch buffer against an IDR downgrade.

The covered bonds are rated six notches above the bank's IDR. This is out of a maximum achievable uplift of eight notches, consisting of a resolution uplift of one notch, a payment continuity uplift (PCU) of five notches and a recovery uplift of two notches.

Fitch relies on the lowest level of OC in the preceding 12 months of 22.8% as the bank's Short-Term IDR is 'F1' and the programme is not considered to be in wind-down. This provides more protection than the revised Fitch 'AAA' breakeven OC of 21.0% (from 19.5%).

### 'AAA' Breakeven OC

The 21.0% Fitch 'AAA' breakeven OC supports timely payments in a 'AA' stress scenario and two-notch recovery uplift to 'AAA'. The breakeven OC continues to be mostly driven by the credit loss of 12.2% (from 11.5%), whose increase reflects the higher share of public private partnerships (PPP) of 27.5% as of September 2020 from 22.7%, previously. Fitch assumes superior recoveries (45% in a AAA scenario) for PPP loans.

As of September 2020, the cover pool remains internationally diversified, with concentrations in Germany (40.8%), UK (22.0%) and the US (13.2%). The high share of German assets resulted in the programme's rating being credit-linked to Germany (AAA/Stable/F1+).

The ALM loss component of 8.8% (from 8.2%) reflects the post-swap residual FX risk, open interest rate positions and maturity mismatches between assets and liabilities. The larger maturity mismatches following a EUR500 million seven-year fixed rate series issued in June 2020 drives the increase in the ALM

loss component. Fitch models asset and liabilities on a post-swap basis as cross-currency and interest rate swaps are in place with an eligible counterparty.

### Uplifts

The one-notch resolution uplift reflects that collateralised covered bonds in Luxembourg are exempt from bail-in, that Fitch deems the risk of under-collateralisation at the point of resolution to be sufficiently low, and that a resolution of NORD/LB CBB, should it happen, is not likely to result in the direct enforcement of the recourse against the cover pool. It also factors in the support-driven IDR of NORD/LB CBB by the German parent bank NORD/LB.

The five-notch PCU assessment for the programme is driven by the mandatory 180-day liquidity rule in 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.

The recovery uplift for the programme is two notches as Fitch does not identify material risks to recoveries; the residual post-swap FX risk is stressed when testing timely payments for the covered bonds.

## RATING SENSITIVITIES

Not applicable.

## Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

## SOURCES OF INFORMATION

The issuer has informed Fitch that not all relevant underlying information used in the analysis of the rated bonds is public

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The covered bonds' rating remains credit-linked to Germany, reflecting the 40.8% exposure to German debtors.

The covered bonds' rating is driven by the credit risk of NORD/LB CBB as measured by its Long-Term IDR.

## ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

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## Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
NORD/LB Luxembourg S.A. Covered Bond Bank			

ENTITY/DEBT	RATING		RECOVERY	PRIOR
<ul style="list-style-type: none"> <li>senior secured, Public Sector Covered Bonds, Lettres de Gage publiques</li> </ul>	LT	WD	Withdrawn	AAA

<ul style="list-style-type: none"> <li>senior secured, Public Sector Covered Bonds, Lettres de Gage publiques</li> </ul>	LT	AAA	Affirmed	AAA
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#### RATINGS KEY OUTLOOK WATCH

<b>POSITIVE</b>		
<b>NEGATIVE</b>		
<b>EVOLVING</b>		
<b>STABLE</b>		

#### Applicable Criteria

[Bank Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[CLOs and Corporate CDOs Rating Criteria \(pub.16 Oct 2020\) \(including rating assumption sensitivity\)](#)

[Covered Bonds Rating Criteria \(pub.18 Nov 2020\) \(including rating assumption sensitivity\)](#)

[Covered Bonds and CDOs Public Entities' Asset Analysis Rating Criteria \(pub.16 Oct 2020\) \(including rating assumption sensitivity\)](#)

[Fitch's Covered Bonds Refinancing Spread Level Assumptions - Supplementary Data File \(pub.30 Jun 2020\)](#)

[Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance - Supplementary Data File \(pub.30 Jun 2020\)](#)

[Government-Related Entities Rating Criteria \(pub.30 Sep 2020\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub.29 Jan 2020\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub.29 Jan 2020\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub.23 Sep 2020\)](#)

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub.13 Nov 2020\)](#)

[U.S. Public Finance State Revolving Fund and Municipal Finance Pool Program Rating Criteria \(pub.18 Sep 2019\) \(including rating assumption sensitivity\)](#)

## Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

[Covered Bonds Cash Flow Model, v1.27.2 \(1\)](#)

[Portfolio Credit Model, v2.11.0 \(1\) \(2\)](#)

## Additional Disclosures

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