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# Oldenburgische Landesbank and Degussa Bank

## Merger will improve granularity and diversity of covered bond pool

On 14 September, Oldenburgische Landesbank (OLB) announced that it had reached an agreement with the owners of Degussa Bank AG to purchase Degussa Bank. We expect the purchase will result in a merger of the two entities and that OLB will assume all outstanding Degussa Bank debt, including its covered bonds. If this occurs, it will be credit positive for holders of outstanding Degussa Bank covered bonds, because it will give them recourse to the combined entity.

In addition, we expect that OLB's purchase of Degussa Bank will result in a merger of the pools of loans backing each bank's covered bonds (cover pools). If this occurs, it will make the merged cover pool more diverse and granular than the two individual pools, which is a further credit positive.

Both OLB and Degussa Bank have relatively small cover pools. If the two pools merge, they will become bigger and more granular. Both pools largely consist of residential mortgages. However, OLB's pool is geographically skewed towards loans on properties in the bank's main market in Lower Saxony in northwest Germany, while Degussa Bank's pool is much more evenly spread across Germany. The combined pool will therefore be more geographically diverse than OLB's current pool.

For Degussa Bank, loans for multi-family properties account for about 20% of the cover pool. A small number of loans make up this 20%, which means the pool has significant single-borrower concentration. This borrower concentration, in combination with the small overall size of the pool, is a negative and is the key reason why our cover pool collateral score is worse for Degussa Bank than OLB. OLB has recently started to include commercial real estate loans to small, midsize and larger corporate borrowers in its cover pool. These loans account for around 1.7% of the pool.[1]

Both pools have high excess over-collateralisation (OC) beyond the level that is consistent with our current covered bond ratings. We currently rate OLB's covered bonds Aa1 based on the statutory minimum OC level. We rate Degussa Bank's covered bonds Aa3 and have placed this rating on review for upgrade. Degussa Bank's covered bonds have an OC of 80.2%, higher than the minimum 13.0% consistent with an Aa3 rating. Currently this rating is constrained by the level of committed OC.

Exhibits 1 and 2 compare some of the key features of the OLB and Degussa Bank covered bonds.

Exhibit 1

**Residential mortgages account for majority of assets in the OLB and Degussa Bank cover pools**

**Key covered bond features**

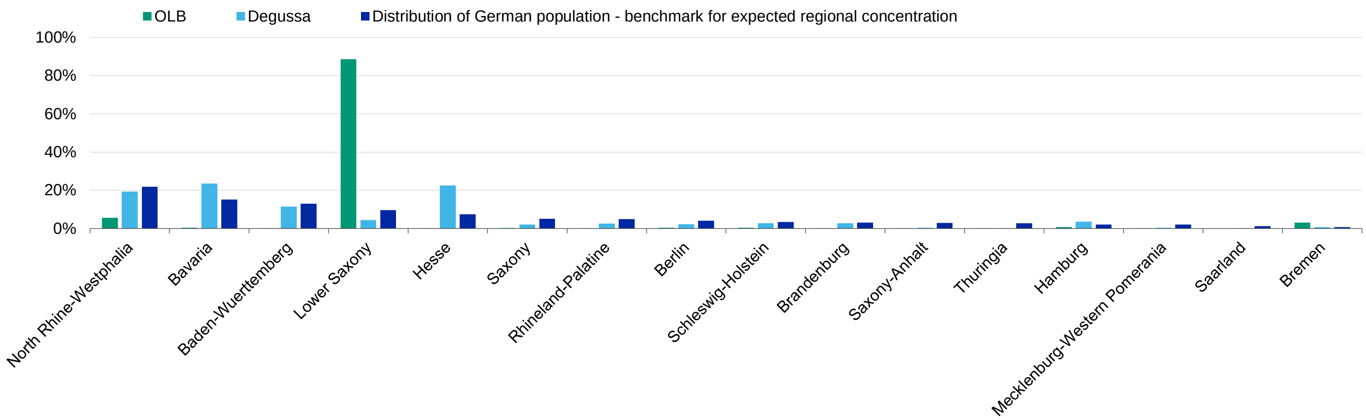
| | Oldenburgische Landesbank | Degussa Bank |
|---|---|---|
| Cover pool amount | € 1,039,653,880 | € 294,330,000 |
| # of residential mortgage borrowers | 8,360 | 1,226 |
| Covered bonds | € 881,000,000 | € 157,200,000 |
| Over-collateralisation | 29.2% | 80.2% |
| Residential assets* | 98.3% | 80.1% |
| Collateral score | 5.1% | 11.5% |
| Covered bond rating | Aa1 | Aa3, review for upgrade |

* of total mortgage loan assets, excluding substitute assets.
*Source: OLB, Degussa Bank and Moody's Investors Service*

Exhibit 2

**OLB and Degussa Bank covered bonds have different geographic exposures**

**Regional distribution for residential mortgages in cover pools**




*Sources: OLB, Degussa Bank and Moody's Investors Service*

## Moody's related publications

- Oldenburgische Landesbank AG - Mortgage Covered Bonds - Performance Overview Q2 2022, 27 September 2022
- Degussa Bank AG - Mortgage Covered Bonds - Performance Overview Q2 2022, 27 September 2022

## Endnotes

1 The numbers regarding the asset type split refer to the respective share of mortgage loans in the cover pool only and exclude substitute assets.

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