MOODY'S

Rating Action: **Moody's upgrades Oldenburgische Landesbank AG - Mortgage Covered Bonds to Aaa**

12 Mar 2024

EUR 1.4bn of Notes affected

Frankfurt am Main, March 12, 2024 -- Moody's Ratings ("Moody's") has upgraded to Aaa from Aa1, review for upgrade, the ratings assigned to the mortgage covered bonds ("Hypothekenpfandbriefe") issued by Oldenburgische Landesbank AG (the issuer, "OLB", deposits Baa1, stable; adjusted baseline credit assessment baa2; counterparty risk (CR) assessment A2(cr)).

RATINGS RATIONALE

Today's rating action concludes the review for upgrade that Moody's initiated on 13 February 2024. During the review, OLB confirmed that it will maintain a level of over-collateralisation that Moody's considers consistent with an Aaa covered bond rating. Currently, the level of over-collateralisation that is consistent with an Aaa covered bond rating is 8.5% on an unstressed present value basis.

Moody's considers this higher level of over-collateralisation in its analysis and, as a result, OLB's mortgage covered bonds now achieve an Aaa rating in Moody's expected loss analysis.

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 this programme is A1 being the CR assessment of OLB plus one notch.

The cover pool losses for OLB's mortgage covered bonds are 15.1%. 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 11.1% and collateral risk of 4.0%. 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 5.9%.

The over-collateralisation in the cover pool is 46.6%, of which OLB provides 2% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aaa rating is 8.5%, of which 0% needs to be in "committed" form to be given full value. 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 OLB's mortgage covered bonds, Moody's has assigned a TPI of High.

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.

Based on the current TPI of "High", the TPI Leeway for this programme is three notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by four 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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