

**Rating Action: Moody's upgrades 11 German covered bond ratings**

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Global Credit Research - 23 Jun 2015

Frankfurt am Main, June 23, 2015 -- Moody's Investors Service has today upgraded the ratings of 11 German covered bonds, by up to two notches, following the assignment of Counterparty Risk (CR) Assessments to the relevant issuers (see press releases "Moody's concludes reviews on 9 German public-sector banks' ratings; takes action on another 6 banks' ratings" and "Moody's concludes reviews on eight German commercial banking groups' ratings" published 19 June 2015), concluding their reviews initiated on 17 March 2015.

Moody's Financial Institutions Group assigned the CR Assessments in line with the rating agency's revised global Banks methodology, published 16 March 2015.

Specifically, the rating agency has changed its reference point --the covered bond (CB) anchor -- for determining the probability that an issuer will cease making payments under a covered bond, before any recourse to the covered bond collateral. Moody's will now use financial institutions' CR Assessments, when available, as the reference point for the CB anchor.

Please click on this link [http://www.moodys.com/viewresearchdoc.aspx?docid=PBS\\_SF411410](http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF411410) for the list of affected credit ratings. The list is an integral part of this press release and identifies each affected transaction.

**RATINGS RATIONALE**

--- Berlin Hyp AG -- Public-Sector Covered Bonds

With Berlin Hyp AG's CR Assessment of A1(cr) and a CB anchor of the CR Assessment plus one notch, the TPI framework does not restrict the public-sector covered bond ratings at a level below Aaa. With 2% over-collateralisation (OC) on a present value basis, as required by the German Pfandbrief Act, the expected loss of the covered bonds is consistent with a Aaa rating. Currently, the covered bonds benefit from 5.2% OC.

--- Deutsche Hypothekenbank AG - Mortgage Covered Bonds

With Deutsche Hypothekenbank AG's CR Assessment of A2(cr) and a CB anchor of the CR Assessment plus one notch, the TPI framework does not restrict the mortgage covered bond ratings at a level below Aaa. With 2% OC on a present value basis, as required by the German Pfandbrief Act, the expected loss of covered bonds is consistent with a Aa1 rating. To reach a Aaa covered bond rating, the OC would need to be at least 11.0% (on an uncommitted basis). Currently, the covered bonds benefit from 7.8% which restricts the covered bonds to a Aa1 rating.

--- Deutsche Hypothekenbank AG -- Public-Sector Covered Bonds

With Deutsche Hypothekenbank AG's CR Assessment of A2(cr) and a CB anchor of the CR Assessment plus one notch, the TPI framework does not restrict the public-sector covered bond ratings at a level below Aaa. With 2% OC on a present value basis, as required by the German Pfandbrief Act, the expected loss of the covered bonds is consistent with a Aa1 rating. To reach Aaa, the OC would need to be at least 8.5% (on an uncommitted basis). Currently the covered bonds benefit from 5.5% which restricts the covered bonds to a Aa1 rating.

--- Deutsche Kreditbank Mortgage Covered Bonds

Deutsche Kreditbank's CR Assessment is unpublished. The TPI framework does not restrict the mortgage covered bond ratings at a level below Aaa. With 2% OC on a present value basis, as required by the German Pfandbrief Act, the expected loss of the covered bonds is consistent with a Aa1 rating. The OC consistent with the Aaa covered bond rating is 11.5% (on an uncommitted basis). Currently, the covered bonds benefit from 94.2% OC.

--- Deutsche Kreditbank Public-Sector Covered Bonds

Deutsche Kreditbank's CR Assessment is unpublished. The TPI framework does not restrict the public-sector covered bond ratings at a level below Aaa. With 2% OC on a present value basis, as required by the German

Pfandbrief Act, the expected loss of the covered bonds is consistent with a Aa1 rating. The OC consistent with the Aaa covered bond rating is 7.0%. Currently, the covered bonds benefit from 58.2% OC.

#### --- Hypothekbank Frankfurt AG - Mortgage Covered Bonds

With Hypothekbank Frankfurt AG's CR Assessment of A3(cr) and a CB anchor of the CR Assessment plus one notch, the TPI framework does not restrict the mortgage covered bond ratings at a level below Aaa. With 2% OC on a present value basis, as required by the German Pfandbrief Act, the expected loss of the covered bonds is consistent with a Aa2 rating. To reach a Aaa covered bond rating, the OC would need to be at least 11.0% (on an uncommitted basis). To reach a Aa1 covered bond rating, the OC would need to be at least 3.0% (on an uncommitted basis). Currently, the covered bonds benefit from 4.8% OC; however, there is uncertainty as to whether the issuer will maintain OC over and above the minimum OC as required by the German Pfandbrief Act.

#### --- Hypothekbank Frankfurt AG - Public-Sector Covered Bonds

With Hypothekbank Frankfurt's CR Assessment of A3(cr) and a CB anchor of the CR Assessment plus one notch, the TPI framework does not restrict the public-sector covered bond ratings at a level below Aaa. With 2% OC on a present value basis, as required by the German Pfandbrief Act, the expected loss of the covered bonds is consistent with a Aa2 rating. To reach a Aaa covered bond rating, the OC would need to be at least 19.5% (on an uncommitted basis). To reach a Aa1 covered bond rating, the OC would need to be at least 2.5% (on an uncommitted basis). Currently the covered bonds benefit from 4.9%, which restricts the covered bonds to a Aa1 rating.

#### --- HSH Nordbank AG - Ship Covered Bonds

Moody's expected loss modelling restricts the rating of ship covered bonds at one notch above the CB anchor. With HSH Nordbank AG's CR Assessment of Baa3(cr) and a CB anchor of the CR Assessment plus one notch, this leads to a Baa1 rating for HSH Nordbank's covered bonds.

#### --- Norddeutsche Landesbank - Girozentrale - Aircraft Mortgage Covered Bond

Moody's expected loss modelling restricts the rating of the aircraft covered bonds at one notch above the CB anchor. With NORD/LB's CR Assessment of A2(cr) and a CB anchor of the CR Assessment plus one notch, this leads to a Aa3 rating for NORD/LB's aircraft covered bonds.

#### --- UniCredit Bank AG Mortgage Covered Bonds

With UniCredit Bank AG's CR Assessment of A1(cr) and a CB anchor of the CR Assessment plus one notch, the TPI framework does not restrict the mortgage covered bond ratings at a level below Aaa. With 2% OC on a present value basis, as required by the German Pfandbrief Act, the expected loss of the covered bonds is consistent with a Aa1 rating. The OC consistent with the Aaa covered bond rating is 8.5%. Currently, the covered bonds benefit from 52.7% OC.

#### --- UniCredit Bank AG Public-Sector Covered Bonds

With UniCredit Bank AG's CR Assessment of A1(cr) and a CB anchor of the CR Assessment plus one notch, the TPI framework does not restrict the mortgage covered bond ratings at a level below Aaa. With 2% OC on a present value basis, as required by the German Pfandbrief Act, the expected loss of the covered bonds is consistent with a Aaa rating. Currently, the covered bonds benefit from 40.0% OC.

### 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 issuer default.

The CB anchor for the programmes is the CR Assessment plus one notch. The CR Assessment reflects an issuer's ability to avoid defaulting on certain senior bank operating obligations and contractual commitments, including covered bonds. Moody's may use a CB anchor of the CR Assessment plus one notch in the European

Union or otherwise where an operational resolution regime is particularly likely to ensure continuity of covered bond payments.

The cover pool losses for each programme is an estimate of the losses that Moody's currently models if a CB anchor event occurs. Moody's splits cover pool losses between market risks and collateral risks. Market risks measure losses stemming from refinancing risks and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risks measure losses resulting directly from cover pool assets' credit quality. Moody's derives the collateral risk from the collateral score.

**TPI FRAMEWORK:** Moody's assigns a TPI to each covered bond that indicates the likelihood that the issuer will make 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.

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

The CB anchor is the main determinant of a covered bond'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.

A multiple-notch downgrade of the covered bonds might occur in certain limited circumstances, such as (1) a sovereign downgrade negatively affecting both the CB anchor and the TPI; (2) a multiple-notch lowering of the CB anchor; or (3) a material reduction of the value of the cover pool.

#### RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in March 2015. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

Please click on this link [http://www.moody.com/viewresearchdoc.aspx?docid=PBS\\_SF411410](http://www.moody.com/viewresearchdoc.aspx?docid=PBS_SF411410) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- Covered Bond Programme
- Releasing Office

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 or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt 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 rating action on the support provider and in relation to each particular 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.moody.com](http://www.moody.com).

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