



Rating Action: Moody's upgrades ratings of NORD/LB Luxembourg S.A. Covered Bond Bank's Public-Sector and Renewable Energy Covered Bonds to Aaa

16 Mar 2024

Frankfurt am Main, March 16, 2024 – Moody's Ratings ("Moody's") has today upgraded to Aaa from Aa2 on review to upgrade the ratings assigned to the public-sector covered bonds and the renewable energy covered bonds issued by NORD/LB Luxembourg S.A. Covered Bond Bank ("NORD/LB"; counterparty risk (CR) assessment Aa2(cr)).

This rating action concludes the review of the above ratings initiated on 12 February 2024.

RATINGS RATIONALE

Today's rating action follows the upgrade of the CR assessment of NORD/LB Luxembourg S.A. Covered Bond Bank to Aa2(cr) from A3(cr) on review for upgrade. For details, please refer to the Press Release "Moody's upgrades Norddeutsche Landesbank - Girozentrale –'s deposit and senior unsecured ratings; stable outlook" (<https://ratings.moody's.com/ratings-news/416997>) published on 15 March 2024.

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 cover pool losses for the public-sector covered bonds of NORD/LB are 29.7%. 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 20.8% and collateral risk of 8.9%. 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 17.7%.

The cover pool losses for the renewable energy covered bonds of NORD/LB are 32.1%. 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 18.1% and collateral risk of 14.0%. 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 28.0%.

The over-collateralisation in the cover pool of NORD/LB's public-sector covered bonds 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 Aaa rating is 0.0%. These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis (numbers in present value terms).

The over-collateralisation in the cover pool of NORD/LB's renewable energy covered bonds 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 Aaa rating is 0.5%. These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis (numbers in present value terms).

The CB anchor for NORD/LB's public-sector covered bonds and renewable energy covered bonds is Aa1.

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 NORD/LB's public-sector covered bonds, Moody's has assigned a TPI of Probable.

For NORD/LB's renewable energy covered bonds, Moody's has assigned a TPI of Improbable.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/416197>. 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.

The TPI Leeway for NORD/LB's public-sector covered bonds is 5 notches. This implies that Moody's might

downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by 6 notches, all other variables being equal.

The TPI Leeway for NORD/LB's renewable energy 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.

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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