MOODY'S RATINGS

Financial Institutions

CREDIT OPINION

22 January 2025

Update

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Bausparkasse Mainz AG

Update following rating affirmation

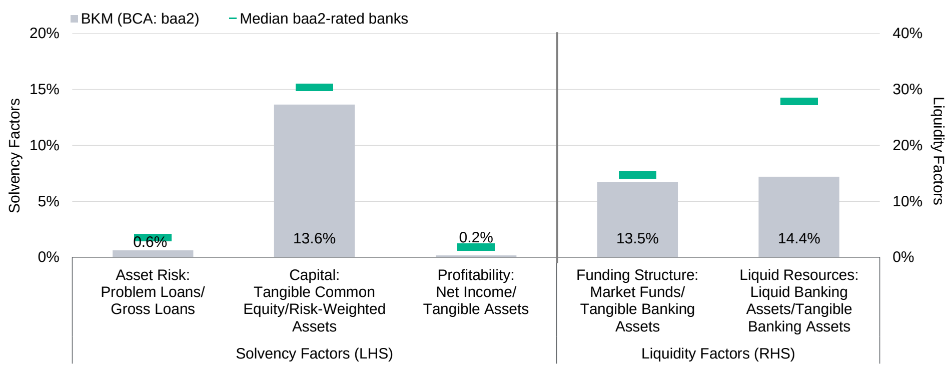
Summary

Bausparkasse Mainz AG (BKM)'s A2/P-1 deposit ratings reflect the bank's baa2 BCA and three notches of rating uplift from our Advanced Loss Given Failure (LGF) analysis, which incorporates the relative loss severity of a liability class. BKM's ratings do not benefit from government support uplift because of its small size in the context of the German banking system.

BKM's baa2 BCA reflects the strong credit quality of its highly-collateralized residential mortgages, which the bank underwrites within the framework of Germany's building and loan association law, a sound and conservatively measured capitalization, but also vulnerabilities from its rather low profitability. It further considers the bank's defensive and largely deposit-focused funding, paired with sufficient availability of liquid resources, in case of deposit outflows. The baa2 BCA takes into account BKM's highly focused business model that results in very limited earnings diversification and significant sector concentration risk.

Exhibit 1

Rating Scorecard - Key financial ratios



Asset risk and profitability ratios reflect the worse of the average for 2021-23 or the latest reported figure.

Source: Moody's Ratings

RATINGS

Bausparkasse Mainz AG

Domicile	Mainz, Germany
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Dom Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Credit strengths

» Strong degree of collateralisation and granularity in BKM’s loan book

» Limited reliance on market funding sources

» Improving and conservatively calculated capital ratios, which will help BKM maintain buffers against growing regulatory requirements

Credit challenges

» The focus of BKM's business model on domestic residential mortgage lending exposes it to the risks in Germany’s economy and housing market.

» In an environment of higher rates, the Bauspar model will produce lower excess liquidity.

» BKM will only slowly manage to improve its modest profitability

Outlook

The stable outlook on the long-term deposit ratings reflects our expectation that BKM's key financials and credit profile will remain broadly unchanged over the next 12-18 months. It furthermore reflects our expectation that BKM's funding profile will continue to utilize more junior instruments to protect its favourable rating uplift from our Advanced LGF analysis.

Factors that could lead to an upgrade

» An upgrade of BKM's long-term ratings would require an upgrade of its BCA combined with an unchanged notching uplift from our Advanced LGF analysis.

» An upgrade of BKM's BCA could be driven by a material joint strengthening of BKM's core financial ratios or if the bank was to significantly reduce the concentration risks resulting from its monoline business model.

Factors that could lead to a downgrade

» BKM's ratings could be downgraded as a result of a BCA downgrade or because of fewer notches of rating uplift from our Advanced LGF analysis, for example if BKM shifts its funding even more towards bail-in-remote liabilities.

» A downgrade of BKM's BCA could result from a weakening in the bank's solvency or in case the risks from its product focus as a specialized building and loan association would rise significantly, for example caused by extreme changes in interest rates.

Key indicators

Exhibit 2
Bausparkasse Mainz AG (Consolidated Financials) [1]

	12-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	2.8	2.8	2.7	2.5	2.4	3.6[4]
Total Assets (USD Billion)	3.1	3.0	3.1	3.1	2.7	3.1[4]
Tangible Common Equity (EUR Billion)	0.2	0.1	0.1	0.1	0.1	3.2[4]
Tangible Common Equity (USD Billion)	0.2	0.2	0.2	0.2	0.1	2.8[4]
Problem Loans / Gross Loans (%)	0.6	0.3	0.3	0.3	0.5	0.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	13.6	13.4	13.3	13.3	13.8	13.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	9.1	4.0	5.0	4.1	7.6	6.0[5]
Net Interest Margin (%)	1.6	1.5	1.6	1.7	1.6	1.6[5]
PPI / Average RWA (%)	1.1	0.9	0.9	0.8	0.9	0.9[6]
Net Income / Tangible Assets (%)	0.2	0.2	0.2	0.2	0.3	0.2[5]
Cost / Income Ratio (%)	72.8	76.2	77.2	79.6	79.5	77.0[5]
Market Funds / Tangible Banking Assets (%)	13.5	13.7	11.8	13.8	14.7	13.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	14.4	16.3	17.7	16.2	17.1	16.4[5]
Gross Loans / Due to Customers (%)	116.6	112.8	107.0	109.5	108.9	111.0[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

Bausparkasse Mainz AG (BKM) is a specialised residential mortgage lender, and is subject to separate legislation for German building and loan associations (Bausparkassen). Bausparkassen provide long-term financial planning solutions for homebuyers. Their core product is the Bauspar contract, whereby customers make deposits over a flexible number of years at a fixed interest rate so as to build up a down payment on a property. Bausparkassen use the deposited funds from new clients to provide mortgages to clients who have already saved up their equity buffer.

Legally, the sector's activities are restricted to residential mortgage lending, either via the Bauspar contracts or in competition with retail banks on the open market. With total assets of €2.8 billion as of 31 December 2023, BKM is one of the smaller entities among the 13 German building and loan associations. BKM is ultimately wholly owned by INTER Versicherungsverein aG, which is a holding company of multiple insurance companies in Germany and Poland.

Weighted macro profile of Strong (+)

BKM is focused exclusively on the German market, with only select non-domestic exposures within the bank's investment portfolio. We, therefore, assign to the bank a weighted macro profile of Strong (+), in line with the Strong (+) macro profile of Germany.

Detailed credit considerations

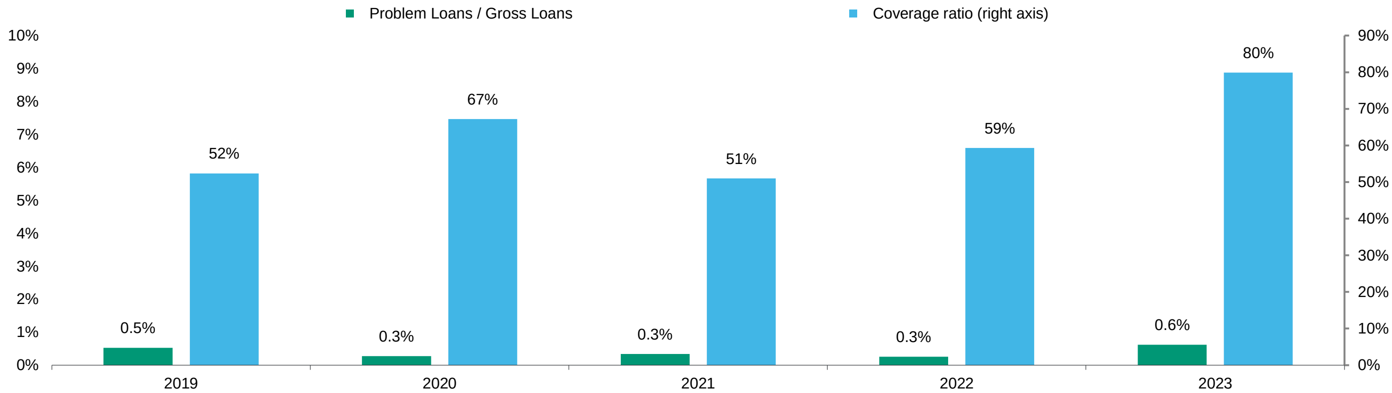
Sound asset quality because of the highly granular and collateralised loan book

We assign an a2 Asset Risk score, three notches below the aa2 initial score, reflecting that BKM's reported nonperforming loan metrics that form the basis for the aa2 initial score do not capture BKM's exposure to unimpaired[1] past due problem loans. The a2 score furthermore captures our expectation that BKM will experience moderate additional problem loan formation as a result of the weak outlook for the German economy and employment landscape.

The credit risk of BKM's loan book is nevertheless low, as reflected by the institution's focus on residential mortgage lending and the inherent high single-name portfolio granularity. For loans subject to the Bausparkassengesetz, the maximum loan-to-value (LTV) ratio has been capped at 100% for owner-occupied properties since 2015, and it remains capped at 80% for all other residential mortgage loans.

Exhibit 3

BKM's asset-quality metrics have remained sound despite some formation of problem loans that we expect to continue in 2025



The problem loan ratio is per our definition.
Sources: Company reports and Moody's Ratings

While the Bauspar business model generally grants a variety of behavioral options to the customers, including mortgage loan prepayment rights and depositing as well as borrowing timing options, BKM's use of hedges and its product design and diversification beyond the core Bauspar contract business allow the bank to keep its exposure to interest rate risk at low levels that align well with that of larger and medium-sized German banks which typically operate with lower interest rate exposure than their smaller peers.

Increased capital requirements reduce BKM's sound buffers

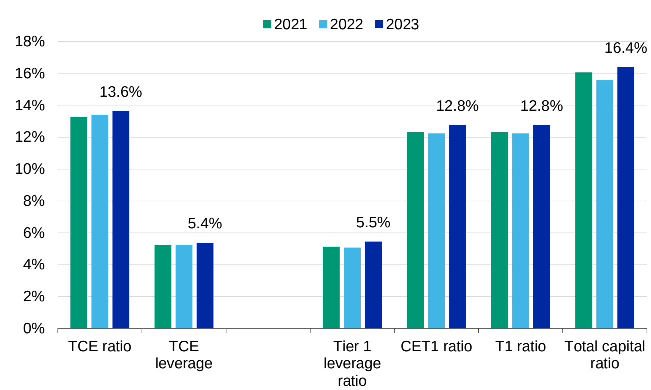
We assign an a3 Capital score, one notch below the initial score, reflecting additional capital requirements for German residential mortgage loans, which have moderately reduced BKM's regulatory capital distance to minimum requirements. At the same time, the a3 score acknowledges the bank's conservative calculation of risk-weighted assets (RWA) under the standardised approach.

From 2025, we expect BKM to benefit from the upcoming finalisation of the Basel III rules under which risk weights calculated under the standardised approach for low LTV parts of residential mortgage books will decline from 35% to 20%.

Tangible common equity (TCE), our preferred metric to measure a bank's capitalization, has exceeded BKM's regulatory Common Equity Tier 1 (CET1) capital, mainly as a result of earlier profits recognition in TCE and of the inclusion of 340f contingency reserves[2] which are from a regulatory perspective not eligible as CET1 capital but which we consider analytically broadly equivalent to CET1-eligible reserves.

Exhibit 4

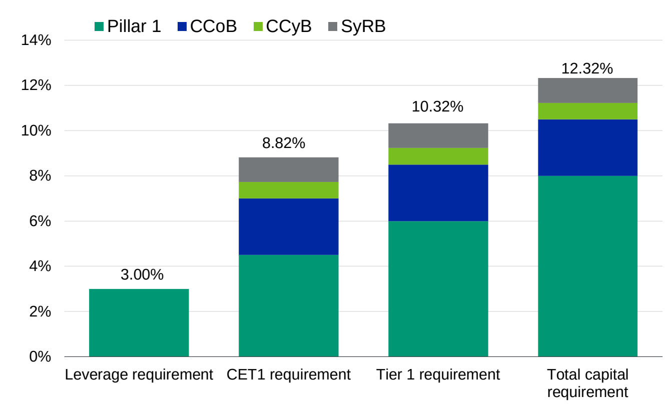
BKM's risk-weighted capital ratios and leverage have improved steadily



TCE = Tangible common equity (Moody's calculation); CET1 = Common Equity Tier 1 capital; T1 = Tier 1 capital.
Sources: Moody's Ratings and company reports

Exhibit 5

BKM's capital requirements as of year-end 2023



CCoB = Capital conservation buffer; CCyB = Countercyclical capital buffer.
Source: Company reports

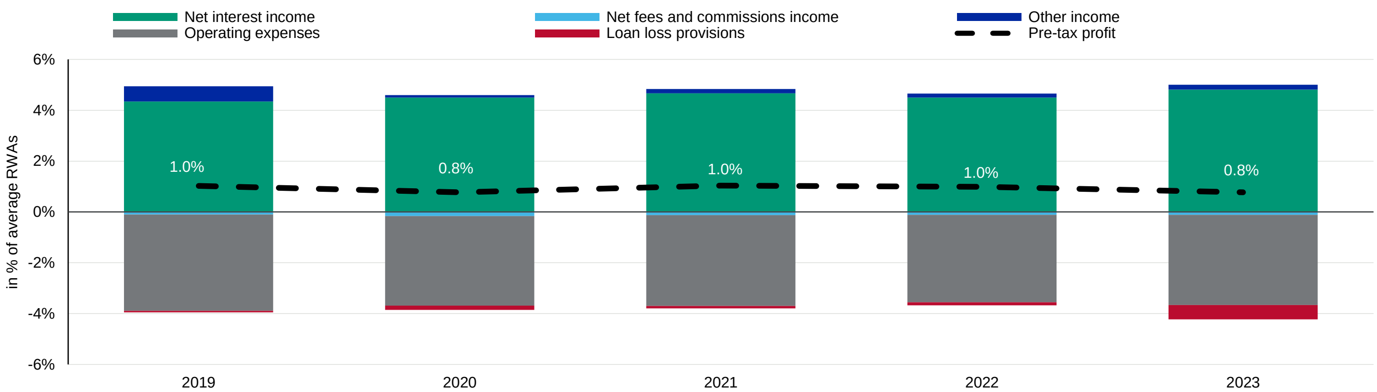
Profitability will improve only gradually and depends highly on net interest income

We assign a b1 Profitability score, at the level of the b1 initial score. The b1 assigned score reflects our expectation that profitability will remain close to current levels. BKM has additional scope to offset higher funding costs and moderately increased loan loss provisions, especially by generating higher new business interest margins.

One of the weaknesses of BKM's income statement is its structurally low diversification of interest income-dependent revenue and inflexible costs. BKM's fixed rate mortgage loan book will only gradually reprice to higher rates. We understand that in 2024, BKM has - against a weaker industry-wide trend - benefitted from good customer demand for Bauspar savings contracts, which customers use as a vehicle to secure low fixed rates for the future acquisition or modernisation of properties. The resulting Bauspar deposit inflow and particularly lower pension expenses[3] more than offset the upward repricing of BKM's market funding and non-Bauspar term deposits.

Exhibit 6

BKM's earnings have been resilient, but remain subdued



Sources: Moody's Ratings and company reports

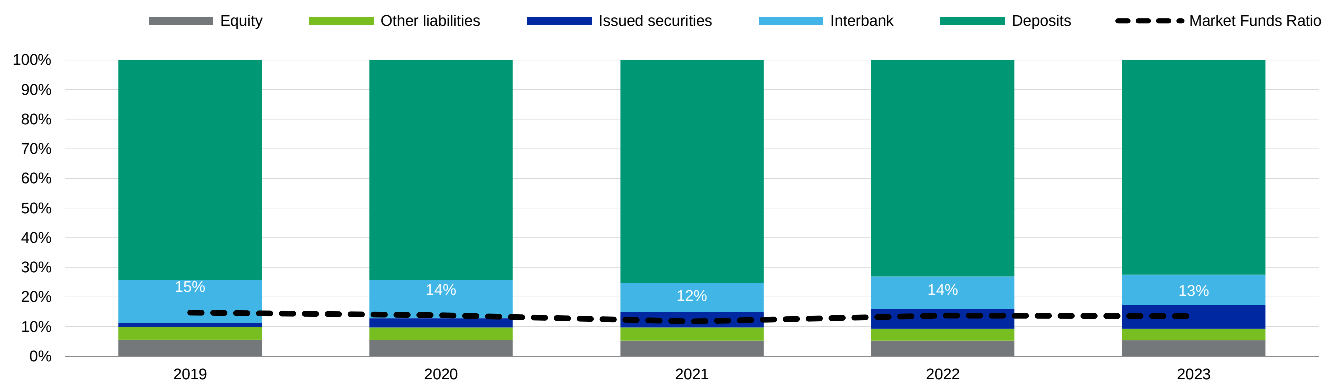
BKM benefits from a diversified funding structure; dependence on debt markets is low

We assign a baa1 Funding Structure score, two notches below the a2 initial score. The score reflects our upward adjustment to the market funds ratio because BKM has some issued debt outstanding that is not included in our initial calculation of market funds, but also that the bank relies to a greater degree on term deposits than its peers.

Bauspar deposits fund less than one third of the bank's total assets. Based on a good takeup of Bauspar contracts from customers, we expect the contribution from lowly remunerated current generation Bauspar deposits to have increased in 2024 and to continue to do so in 2025. BKM has complemented this core funding source through a mix of term deposits, junior senior unsecured promissory notes and covered bonds. The higher share of these instruments in BKM's funding mix has supported a more steady development of BKM's net interest income over the cycle compared with the German building and loan association sector.

Only a moderate amount of BKM's funding relies on institutional funds and under the regulatory net stable funding ratio (NSFR) calculation, almost 85% of the bank's total assets were covered by available stable funds, which resulted in a comfortable NSFR of 136% as of December 2023.

Exhibit 7
Interbank funding and private placements of covered bonds and promissory notes complement BKM's deposit funding basis



*Market funds ratio = market funds/tangible banking assets.
Source: Moody's Ratings

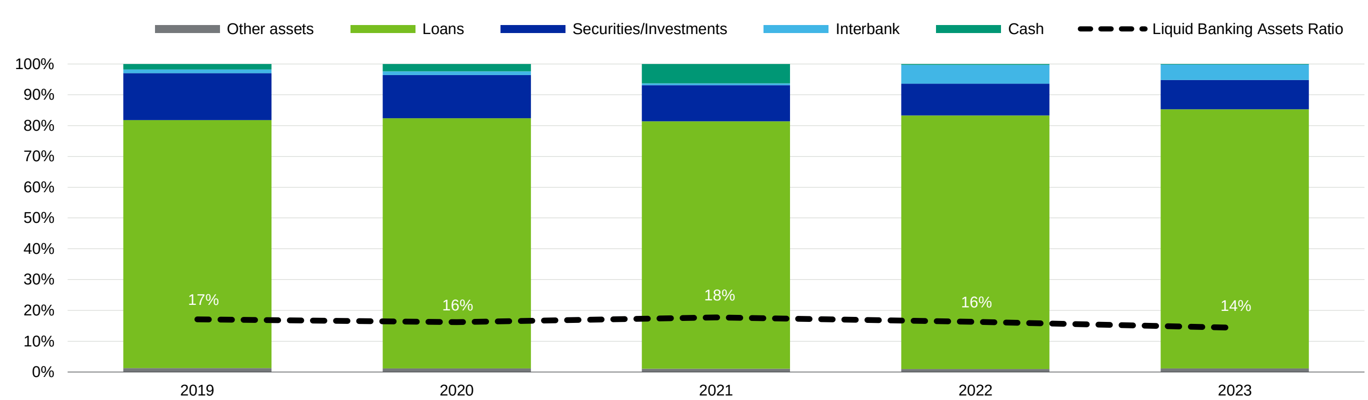
BKM maintains sound liquidity buffers

We assign a baa3 Liquid Resources score, one notch above the ba1 initial score. The adjustment reflects our expectation that BKM's Liquid Resources will account for around 15% of its Tangible Banking Assets (TBA) going forward.

With Bauspar deposits having by far exceeded the demand for Bauspar loans over many years, Bauspar contracts have been a stable and reliable source of funding for non-Bauspar mortgage lending activities of Bausparkassen, which also invested some of the excess funds in securities portfolios. We now rather expect a pickup in the demand for Bauspar loans, and a corresponding reduction in excess deposits, which will induce BKM and to a greater degree its peers to manage liquidity more tightly.

BKM's liquidity portfolio contains a high proportion of central bank-eligible securities to counter unexpected liquidity outflows, which is also reflected in high levels of compliance with the regulatory liquidity coverage ratio (249% in 2023). Unrealized losses on this securities portfolio, which is accounted for at amortized cost instead of fair value, are more than covered by gains from interest rate swap hedges.

Exhibit 8
BKM's liquid resources have remained sound



*Liquid banking assets ratio = liquid assets/tangible banking assets.
Source: Moody's Ratings

The narrow business model of mortgage lending constrains the BCA

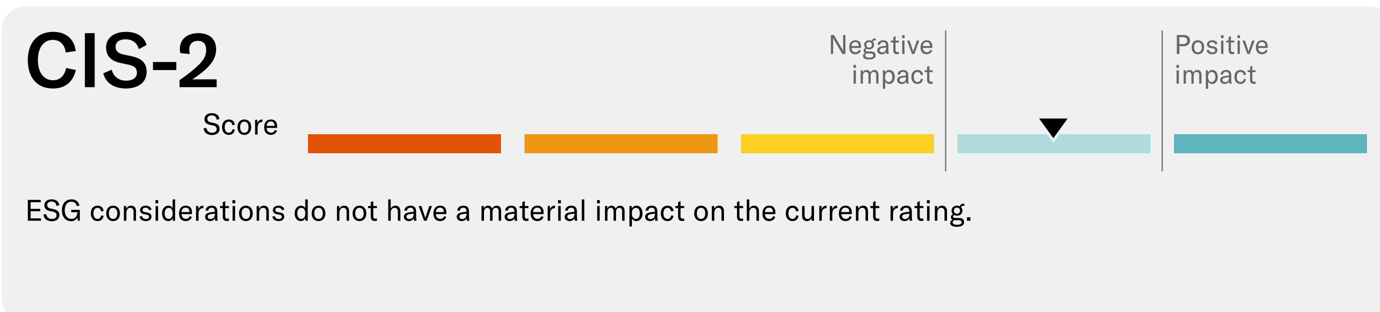
We reduce the weighted average outcome of BKM's assigned Financial Profile factor score by one notch. This adjustment reflects BKM's high concentration in mortgage lending (Baufinanzierung) and the Bauspar product and leads to currently low earnings and thus negligible diversification outside these lending activities. The scope of these activities is narrowly limited by the special law applicable for German Bausparkassen under which BKM operates. Therefore, we classify it as a monoline entity.

Business diversification is an important gauge of a bank's sensitivity to stress in a single business line. It is related to earnings stability in the sense that earnings diversification across distinct and relatively uncorrelated lines of business increases the reliability of a bank's earnings streams and its potential to absorb shocks affecting a business line.

ESG considerations

BKM's ESG Credit Impact Score is neutral-to-low CIS-2

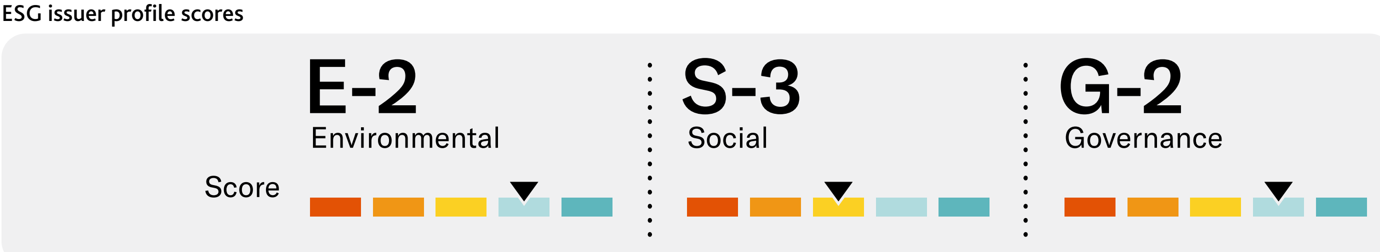
Exhibit 9
ESG credit impact score



Source: Moody's Ratings

BKM's **CIS-2** reflects the limited credit impact of environmental and social factors on the ratings to date and neutral-to-low governance risks.

Exhibit 10
ESG issuer profile scores



Source: Moody's Ratings

Environmental

BKM faces low exposure to environmental risks. The building and loan association has limited exposure to carbon transition risks because its loan book is concentrated in German residential mortgages, with no exposure to commercial loans.

Social

BKM faces moderate social risks related to customer relations and associated regulatory risks, litigation costs and high compliance standards, and from demographic and societal trends. Risks related to the distribution of financial products are mitigated by the bank's developed policies and procedures; cyber and personal data risks are mitigated by the bank's IT framework and cyber security, and by continued investment in digitalization. Banks in Germany face long-term economic and fiscal pressures from adverse demographic trends, impacting demand for certain products, or lowering economic growth. Product diversity as well as an ability to adapt to consumer preferences, regulatory changes and societal trends will help mitigate these risks.

Governance
BKM faces low governance risks. The building and loan association's risk management, policies, and procedures are in line with industry practices and are suitable for its risk appetite, as evidenced by its strong asset quality. BKM also demonstrates sound management of capital and liquidity, while maintaining stable earnings generation. Despite operating profitably, BKM has not paid dividends to its owner Inter Versicherungsgruppe, a German mutualist insurance group, for more than a decade, which underscores a long-term approach of the owner to its investment in BKM. In turn, the concentrated ownership by Inter Versicherungsgruppe also results in a narrow composition of BKM's supervisory board, which may limit the effectiveness of board oversight.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis
BKM is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider to be an Operational Resolution Regime. Thus, we apply our Advanced LGF analysis. We assume the proportion of deposits considered junior at 10%, below our standard assumption of 26%, because of the bank’s largely retail-oriented depositor base. All the other assumptions are in line with our standard ones.

For BKM's deposits, rated A2, our LGF analysis indicates an extremely low loss given failure, leading to three notches of uplift from the baa2 Adjusted BCA.

Government support considerations
Since the introduction of the BRRD, we have only very selectively assigned moderate expectations of support that the government might provide to a bank in Germany in the event of need. Because of its small size relative to the German banking system and its limited degree of systemic interconnectedness, we assume a low probability of support for BKM, which does not result in any rating uplift from government support.

Methodology and scorecard

Methodology
The principal methodology we used in rating BKM is our Banks Methodology.

About Moody's Bank Scorecard
Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 11
Rating Factors

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.6%	aa2	↓	a2	Sector concentration	Expected trend
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	13.6%	a2	↑	a3	Risk-weighted capitalisation	Stress capital resilience
Profitability						
Net Income / Tangible Assets	0.2%	b1	↔	b1	Return on assets	Expected trend
Combined Solvency Score		a3		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	13.5%	a2	↔	baa1	Extent of market funding reliance	Deposit quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	14.4%	ba1	↔	baa3	Stock of liquid assets	Expected trend
Combined Liquidity Score		baa1		baa2		
Financial Profile				baa1		
Qualitative Adjustments				Adjustment		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	494	17.5%	633	22.5%
Deposits	1,992	70.8%	1,852	65.8%
Preferred deposits	1,792	63.7%	1,703	60.5%
Junior deposits	199	7.1%	149	5.3%
Junior senior unsecured bank debt	204	7.3%	204	7.3%
Dated subordinated bank debt	40	1.4%	40	1.4%
Equity	84	3.0%	84	3.0%
Total Tangible Banking Assets	2,814	100.0%	2,814	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	17.0%	17.0%	17.0%	17.0%	3	3	3	3	0	a2
Counterparty Risk Assessment	17.0%	17.0%	17.0%	17.0%	3	3	3	3	0	a2 (cr)
Deposits	17.0%	11.7%	17.0%	11.7%	3	3	3	3	0	a2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a2	0	A2	
Counterparty Risk Assessment	3	0	a2 (cr)	0	A2(cr)	
Deposits	3	0	a2	0	A2	A2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 12

Category	Moody's Rating
BAUSPARKASSE MAINZ AG	
Outlook	Stable
Counterparty Risk Rating -Dom Curr	A2/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)

Source: Moody's Ratings

Endnotes

1 As a local GAAP reporter, BKM does not report the loan stage breakdown according to IFRS9 but only discloses its impaired gross loans volume. When the security provided by mortgage and other collateral is considered more than sufficient to ensure full repayment of a loan that is past due by more than 90 days, banks will not impair these, but we would still include these exposures in our problem loan ratio, in line with our treatment of stage 3 loans under IFRS9.

2 The 340f reserves under German GAAP are deducted from gross loans rather than being accounted for under liabilities, and are not recognised in banks' Common Equity Tier 1 (CET1) capital ratios. Under the international financial reporting standards (IFRS), such reserves would need to be released and included in balance-sheet capital and CET1 capital. These reserves are typically fully taxed. In the case of BKM, however, reversals of 340f reserves lead to a reduction in deferred tax assets, as was the case in 2022 when BKM expensed €1.1 million in deferred tax assets upon the conversion of €4.0 million of 340f reserves into CET1-eligible 340g reserves.

3 During the low rate environment, BKM recorded substantial annual expenses for defined benefit pension plans. These are determined to a significant degree by the discount rate applied to calculate the present value of future obligations and by the growth dynamic of state pensions. Under local GAAP, the discounting of pension provisions is based on a long-term (10-year average) discount rate that has moderately increased from a low point in 2022, which reduces the present value of the future liabilities.

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