



Rating Action: Moody's placed Norddeutsche Landesbank GZ's Mortgage and Public-Sector Covered Bonds ratings and NORD/LB Luxembourg S.A. Covered Bond Bank's Public-Sector and Renewable Energy Covered Bonds on review for upgrade

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Frankfurt am Main, February 12, 2024 -- Moody's Investors Service ("Moody's") has placed on review for upgrade the Aa1 ratings assigned to the mortgage covered bonds and the public-sector covered bonds issued by Norddeutsche Landesbank - Girozentrale - ("Norddeutsche Landesbank"; deposits A3 on review for upgrade; adjusted baseline credit assessment ba1 on review for upgrade; counterparty risk (CR) assessment A3(cr) on review for upgrade), and Moody's has placed on review for upgrade the Aa2 ratings assigned to the public-sector and the renewable energy covered bonds issued by NORD/LB Luxembourg S.A. Covered Bond Bank ("NORD/LB Luxembourg", deposits A3 on review for upgrade; adjusted baseline credit assessment ba1 on review for upgrade; counterparty risk (CR) assessment A3(cr) on review for upgrade).

RATINGS RATIONALE

Today's rating action follows Moody's review for upgrade of the A3(cr) CR assessments of Norddeutsche Landesbank and NORD/LB Luxembourg. For details please refer to the Press Release "Moody's places ratings of several members of Sparkassen-Finanzgruppe on review for upgrade", published on <https://ratings.moody's.com/ratings-news/415039>.

We expect to conclude the rating review once the review of the issuers' CR assessments is finalised. During the review, Moody's will consider the level of over-collateralisation ("OC") that is expected to be maintained in the programmes.

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 (such cessation, a CB anchor event); and (2) the estimated losses that will accrue to covered bondholders should a CB anchor event occur. We express the probability of a CB anchor event as a point on our alpha-numeric rating scale (i.e. the CB anchor), which is typically one notch higher than the issuer's CR assessment.

The CB anchor for Norddeutsche Landesbank's mortgage and public-sector covered bonds is A2, being the CR assessment of Norddeutsche Landesbank plus one notch.

The CB anchor for NORD/LB Luxembourg's public-sector and renewable energy covered bonds is A2, being the CR assessment of NORD/LB Luxembourg plus one notch.

The cover pool losses of Norddeutsche Landesbank GZ - Mortgage Covered Bonds are 22.5%, with market risk of 11.0% and collateral risk of 11.5%. The collateral score for this programme is currently 17.2%. The over-collateralisation in this cover pool is 53.1%, of which the issuer provides 2.0% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aa1 rating is 8.5%, of which 0% needs to be in "committed" form to be given full value (numbers in present value terms). These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

The cover pool losses of Norddeutsche Landesbank GZ - Public-Sector Covered Bonds are 10.3%, with market risk of 7.3% and collateral risk of 3.1%. The collateral score for this programme is currently 6.2%. The over-collateralisation in this cover pool is 19.8%, of which the issuer provides 2.0% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aa1 rating is 0% (numbers in present value terms). These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis.

The cover pool losses of NORD/LB Luxembourg S.A. Covered Bond Bank - Public-Sector Covered Bonds are 27.6%, with market risk of 18.8% and collateral risk of 8.8%. The collateral score for this programme is currently 17.7%. The over-collateralisation in this cover pool is 32.7%, of which the issuer provides 2.0% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aa2 rating is 4.5%, of which 0% needs to be in "committed" form to be given full value (numbers in present value terms). These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

The cover pool losses of NORD/LB Luxembourg S.A. Covered Bond Bank - Renewable Energy Covered Bonds are 31.4%, with market risk of 17.4% and collateral risk of 14.0%. The collateral score for this programme is currently 28.0%. The over-collateralisation in this cover pool is 11.9%, of which the issuer provides 2.0% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aa2 rating is 5.5%, of which 0% needs to be in "committed" form to be given full value (numbers in present value terms). 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 is our assessment of the likelihood of timely payment of interest and principal to covered bondholders following a CB anchor event. TPIs are assessed as Very High, High, Probable-High, Probable, Improbable or Very Improbable. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

For Norddeutsche Landesbank's mortgage and public-sector covered bonds, Moody's has assigned a TPI of "High".

For NORD/LB Luxembourg's public-sector covered bonds, Moody's has assigned a TPI of "Probable", and a TPI of "Improbable" for its renewable energy covered bonds.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in December 2023 and available at <https://ratings.moodys.com/rmc-documents/412158>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

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 "High", the TPI Leeway for Norddeutsche Landesbank's mortgage and public-sector covered bonds are 3 notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by 4 notches all other variables being equal.

Based on the current TPI of "Probable", the TPI Leeway for NORD/LB Luxembourg's public-sector covered bonds is 3 notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by 4 notches all other variables being equal.

Based on the current TPI of "Improbable", the TPI Leeway for NORD/LB Luxembourg's renewable energy covered bonds is 1 notch. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by 2 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 in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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