MOODY'S
INVESTORS SERVICE

Rating Action: Moody's concludes reviews for Norddeutsche Landesbank GZ's, Deutsche Hypothekenbank (Actien-Gesellschaft)'s and NORD/LB Luxembourg S.A. Covered Bond Bank's covered bonds

13 Jan 2020

Frankfurt am Main, January 13, 2020 -- Moody's Investors Service ("Moody's") has taken the following rating actions on covered bonds issued by Norddeutsche Landesbank GZ's ("NORD/LB"; deposits A3; adjusted baseline credit assessment ba1; counterparty risk assessment A3(cr)) , Deutsche Hypothekenbank (Actien-Gesellschaft) ("Deutsche Hypo", deposits A3; adjusted baseline credit assessment ba1; counterparty risk assessment A3(cr)) and NORD/LB Luxembourg S.A. Covered Bond Bank ("NORD/LB CBB"; deposits A3; adjusted baseline credit assessment ba1; counterparty risk assessment A3(cr)):

- Norddeutsche Landesbank GZ - Mortgage Covered Bonds: Aa1 confirmed

- Norddeutsche Landesbank GZ - Public-Sector Covered Bonds: Aa1 confirmed

- Deutsche Hypothekenbank (Actien-Gesellschaft) - Mortgage Covered Bonds: Aa1 confirmed

- Deutsche Hypothekenbank (Actien-Gesellschaft) - Public-Sector Covered Bonds: upgraded to Aa1 from Aa2 on review for upgrade.

- NORD/LB Luxembourg S.A. Covered Bond Bank - Public-Sector Covered Bonds: upgraded to Aa2 from Aa3 on review for upgrade.

- NORD/LB Luxembourg S.A. Covered Bond Bank - Renewable Energy Covered Bonds: upgraded to (P)Aa2 from (P)Aa3 on review for upgrade

RATINGS RATIONALE

Today's rating action is prompted by Moody's decision to upgrade NORD/LB, Deutsche Hypo and NORD/LB CBB's Counterparty Risk (CR) Assessment at A3(cr).

For further information on the rating action taken by Moody's Financial Institutions Group, please refer to Moody's press release http://www.moodys.com/viewresearchdoc.aspx?docid=PR_416240 .

The Timely Payment Indicator (TPI) assigned to NORD/LB and Deutsche Hypo mortgage and public sector covered bond programmes is " High". The TPI assigned to NORD/LB Lux mortgage public sector covered bond programme is " Probable" and the TPI assigned to NORD/LB Lux renewable energy covered bond programme is " Improbable". Moody's TPI framework does not constrain the ratings.

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 all programmes is CR assessment plus one notch.

The cover pool losses are an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk and collateral risk. 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 is derived from the collateral score, which measures losses resulting directly from the cover pool assets' credit quality.

Norddeutsche Landesbank GZ - Covered Bonds

The cover pool losses of Norddeutsche Landesbank GZ - Mortgage Covered Bonds are 22.4%, with market risk of 12.7% and collateral risk of 9.7%. The collateral score for this programme is currently 14.5%. The over-collateralisation in this cover pool is 81.0%, 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 9.0%. 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 9.9%, with market risk of 7.5% and collateral risk of 2.4%. The collateral score for this programme is currently 4.7%. The over-collateralisation in this cover pool is 24.7%, 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%. These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis.

The current levels of over-collateralisation (OC) for NORD/LBs Mortgage Covered Bonds and Public Sector Covered Bonds exceed the minimum levels consistent with the current Aa1 ratings but looking ahead, Moody's does not expect that OC will be maintained at levels consistent with covered bond ratings higher than Aa1.

Deutsche Hypothekenbank (Actien-Gesellschaft) - Covered Bonds

The cover pool losses of Deutsche Hypothekenbank (Actien-Gesellschaft) - Mortgage Covered Bonds are 15.4%, with market risk of 9.7% and collateral risk of 5.7%. The collateral score for this programme is currently 8.5%. The over-collateralisation in this cover pool is 14.5%, 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 2.5%. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

The cover pool losses of Deutsche Hypothekenbank (Actien-Gesellschaft) -- Public Sector Covered Bonds are 12.6%, with market risk of 9.0% and collateral risk of 3.6%. The collateral score for this programme is currently 7.3%. The over-collateralisation in this cover pool is 17.4%, 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 1.5%. These numbers show that Moody's is not relying on "uncommitted" OC in its expected loss analysis.

The current levels of over-collateralisation (OC) for Deutsche Hypo Mortgage Covered Bonds and Public-Sector Covered Bonds exceed the minimum levels consistent with the current Aa1 ratings but looking ahead, Moody's does not expect that OC will be maintained at levels consistent with covered bond ratings higher than Aa1.

NORD/LB Luxembourg S.A. - Covered Bond Banks

The cover pool losses of NORD/LB Luxembourg S.A. Covered Bond Bank - Public-Sector Covered Bonds are 27.0%, with market risk of 19.9% and collateral risk of 7.1%. The collateral score for this programme is currently 14.2%. The over-collateralisation in this cover pool is 24.4%, 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 4.0%. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

The current levels of over-collateralisation (OC) for NORD/LB Luxembourg S.A. Covered Bond Bank - Public-Sector Covered Bonds exceed the minimum levels consistent with the current Aa2 ratings but looking ahead, Moody's does not expect that OC will be maintained at levels consistent with covered bond ratings higher than Aa2.

The cover pool losses of NORD/LB Luxembourg S.A. Covered Bond Bank -- Renewable Energy Covered Bonds are 34.1%, with market risk of 18.5% and collateral risk of 15.6%. The collateral score for this programme is currently 31.3%. Under Moody's COBOL model, the minimum OC consistent with the Aa2 rating is 8.5%. The over-collateralisation (OC) in the cover pool will depend on the notional amount of the cover pool at the time of the initial issuance and the initial covered bond issuance amount. Moody's expects that NORD/LB CBB will provide a minimum OC consistent with a rating of Aa2, of which the issuer provides 2.0% on a "committed" basis. These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

Moody's does not expect that OC will be maintained at levels consistent with covered bond ratings higher than Aa2.

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 principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in February 2019. Please see the Rating Methodologies page on www.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 NORD/LB's Mortgage and 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 "High", the TPI Leeway for Deutsche Hypo's Mortgage and 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 "Probable", the TPI Leeway for NORD/LB CBB - 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 CBB - Renewable Energy Covered Bonds 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.

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