MOODY'S
RATINGS

# Rating Action: Moody's Ratings assigns definitive Aaa to Lloyds Bank GmbH - Mortgage Covered Bonds

10 Sep 2024

**EUR 500 million of Notes affected**

Frankfurt am Main, September 10, 2024 -- Moody's Ratings (Moody's) has today assigned a definitive Aaa long-term rating to the mortgage covered bonds (Hypothekenpfandbriefe) issued by Lloyds Bank GmbH ("the issuer", Bank Deposits A3, stable; Adjusted Baseline Credit Assessment a3; Counterparty Risk (CR) Assessment A1(cr)), which are governed by the German Pfandbrief Act.

RATINGS RATIONALE

A covered bond benefits from (1) the issuer's promise to pay interest and principal on the bonds; and (2) following a CB anchor event, the economic benefit of a collateral pool (the cover pool). The rating therefore reflects the following factors:

(1) The credit strength of Lloyds Bank GmbH and a CB anchor of Aa3;

(2) Following a CB anchor event, the value of the cover pool. The stressed level of losses on the cover pool assets following a CB anchor event (cover pool losses) for this transaction is 14.8%.

We considered the following factors in our analysis of the cover pool's value:

a) The credit quality of the assets backing the covered bonds. The mortgage covered bonds are backed by Dutch residential mortgage loans. The collateral score for the cover pool is 3.7%;

b) The legal framework of the programme. Notable aspects of the German Pfandbrief legislation include the legal requirement for the issuer to maintain 2% over-collateralisation (OC) on a stressed present value basis plus 2% OC on a nominal value basis. The framework imposes a loan-to-value (LTV) ratio threshold of 60% based on the mortgage lending value. The issuer must also cover potential liquidity gaps over the next 180 days between payments expected to be received under the cover pool assets and the payments due under the outstanding covered bonds;

c) The exposure to market risk, which is 12.3% for this cover pool;

d) The nominal over-collateralisation (OC) in the cover pool is 28.1%, of which Lloyds Bank GmbH provides 2% on a "committed" basis (see KEY RATING ASSUMPTIONS/FACTORS below).

The TPI assigned to this transaction is High. Our TPI framework does not constrain the rating.

The total value of the assets included in the cover pool is approximately EUR 640.4 million, comprising 3,038 residential mortgage loans. The residential mortgage loans have a weighted-average (WA) seasoning of 33 months and a WA loan-to-value (LTV) ratio of 55.7%. About 20.9% of the cover pool assets benefit from a NHG-guarantee.

KEY RATING ASSUMPTIONS/FACTORS

We determine covered bonds rating using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: we use our 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 Aa3, being the CR assessment of Lloyds Bank GmbH plus one notch.

The cover pool losses for Lloyds Bank GmbH – Mortgage Covered Bonds are 14.8%. This is an estimate of the losses we currently model following a CB anchor event. We split cover pool losses between market risk of 12.3% and collateral risk of 2.5%. 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. We derive collateral risk from the collateral score, which for this programme is currently 3.7%.

The nominal over-collateralisation in the cover pool is 28.1 %, of which Lloyds Bank GmbH provides 2% on a "committed" basis. Under our COBOL model, the minimum OC consistent with the Aaa rating is 5.5% (present value), of which 0% needs to be in "committed" form to be given full value. These numbers show that we are relying on "uncommitted" OC in our expected loss analysis.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bonds programmes rated by us, please refer to "Covered Bonds Sector Update", published quarterly.

TPI FRAMEWORK: we assign 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 bonds rating to a certain number of notches above the CB anchor.

RATING METHODOLOGY

The principal methodology used in this rating 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 rating:

The CB anchor is the main determinant of a covered bonds 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 we might lower the CB anchor before we downgrade the covered bonds because of TPI framework constraints.

Based on the current TPI of "High", the TPI Leeway for this programme is four notches. This implies that we might downgrade the covered bonds because of a TPI cap if we lower the CB anchor by five 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 bonds 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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