

Rating Action: Moody's downgrades Bausparkasse Mainz to Baa1 (Germany)

Global Credit Research - 30 Aug 2011

C- BFSR and Prime-2 short-term ratings affirmed

Frankfurt am Main, August 30, 2011 -- Moody's Investors Service has today downgraded the long-term bank deposit rating of Bausparkasse Mainz (BKM) to Baa1 from A3. Concurrently, the rating agency affirmed the bank's standalone bank financial strength rating (BFSR) of C- (mapping to Baa1 on the long-term rating scale) and the Prime-2 short-term rating. The outlook on all ratings remains stable.

RATINGS RATIONALE

The downgrade of the long-term bank deposit rating reflects the rating agency's view of low systemic support for BKM following the recent introduction of a resolution regime in Germany and given the bank's small size. If applied, the resolution regime would allow regulators to selectively transfer assets and/or liabilities and impose losses on creditors. Moody's believes there is a decreasing willingness of the central government to support banks using taxpayer's money. The reassessment resulted in BKM's long-term ratings being based exclusively on the bank's Baa1 standalone credit profile and no longer incorporating any rating uplift from support.

Moody's affirmation of the C- BFSR reflects BKM's satisfactory financial fundamentals, reflected in a Tier 1 capital ratio of 8.6% as at year-end 2010 on the back of its low risk-return business profile. As a building and loan association, BKM specialises in low-yielding, but highly collateralised retail-mortgage lending, which contributed 80% of the bank's EUR2.5 billion balance sheet as at year-end 2010. However, the C- BFSR remains constrained by the credit and market risks inherent in the bank's EUR440 million diversified and highly rated securities portfolio of sovereign, financial institutions and corporate bonds.

Moody's recognises that in recent years BKM has successfully reduced its reliance on interbank funding by expanding its retail deposit base. However, the persistently low interest-rate environment has challenged BKM's franchise and core product of building savings agreements, as reflected in the slightly declining loan book.

KEY SENSITIVITIES

Upward pressure on BKM's standalone rating BFSR could result from an improved profitability without compromising on underwriting standards and risk appetite. Any improvements in BKM's BFSR would also exert upward pressure on the long-term deposit ratings.

Moody's would consider remapping the C- BFSR to Baa2 on the long-term scale (from Baa1) if BKM (i) experienced a prolonged period of loan-book shrinkage coupled with a deterioration in asset quality; or (ii) suffered credit deterioration from its relatively large securities portfolio. Moreover, a remapping of the C- BFSR or a downgrade of the BFSR would exert immediate downward pressure on the long-term rating in the absence of rating uplift from support.

PREVIOUS RATING ACTIONS AND PRINCIPAL METHODOLOGIES

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The principal methodologies used in this rating were Bank Financial Strength Ratings: Global Methodology published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology published in March 2007. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Mainz, Germany BKM reported total assets of EUR2.5 billion and net income of EUR0.1 million at year-end 2010 (after allocation of EUR3.0 million to silent reserves according to 340f HGB), while the Tier 1 ratio stood at 8.6%.

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