MOODY'S RATINGS

CREDIT OPINION
26 September 2024

New Issue

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# Lloyds Bank GmbH – Mortgage Covered Bonds

New Issue – German covered bonds

## Ratings

Exhibit 1

| Cover Pool (€) | Ordinary Cover Pool Assets | Covered Bonds (€) | Rating |
|---|---|---|---|
| 640,419,599 | Residential Mortgage Loans | 500,000,000 | Aaa |

All data in the report is as of 30 August 2024 unless otherwise stated
*Source: Moody's Ratings*

## Summary


The covered bonds issued by Lloyds Bank GmbH (the issuer or Lloyds Bank, CR assessment A1(cr)) under its Lloyds Bank GmbH – Mortgage Covered Bonds programme ("*Hypothekenpfandbriefe*") are full recourse to the issuer and secured by a cover pool of assets consisting entirely of residential mortgage loans in The Netherlands.

Credit strengths include the full recourse of the covered bonds to the issuer and support provided by the German legal framework for *Pfandbriefe*, which provides for the issuer's regulation and supervision.

Credit challenges include the high level of dependency on the issuer. As with most covered bonds in Europe, there are few restrictions on the future composition of the cover pool.

Our credit analysis takes into account the cover pool's credit quality, which is reflected in the collateral score of 3.7%.


## Credit strengths

» ***Recourse to the issuer***: The covered bonds are full recourse to Lloyds Bank GmbH (CR assessment A1(cr)). (See "Covered bond analysis")

» ***Support provided by the German legal framework***: The covered bonds are governed by the German *Pfandbrief* Act, which provides for the issuer's regulation and supervision and sets certain minimum requirements for the covered bonds and the cover pool. (See "Germany Covered Bond Legal Frameworks")

» ***High credit quality of the cover pool***: The covered bonds are supported by a cover pool of high-quality residential mortgage loans backed by properties in the Netherlands. Lloyds Bank has an established track record in originating Dutch residential mortgage loans since 1999. The collateral quality is reflected in the collateral score, which is 3.7%. (See "Cover pool analysis")

» ***Refinancing risk*:** Following what we call a covered bond (CB) anchor event, refinancing risk would be mitigated by a well-established and deep market for German *Pfandbriefe*, as well as the liquidity-matching requirements. A CB anchor event occurs when the issuer, or another entity within the issuer group that supports the issuer, ceases to service the payments on the covered bonds. (See "Covered bond analysis")

» ***Interest rate and currency risks***: Interest rate risk is mitigated by the requirement to maintain 2% net present value (NPV) OC which is calculated assuming stressed market conditions (yield curve movements). Currencies are well matched in this programme. All assets and liabilities are denominated in euros. (See "Covered bond analysis")

» ***Provisions for a cover pool administrator***: Following an issuer default, the covered bondholders would benefit from a cover pool administrator (the *Sachwalter*) that acts independently from the issuer's insolvency administrator. Furthermore, if the German banking regulator BaFin deems it necessary, the *Sachwalter* may be appointed ahead of any issuer default. (See "Covered bond analysis")

## Credit challenges

» ***High level of dependency on the issuer:*** As with most covered bonds, before the insolvency of the issuer, the issuer can materially change the nature of the programme. For example, the issuer can add new assets to the cover pool, issue new covered bonds with varying promises and enter into new hedging arrangements. Also similar to most covered bonds in Europe, this programme has few restrictions on the future composition of the cover pool. These changes could affect the credit quality of the cover pool as well as the overall refinancing and market risks. Further, if the quality of the collateral deteriorates below a certain threshold, the issuer would have the ability, but not the obligation, to increase the OC in the cover pool. (See "Covered bond analysis")

» ***Cover pool concentration****:* The cover pool exhibits geographical concentrations regarding loans backed by properties in Noord Holland (21.8%), Zuid Holland (19.1%) and Noord Braband (18.7%) which largely reflect with the Dutch population distribution. (See "Cover pool analysis")

» ***Market risks***: Following a CB anchor event, covered bondholders, to achieve timely principal payment, might need to rely on proceeds raised through the sale of, or borrowing against, the cover pool assets. The market value of these assets may be subject to high volatility after a CB anchor event. (See "Covered bond analysis")

» ***Unique assets for German Pfandbrief cover pool***: The covered bonds are governed by the German *Pfandbrief* Act and backed by a cover pool that consists of Dutch residential mortgage loans. This is an unique set-up because there are only foreign assets in the cover pool of this German-law based programme. Significant amounts of non-German assets are common in some other German cover pools that back covered bonds we rate. The *Pfandbrief* Act does not restrict the usage of non-German assets and as part of our legal analysis we did not discover significant additional legal risks due to this set-up. (See "Covered bond analysis")

» ***Time subordination****:* After a CB anchor event, later-maturing covered bonds will be subject to time subordination. Principal cash collections may be used on a first-come, first-served basis, paying earlier-maturing covered bonds before later-maturing covered bonds. This subordination could lead to the erosion of OC before any payments are made to later-paying covered bonds. (See "Covered bond analysis")

» ***Lack of liquidity facility*:** The programme does not benefit from any designated source of liquidity if cash flow collections are interrupted. (See "Covered bond analysis")

## Key characteristics

Exhibit 2
### Covered bond characteristics

| | |
|---|---|
| Moody's Programme Number: | 509 |
| Issuer: | Lloyds Bank GmbH |
| Covered Bond Type: | Residential mortgage covered bonds |
| Issued under Covered Bonds Law: | Yes |
| Applicable Covered Bonds Law: | Pfandbrief Act |
| | |
| Entity used in Moody's TPI analysis: | Lloyds Bank GmbH |
| CR Assessment: | A1(cr) |
| CB Anchor: | Aa3 |
| Senior unsecured/deposit rating: | A3 |
| | |
| Total Covered Bonds Outstanding: | €500,000,000 |
| Main Currency of Covered Bonds: | EUR |
| Extended Refinance Period: | Yes (12 months) |
| Principal Payment Type: | Soft bullet |
| Interest Rate Type: | Fixed rate covered bonds (100.0%) |
| Committed Over-Collateralisation: | 2.0% (on stressed present value basis) + 2.0% (on nominal basis) |
| Current Over-Collateralisation: | 28.1% (on nominal value basis) |
| | |
| Intra-group Swap Provider: | n/a |
| Monitoring of Cover Pool: | n/a |
| Trustees: | n/a |
| Timely Payment Indicator: | High |
| TPI Leeway: | 4 notches |

*Sources: Moody's Ratings and issuer data*

Exhibit 3
### Cover pool characteristics

| | |
|---|---|
| Size of Cover Pool: | €640,419,599 |
| Main Collateral Type in Cover Pool: | Residential mortgage loans |
| Main Asset Location of Ordinary Cover Assets: | The Netherlands (100.0%) |
| Main Currency: | EUR (100.0%) |
| Loans Count: | 3,038 |
| Number of Borrowers: | 3,038 |
| WA unindexed LTV: | n/a |
| WA indexed LTV: | 55.7% |
| WA Seasoning (in months): | 33 |
| WA Remaining Term (in months): | 314 |
| Interest Rate Type: | Fixed rate assets (100.0%) |
| Collateral Score: | 3.7% (1.3% excluding systemic risk) |
| Cover Pool Losses: | 14.8% |
| Further Cover Pool Details: | See Appendix 1 |
| Pool Cut-off Date: | 30 August 2024 |

*Sources: Moody's Ratings and issuer data*

Exhibit 4

| Counterparty Type | Transaction Counterparty |
|---|---|
| Sponsor | n/a |
| Servicer | n/a |
| Back-up Servicer | n/a |
| Back-up Servicer Facilitator | n/a |
| Cash Manager | n/a |
| Back-up Cash Manager | n/a |
| Account Bank | n/a |
| Standby Account Bank | n/a |
| Account Bank Guarantor | n/a |

*Source: Moody's Ratings and issuer data*

## Covered bond description

The covered bonds under the mortgage covered bond programme of Lloyds Bank are full recourse to the issuer. Upon a CB anchor event, covered bondholders would have access to a cover pool of residential mortgage loan receivables.

### Structure description

**The bonds**

All outstanding covered bonds have a soft bullet repayment at maturity, with a 12-month-extension period according to the German Pfandbrief Act.

**Issuer recourse**

The covered bonds are full recourse to the issuer. Therefore, the issuer is obliged to repay principal and pay interest on the covered bonds.

**Recourse to cover pool and over-collateralisation**

If the issuer becomes insolvent, the covered bondholders have priority claims over a pool of assets (cover pool). (See "Cover pool description" for the cover pool characteristics and "Cover pool analysis" for our analysis of the pool)

The over-collateralisation (OC) in the cover pool is 28.1% on a nominal value basis.

The covered bond rating relies on an OC level beyond the minimum legal requirement by the German *Pfandbrief* Act. The act requires 2% of OC based on stressed net present value plus 2% of nominal value OC. Based on data as of 30 August 2024, 5.5% of OC is sufficient to maintain the current covered bond rating, which exceeds the level of committed OC. This shows that our analysis currently relies on OC that is not in committed form.

Although the issuer has the ability to increase the OC in the cover pool if collateral quality deteriorates below a certain threshold, the issuer does not have any obligation to do so. The failure to increase OC following a deterioration of the collateral could lead to a negative rating action.

**Legal framework**

The covered bonds are governed by the *Pfandbrief* Act. There are a number of strengths in this legislation, including the regulation of the issuer by BaFin, as well as certain minimum requirements for the covered bonds and the cover pool. No specific structural features beyond the statutory requirements are implemented for Lloyds Bank's mortgage covered bond programme. (See "Covered Bonds: Germany - Legal Framework for Covered Bonds", June 2022, for a description of the general legal framework governed by the *Pfandbrief* Act.)

## Covered bond analysis

Our credit analysis of the covered bonds primarily focuses on the issuer's credit quality, refinancing risk, interest rate risk and currency risk, as well as the probability that payments on the covered bonds would be made in a timely fashion following a CB anchor event, which we measure using the Timely Payment Indicator. (See "Timely Payment Indicator")

## Primary analysis

**Issuer analysis - Credit quality of the issuer**

The issuer's CR assessment is A1(cr).

The reference point for the issuer's credit strength in our analysis is the CB anchor, which for covered bond programmes under the covered bond law in Germany is the CR Assessment plus one notch, therefore the CB anchor is Aa3.

**Issuer analysis - Dependency on the issuer's credit quality**

The credit quality of the covered bonds depends primarily on the credit quality of the issuer. If the issuer's credit strength were to deteriorate, there would be a greater risk that a CB anchor event would occur, leading to refinancing risk for the covered bonds. Consequently, the credit quality of the covered bonds would deteriorate unless other credit risks were to decrease.

In the event that the CB anchor deteriorates, the issuer has the option, but not the obligation, to increase the OC in the cover pool. Failure to increase the level of OC under these circumstances could lead to a negative rating action.

Reasons for the high level of dependency of the covered bonds with the issuer also include exposure to decisions made by the issuer in its discretion as manager of the covered bond programme. For example, before a CB anchor event, the issuer may add new assets to the cover pool and remove assets from the cover pool, issue further bonds and enter new hedging arrangements. Such actions could reduce the value of the cover pool.

As with most covered bonds in Europe, there are few contractual restrictions on the future composition of the cover pool, which creates substitution risk. Nevertheless, cover pool quality over time will be protected by, among other things, the requirements of the German *Pfandbrief* Act, which specifies what types of assets are eligible. (See "Germany Covered Bond Legal Framework")

**Refinancing risk**

Following a CB anchor event, the "natural" amortisation of the cover pool assets alone cannot be relied on to repay the principal. We assume that funds must be raised against the cover pool at a discount if covered bondholders are to receive timely principal payment. Where the portion of the cover pool that is potentially exposed to refinancing risk is not contractually limited, our expected loss analysis typically assumes that this amount is in excess of 50% of the cover pool.

After a CB anchor event, the market value of these assets may be subject to volatility. Examples of the stressed refinancing margins we use for different types of prime-quality assets are published in our Rating Methodology. (See "Moody's Approach to Rating Covered Bonds")

The refinancing-positive factors outweigh the negative ones. The refinancing-positive aspects of this covered bond programme include:

» The *Pfandbrief* Act: At the time of the declaration of the issuer's bankruptcy, or earlier if BaFin considers it necessary, a cover pool administrator (the *Sachwalter*) would take over management responsibility of the covered bond programme. The *Sachwalte*r has the authority to sell all or part of the cover pool, with or without all or parts of the liabilities attached.

» The depth of the Dutch and the German market and the high level of government and financial market support expected to be available to *Pfandbriefe* in Germany, where refinancing risk is perceived as lower than in most other jurisdictions. In the modeling of this transaction, we have used refinancing margins that are lower than the refinancing margins used for most other jurisdictions.

» According to the Pfandbrief Act, the covered bonds have a soft bullet repayment structure, with an extension period of 12 months.

**Interest rate and currency risk**

As with the majority of European covered bonds, there is potential for interest rate and currency risks, which could arise from the different payment promises and durations made on the cover pool and the covered bonds.

Exhibit 5
**Overview of assets and liabilities**

| | WAL Assets (Years) | WAL Liabilities (Years) | Assets (%) | Liabilities (%) |
|---|---|---|---|---|
| Fixed rate | 15.2 | 5.0 | 96.8% | 100.0% |
| Variable rate | 0.2 | 0.0 | 3.2% | 0.0 |

WAL = weighted average life
*Sources: Moody's Ratings and issuer data*

In the event of issuer insolvency, we currently do not assume that the *Sachwalter* will always be able to efficiently manage any natural hedge between the cover pool and the covered bonds. Therefore, following a CB anchor event, our model separately assesses the impact of increasing and decreasing interest rates on the expected loss of the covered bonds, taking the path of interest rates that leads to the worst result. The interest rate and currency stresses used over different time horizons are published in our Rating Methodology.

Aspects of this covered bond programme that are market-risk positive include:

» The currencies are well matched in this programme as all assets and all liabilities are denominated in euros.

» The requirement under the *Pfandbrief* Act that the stressed present value OC of the cover pool must exceed, by at least 2.0%, the total of outstanding covered bonds issued against the cover pool, and the requirement that *Pfandbrief* issuers must regularly run stress tests regarding interest rate and foreign-exchange risks. Lloyds Bank opted for the “dynamic” approach to determine the parameters for the mandatory stress test.

Aspects of this covered bond programme that are market-risk negative include:

» There is interest rate risk in the programme because the covered bonds are issued with fixed rate interest, while assets are also mainly fixed rate but with differing fixed rate periods so that interest rate risk exists due to the repricing of assets at the end of their respective fixed rate periods.

» A potential sale of fixed-rate assets to meet payments due on covered bonds following a CB anchor event could lead to a crystallisation of mark-to-market losses caused by interest rate movements upon issuer default.

**Timely Payment Indicator**

Our Timely Payment Indicator (TPI) assesses the likelihood that timely payments will be made to covered bondholders following a CB anchor event, and thus determines the maximum rating a covered bond programme can achieve with its current structure while allowing for the addition of a reasonable level of OC. We have assigned a TPI of High to these covered bonds, in line with other mortgage covered bonds issued under the *Pfandbrief* Act.

The TPI for this programme is High, the TPI leeway is four notches.

The TPI-positive aspects of this covered bond programme include:

» The high level of government and financial market support provided to *Pfandbriefe* in Germany

» The refinancing-positive factors discussed in the “Refinancing risk” section

» The strength of the German *Pfandbrief* legislation, including:

  – The *Sachwalter* would take over management responsibility of the covered bond programme at the time of the declaration of the issuer's bankruptcy, or earlier if BaFin were to consider it necessary.

  – The *Sachwalter* would act independently from the issuer’s insolvency administrator. Having an independent cover pool administrator might reduce potential conflicts of interest between the covered bondholders and other creditors.

  – The issuer is required to cover potential liquidity gaps over the next 180 days between payments expected to be received under the cover pool assets and payments due under the outstanding covered bonds.

- The credit quality of the cover pool assets, reflected by the collateral score of 3.7%.
- The covered bonds have a maturity extension of 12 months.

The TPI-negative aspects of this covered bond programme include:

- The covered bond programme does not benefit from any designated source of liquidity if cash flow collections are interrupted.
- Commingling risk: Upon the appointment of the *Sachwalter*, it is our understanding that the *Sachwalter* has a priority claim on all cash flows stemming from the cover pool assets. However, these cash flows have to be separated from other cash flows to the issuer before they can be used to make payments to covered bondholders.

## Additional analysis

### Liquidity

The covered bond programme does not benefit from any designated source of liquidity if cash flow collections were to be interrupted. However, before an issuer default, the *Pfandbrief* Act requires the issuer to cover potential liquidity gaps for the next 180 days and to maintain a minimum OC level of 2%. After an issuer default, the *Sachwalter* will have the ability to sell a portion of the cover pool to make timely payments on the bonds.

### Time subordination

After a CB anchor event, later-maturing covered bonds are subject to time subordination. Principal cash collections may be used on a first-come, first-served basis, paying earlier-maturing covered bonds before later-maturing covered bonds. Such payments could result in the erosion of OC before any payments are made to later-paying covered bonds.

## Cover pool description

### Pool description as of 30 August 2024

As of 30 August 2024, the cover pool consisted entirely of residential assets located in The Netherlands. The majority of the cover pool assets are loans backed by properties located in Noord Holland (21.8%), Zuid Holland (19.1%) and Noord Braband (18.7%) regions of The Netherlands.

On a nominal value basis, the cover pool assets total €640.4 million, which back €500.0 million covered bond issuance. The current OC in the programme is 28.1% (on a nominal value basis). The weighted average loan-to-value (LTV) ratio of the residential loans based on the indexed Dutch property appraisals is 55.7%. (For Lloyds Bank GmbH underwriting criteria, see "Appendix: Income underwriting and valuation").

The cover pool consists of residential mortgages backed by properties in the Netherlands. The loans have been originated by Lloyds Bank GmbH via brokers as it is common in the Dutch mortgage market. The servicing of Lloyds Bank Dutch residential loan portfolio is done by Stater, an established third-party loan servicer in the Dutch market. Lloyds Group has originated residential mortgage loans in the Netherlands since 1999. In 2019, the former Lloyds Bank plc branches in the Netherlands and in Germany were merged and formed the newly established Lloyds Bank GmbH.

There are some noteworthy characteristics of the cover pool:

» The cover pool mainly consists of recently originated mortgage loans with a weighted average seasoning of 33 months. To include a loan in the cover pool, the German Pfandbrief Act requires that a mortgage lending value appraisal is prepared for the securing property. For the Dutch properties that secure the loans in the cover pool, the mortgage lending value appraisals rely on the information from the property appraisal reports that are done according to Dutch market standards at the time of loan origination. In accordance with Art. 25§ (2) BelWertV (Mortgage Lending Value Directive), entirely new appraisals, adhering to the requirements of the Mortgage Lending Value Directive, have been made for all mortgages to enter the cover pool. The Pfandbrief Act further requires that information from existing appraisal reports used for the German mortgage lending value appraisal must not be older than 2 years at the time the lending value appraisal is done. This means that Lloyds Bank GmbH will mainly include the recent loan origination in the cover pool. From a credit risk perspective, this can be negative because the assets in the initial cover pool are concentrated regarding the time of origination and due to the moderate seasoning, the borrowers have not built a long positive payment history. A positive aspect is that due to the moderate seasoning and the relatively long fixed rate periods agreed at loan origination, a significant portion of the cover pool assets still have a long remaining fixed rate period that protects borrowers from a potential payment shock due to the now higher interest rate environment.

» NHG-guaranteed loans represent 20.9% of the aggregate cover pool amount. The NHG-guarantee provided by Stichting Waarborgfonds Eigen Woningen covers 90% of loan losses incurred by the lender as long as certain conditions (mainly adherence to defined loan origination and servicing standards) are met. In addition to the protection provided by the 60%-LTV-eligibility threshold provided by the Pfandbrief Act, this guarantee provides additional protection against credit losses related to the cover pool assets.

» High portion of pensioners among the borrowers. 12.3% of the total loan amount included in the cover pool consists of loans to pensioners. According to Lloyds Bank GmbH, their new business, *in particular during the period of rising interest rates in the first half of 2022,* was mainly driven by refinancings and pensioners represented a large share of this refinancing business. In addition, because loans to pensioners usually have amortized over a longer period since loan origination, LTVs are generally lower for these loans, this means that in the cover pool these loans represent a higher share than in Lloyds Bank's overall loan portfolio due to the LTV threshold included in the Pfandbrief Act which limits the loan amount eligible for the coverage calculation to the equivalent of 60% of the property's mortgage lending value. For lower LTV loans, the relative share that is cover pool eligible is higher.

Following exhibits show more details about the cover pool characteristics.

## Residential mortgage loans

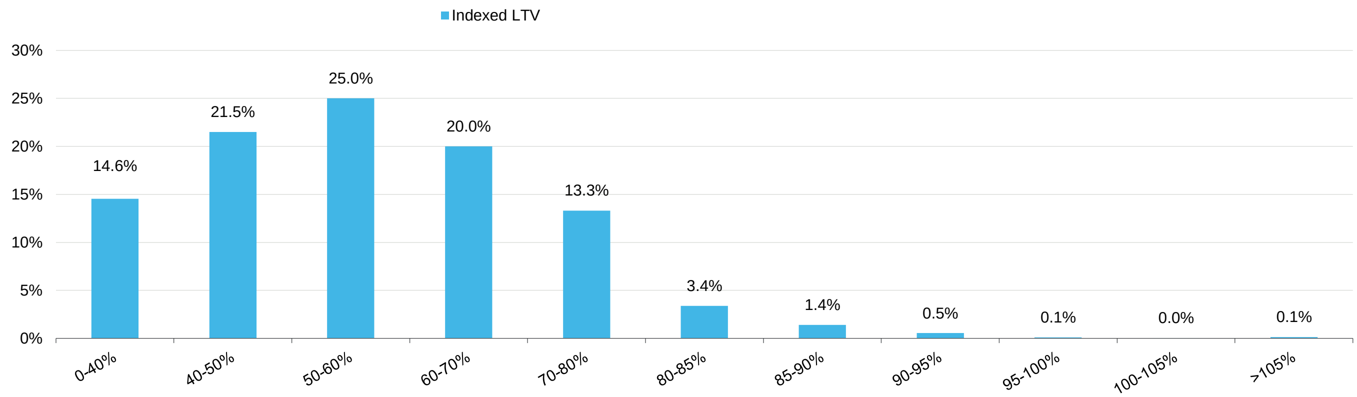
Exhibit 6
### Cover pool summary

| Overview | | Specific Loan and Borrower characteristics | |
|---|---|---|---|
| Asset type: | Residential | Loans with an external guarantee in addition to a mortgage: | 20.9% |
| Asset balance: | 620,419,599 | Interest only Loans | 45.5% |
| Average loan balance: | 204,220 | Loans for second homes / Vacation: | 0.0% |
| Number of loans: | 3,038 | Buy to let loans / Non owner occupied properties: | 0.0% |
| Number of borrowers: | 3,038 | Limited income verified: | 0.0% |
| Number of properties: | 3,035 | Adverse credit characteristics (**) | 0.0% |
| WA remaining term (in months): | 314 | | |
| WA seasoning (in months): | 33 | **Performance** | |
| | | Loans in arrears ( ≥ 2months - < 6months): | 0.0% |
| **Details on LTV** | | Loans in arrears ( ≥ 6months - < 12months): | 0.0% |
| WA unindexed LTV (*) | n/d | Loans in arrears ( ≥ 12months): | 0.0% |
| WA Indexed LTV: | 55.7% | Loans in a foreclosure procedure: | 0.0% |
| Valuation type: | Market value | | |
| LTV threshold: | 60% | **Multi-Family Properties** | |
| Junior ranks: | n/d | Loans to tenants of tenant-owned Housing Cooperatives: | n/d |
| Loans with Prior Ranks: | 0.0% | Other type of Multi-Family loans (***) | n/d |

n/a: not available.
(*) May be based on property value at the time of origination or further advance or borrower refinancing.
(**) Typically borrowers with a previous personal bankruptcy or borrowers with a record of court claims against them at the time of origination.
(***) This "other" type refers to loans directly to Housing Cooperatives and to Landlords of Multi-Family properties (not included in Buy to Let).
*Sources: Moody's Ratings and issuer data*

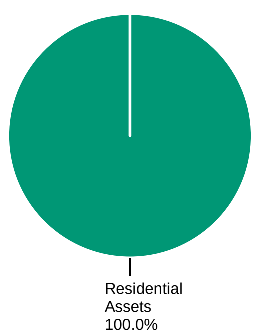
## Cover pool characteristics

Exhibit 7
### Balance per LTV band



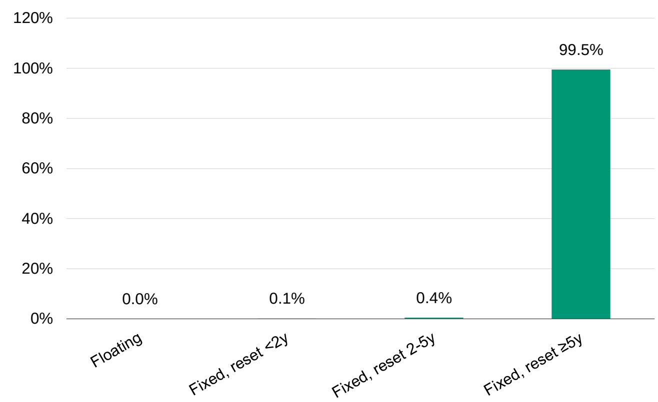

*Sources: Moody's Ratings and issuer data*

Exhibit 8
### Percentage of residential assets



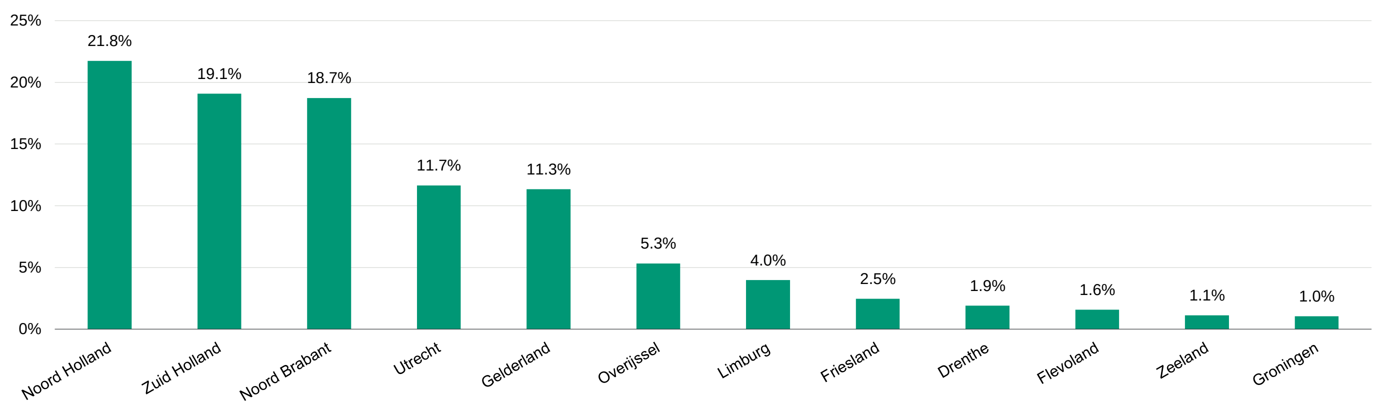

*Sources: Moody's Ratings and issuer data*

Exhibit 9
### Interest rate type



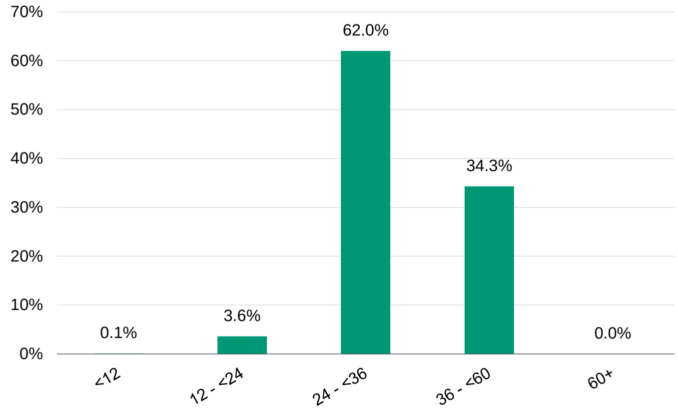

*Sources: Moody's Ratings and issuer data*

Exhibit 10
### Main country regional distribution




*Sources: Moody's Ratings and issuer data*

Exhibit 11
**Seasoning (in months)**




*Sources: Moody's Ratings and issuer data*

### Substitute assets
The substitute assets in the cover pool amount to €20 million and consist of a deposit with Deutsche Bundesbank.

### Cover pool monitor
Pursuant to the *Pfandbrief* Act, the regulator (BaFin) has appointed a cover pool monitor (*Treuhänder*). (See "German Covered Bond Legal Framework")

## Cover pool analysis
Our credit analysis of the pool takes into account specific characteristics of the pool, as well as legal risks.

### Primary cover pool analysis
We calculate the collateral score for the cover pool using a scoring model to assess the credit risk for the residential assets in the cover pool. Our analysis takes into account, among other factors, the LTV ratios of the mortgage loans, the seasoning and the geographical distribution.

For this programme, the collateral score of the current pool is 3.7%, which is in line with other cover pools that consist of residential mortgage loans only. (For details, see "Moody's Global Covered Bonds Sector Update, Q2 2024").

From a credit perspective, we view positively the following characteristics of the cover assets:

» All assets are performing and are not in arrears.

» The entire cover pool consists of residential assets.

» The weighted average LTV is 55.7% based on the indexed property appraisal according to Dutch market standards.

» According to the German Pfandbrief Act, cover pool assets are only eligible for inclusion in the coverage calculation up to the equivalent of 60% of the property's mortgage lending value appraisal. This feature provides an additional level of protection to covered bondholders because it caps the exposure in respect of loan losses to the loan part below 60% LTV.

» About 20.9% of the cover pool assets benefit from a NHG-guarantee which provides additional protection against credit losses related to the cover assets.

From a credit perspective, we view negatively the following characteristics of the cover assets:

» There is a regional concentration in Noord Holland (21.8%), Zuid Holland (19.1%) and Noord Braband (18.7%) regions of The Netherlands. Large regional concentrations increase the risk of significant losses in a stressed future environment but are mitigated for this cover pool by the generally good credit quality of the individual borrowers and the 60% LTV eligibility criterion of the *Pfandbrief* Act that significantly reduces the expected loss severity of the individual loans in the cover pool.

» The loans are moderately seasoned (weighted average seasoning is 33 months).

## Additional cover pool analysis

**Legal risks for assets outside of Germany**

In the event of the issuer's insolvency, we believe that cover pool assets outside of Germany would be less protected against claims of the issuer's other creditors than would be assets in Germany. In particular, we have identified and analysed the following scenarios:

» Claims against borrowers outside of Germany or loans not governed by German law: In the case of loans not governed by German law, the borrower might be allowed to exercise set-off, thereby reducing the amount that would be payable to the benefit of covered bondholders. Loans outside of Germany account for the entire cover pool but the exposure to deposit set-off risk and set-off risks that arise from products linked to the mortgge loan is limited due to the limited amount of deposits borrowers maintain with Llyods Bank and the protection provided by the Dutch deposit protection scheme.

» Loans to borrowers outside of the European Economic Area (EEA): All of the mortgage loans are granted to borrowers within the EEA. If this were to change, in addition to the above risk, the cover pool assets might not be available to the covered bondholders on a priority basis because other (unsecured) creditors of the issuer might successfully access the assets in the cover pool. These actions might result in lower recovery, owing, for example, to secondary proceedings commenced under the respective domestic law.

## Comparables

Exhibit 12

**Comparables - Lloyds Bank GmbH – Mortgage Covered Bonds and other selected German and Dutch deals**

| PROGRAMME NAME | Lloyds Bank GmbH – Mortgage Covered Bonds | ING-Diba AG - Mortgage Covered Bonds | Commerzbank AG - Mortgage Covered Bonds | Santander Consumer Bank AG - Mortgage Covered Bonds | ABN AMRO Bank N.V. - Mortgage Covered Bonds | ING Bank N.V. - Mortgage Covered Bonds | Rabobank - Mortgage Covered Bonds |
|---|---|---|---|---|---|---|---|
| **Overview** | | | | | | | |
| Programme is under the law | Pfandbrief Act | Pfandbrief Act | Pfandbrief Act | Pfandbrief Act | geregistreerde gedekte obligatie | geregistreerde gedekte obligatie | geregistreerde gedekte obligatie |
| Main country in which collateral is based | Germany | Germany | Germany | Germany | Netherlands | Netherlands | Netherlands |
| Country in which issuer is based | Germany | Germany | Germany | Germany | Netherlands | Netherlands | Netherlands |
| Total outstanding liabilities | 500,000,000 | 11,305,000,000 | 30,635,748,409 | 1,025,000,000 | 25,135,705,377 | 22,393,771,989 | 23,028,000,000 |
| Total assets in the Cover Pool | 640,419,599 | 15,973,393,533 | 43,168,669,387 | 1,327,891,001 | 33,157,456,044 | 28,088,636,793 | 24,766,999,996 |
| Issuer name | Lloyds Bank GmbH | ING-DiBa AG | Commerzbank AG | Santander Consumer Bank | ABN AMRO Bank N.V. | ING Bank N.V. | Rabobank |
| Issuer CR assessment | A1(cr) | Aa3(cr) | A1(cr) | A1(cr) | Aa3(cr) | Aa3(cr) | Aa2(cr) |
| Group or parent name | Lloyds Bank plc | n/a | n/a | Santander Consumer Finance S.A. | n/a | ING Groep N.V. | n/a |
| Group or parent CR assessment | Aa3(cr) | n/a | n/a | A3(cr) | n/a | n/a | n/a |
| Main collateral type | Residential | Residential | Residential | Residential | Residential | Residential | Residential |
| Collateral types | Residential 100% | Residential 94%, Other/Supplementary assets 6% | Residential 95%, Commercial 2%, Other/Supplementary assets 4% | Residential 96%, Other/Supplementary assets 4% | Residential 100% | Residential 99%, Other/Supplementary assets 1% | Residential 100% |
| **Ratings** | | | | | | | |
| Covered bonds rating | Aaa | Aaa | Aaa | Aaa | Aaa | Aaa | Aaa |
| Entity used in Moody's EL & TPI analysis | Lloyds Bank GmbH | ING-DiBa AG | Commerzbank AG | Santander Consumer Bank AG | ABN AMRO Bank N.V. | ING Bank N.V. | Rabobank |
| CB anchor | Aa3 | Aa2 | Aa3 | Aa3 | Aa2 | Aa2 | Aa1 |
| CR Assessment | A1(cr) | Aa3(cr) | A1(cr) | A1(cr) | Aa3(cr) | Aa3(cr) | Aa2(cr) |
| SUR / LT Deposit | A3 | n/a | A2 | A2 | Aa3 | A1 | Aa2 |
| Unsecured claim used for Moody's EL analysis | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| **Value of Cover Pool** | | | | | | | |
| Collateral Score | 3.7% | 4.0% | 4.3% | 4.0% | 4.0% | 5.0% | 5.0% |
| Collateral Score excl. systemic risk | 1.3% | 3.7% | 4.0% | 1.7% | 2.4% | 2.7% | 3.1% |
| Collateral Risk (Collateral Score post-haircut) | 2.5% | 2.7% | 2.8% | 2.7% | 2.7% | 3.4% | 3.4% |
| Market Risk | 12.3% | 12.2% | 10.3% | 10.2% | 21.6% | 6.9% | 21.1% |
| **Over-Collateralisation Levels** | | | | | | | |
| Committed OC* | 2.0% | 2.0% | 2.0% | 2.0% | 8.1% | 5.0% | 5.0% |
| Current OC | 28.1% | 35.8% | 36.5% | 34.0% | 31.9% | 25.4% | 7.6% |
| OC consistent with current rating | 5.5% | 0.0% | 3.5% | 3.5% | 7.0% | 0.0% | 0.0% |
| Surplus OC | 22.6% | 35.8% | 33.0% | 30.5% | 24.9% | 25.4% | 7.6% |
| **Timely Payment Indicator & TPI Leeway** | | | | | | | |
| TPI | High | High | High | High | Probable-High | Probable-High | Probable-High |
| TPI Leeway | 4 | 5 | 4 | 4 | 4 | 4 | 5 |
| Reporting date | 30 August 2024 | 30 June 2024 | 31 March 2024 | 02 April 2024 | 31 March 2024 | 31 March 2024 | 31 March 2024 |

*We consider this level of OC as committed according to our methodology even though the level of OC provided via the asset cover test might be higher because the issuer could reduce the level of OC down to this level without a rating impact on our covered bond rating.

*Source: Moody's Ratings and issuer data*

## ESG considerations

We assess Environmental, Social and Governance (ESG) credit risks in our analysis based on general principles described in detail in the ESG cross-sector rating methodology available on moodys.com.

**Environmental considerations**

Overall exposure to meaningful environmental credit risks is low in this programme.

In respect of physical risks to the cover pool, there is some concentration risk with Noord Holland (21.8%), Zuid Holland (19.1%) and Noord Braband (18.7%). However, the pool is well diversified and these concentrations largely reflect the distribution of the Dutch population. The pool has certain exposure to flooding risk but the consequences are not likely to be material to credit. *In addition to geographical diversification, physical environmental factors are mitigated by mandatory possession of insurance in line with market practices and the Pfandbrief Act's requirements.*

In respect of regulatory risk, we expect that over time properties that do not meet climate-aligned standards for energy efficiency or carbon emissions will face regulatory sanctions and value impairment. However, we expect much of this risk to be gradually absorbed into the periodic updating of property valuations or ongoing renovation.

In the event of shocks in connection with regulation or physical hazards, the impact on property collateral will be partly mitigated by borrowers' liability to repay mortgage loans regardless of property value.

**Social considerations**

Overall exposure to social factors is moderate for this programme. In addition, the diversified nature of the cover pool is a mitigant to exposure to social factors.

Social factors that potentially affect the cover pool have varied implications. Social risks can arise from changing demographic trends such as aging, urbanization, an increase in telecommuting and flight from cities, population declines or ways of living trends in general that impact the supply or demand for housing in particular areas, which can reduce home values. Societal and demographic trends will be relevant but typically develop over an extended timeframe that smooths out materiality for expected loss.

Social issues may also be driven also by a political agenda related to housing and consumer protection, particularly in down cycles, creating pressure on recovery values. Borrower-friendly legislation as a reaction to consumer activism can affect both the underwriting and the servicing of mortgage loans in the cover pool. Social policy-driven decisions in the Netherlands, such as lowering underwriting standards at government-sponsored enterprises to increase homeownership, would reduce the credit quality of the cover pool.

**Governance considerations**

Overall exposure to meaningful governance credit risks is low and similar to other covered bond programmes under Dutch and German law.

The principal sources of governance for this programme are Germany's covered bond law. In this programme, there are control mechanisms in place that are designed to protect covered bondholders from mistakes, misallocation of cash flows and misappropriation of assets, and that promote compliance with the covered bond legal framework and operational and reporting requirements.

In particular, we note that (i) the issuer is a regulated credit institution with experience and expertise in carrying out residential lending and servicing activities; (ii) the issuer maintains the cover pool on its balance sheet, incentivising it to maximise cover pool value and aligning its interest with that of covered bond investors; (iii) the cover pool monitor and cover pool administrator are independent roles mandated and governed by the covered bond law; and the covered bond law (iv) ensures the bankruptcy remoteness of the cover pool; and (v) contains detailed reporting requirements and sanctions for issuer noncompliance.

## Methodology and monitoring

The primary methodology we use in rating the issuer's covered bonds is "Moody's Approach to Rating Covered Bonds", published in March 2024. Other methodologies and factors that may have been considered in the rating process can also be found on https://ratings.moodys.com. In addition, we publish a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at //www.moodys.com/SFQuickCheck.

We expect the issuer to deliver certain performance data to us on an ongoing basis. In the event that this data is not made available to us, our ability to monitor the ratings may be impaired. This lack of data availability could negatively affect the ratings or, in some cases, our ability to continue to rate the covered bonds.

## Appendix: Income underwriting and valuation

Exhibit 13

### Income underwriting and valuation - Residential assets

| A. Residential Income Underwriting | Answers for the Bank and the Cover Pool Hypothekenpfandbriefe |
|---|---|
| 1 Is income always checked? | Yes |
| 2 Does this check ever rely on income stated by borrower (“limited income verification”) ? | No, income is evidenced by documentation e.g. employment statement, salary slip. |
| 3 Percentage of loans in Cover Pool that have limited income verification | N/A |
| 4 If limited income verification loans are in the Cover Pool, describe what requirements lender has in place for these loans. | N/A |
| 5 Does income in all cases constrain the amount lent (for example through some form of Income Sufficiency Test (“IST”)? | The affordability calculation is highly regulated in the Netherlands. |
| 6 If not, what percentage of cases are exceptions. | N/A |
| **For the purpose of any IST:** | |
| 7 Is it confirmed that income after tax is sufficient to cover both interest and principal? | The income before tax is used for the affordability calculation. Based on income and interest rate a set percentage of he income can be used for mortgage payment. The rest of the income should be sufficient for normal living and household expenses. Every year these DTI tables are set by an independend institute ('NIBUD') onder supervision of the Dutch governement. |
| 8 If so over what period is it assumed principal will be paid (typically on an annuity basis)? Any exceptions? | For the affordability calculation the mortgage is considered to be annuïty based whit actual term of the mortgage. Maximum term is 30 years. |
| 9 Does the age of the borrower constrain the period over which principal can be amortised? | No |
| 10 Are any stresses made to interest rates when carrying out the IST? If so when and for what type of products? | In case of a interest fixed term of 10 years or longer the actual interest rate is used in the affordability calculation. With interest fixed periods shorter than 10 years a stress rate is used. This stress rate is set by the Ducth Financial regulator ('AFM') every quarter. |
| 11 Are all other debts of the borrower taken into account at the point the loan is made? | Yes, other debts should also fit within the DTI. The debt can have effect on the maximum mortgage amount. Otr customer should redeem the debt. Credit facilities, like personal loans, are registered at the Dutch Credit Agency ('BKR'). During the onboarding process the BKR is checked for every applicant. BKR is an independent foundation under supervision of the Dutch governement. |
| 12 How are living expenses of the borrower calculated? And what is the stated maximum percentage of income (or income multiple if relevant) that will be relied on to cover debt payments. (specify if income is pre or post tax) | Based on income and interest rate a set percentage of he income can be used for mortgage payment. The rest of the income should be sufficient for normal living and household expenses. Every year these DTI tables are set by an independend institute ('NIBUD') onder supervision of the Dutch governement. |
| Other comments | |

| B. Residential Valuation | |
|---|---|
| 1 Are valuations based on market or lending values? | Market valuation on the basis of a NWWI-appraisal serves as source. For the Cover Pool, a Mortgage Lending Value is calculated. |
| 2 Are all or the majority of valuations carried out by external valuers (with no direct ownership link to any company in the Sponsor Bank group)? | Valuation of properties is highly self-regulated in the Netherlands by the NRVT ('Stichting Nederlands Register Vastgoed taxateurs') in cooperation with Dutch financial regulators. Property valuers are registered at this foundation and the foundation aims to safe guard the professional competence of valuers. The valuation of a property is performed by an independent and qualified valuer after order of the customer. The valuation report is a predefined model and each valuation is validated by NWWI ('Nederlands Woning Waarde Instituut'). NWWI is a foundation that validates if valuers and valuation reports comply to the criteria.<br>Within certain limits a DeskTop valuation can be sufficient for the purpose of the credit decision. This is not a full, on-sight valuation. The DeskTop valuation is based on model value calculation which then is assessed by a valuer. For the the Pfandbrief Cover Pool, Dekstop-valuated properties are excluded. |
| 3 How are valuations carried out where an external valuer not used? | Lloyds Bank employs internal valuers. External valuations, compliant with the requirements of the Morgtgage Lending Value Directive (MLV/BelWertV), are being produced by an external service provider, also comissioning certified valuers. |
| 4 What qualifications are external valuers required to have? | Property valuers need to be registered at the NRVT and be member of a profession society, like te Ducth Society of brokers and valuers ('NVM'). Valuers have to complete education ('Basisopleiding Taxateur') to become valuer in training. Under supervision of a registered valuer the trainee will have to go to a process of gain experience in the work-field. This will take upto 5 yeras. Valuers are inclonde to follow a permanent education programm. The 'NRVT' safeguards that registered valuers have the required qualifications. |
| 5 What qualifications are internal valuers required to have? | Internal Valuers with delegated credit authorities are appointed by the bank in accordance to BelWertV §6. |
| 6 Do all external valuations include an internal inspection of a property? | Yes, the valuation report is a predefined model inculding pictures of the property and a description of the internal and external lay-out and maintanance of the property. |
| 7 What exceptions? | No exceptions. In case of a Desktop valuation there is no on-sight inspection of the property. Desktop valuations are excluded from Cover Pool. |
| 8 Do all internal valuations include an internal inspection of a property? | Yes, by NWWI valuators. |
| 9 What exceptions? | N/A |
| Other comments | |

*Source: Issuer*

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CLIENT SERVICES


| | |
|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |