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INVESTORS SERVICE

CREDIT OPINION
15 January 2024

Update

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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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Bausparkasse Mainz AG

Update following rating affirmation

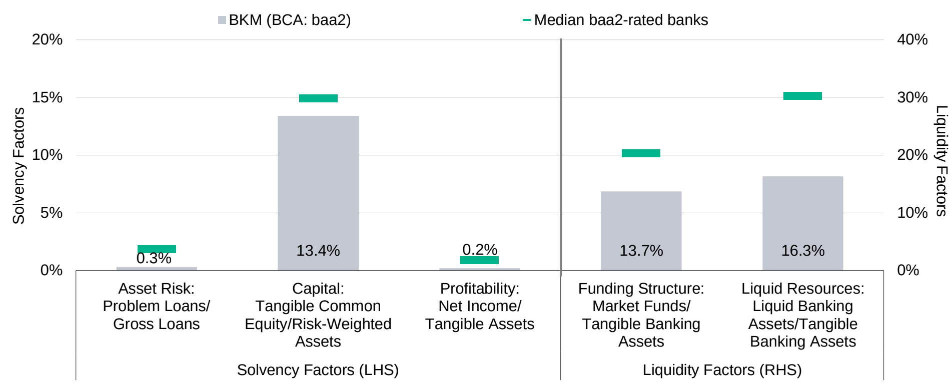
Summary

On 9 January 2024, we affirmed the ratings of Bausparkasse Mainz AG (BKM), including the bank's A2/P-1 deposit ratings. Among others, we also affirmed BKM's baa2 Baseline Credit Assessment (BCA) and Adjusted BCA.

BKM's A2 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 bank's strong asset quality and solid capitalization as well as its rather moderate market funding dependence and gathering of highly granular Bauspar deposits as well as term deposits. It also takes into account the narrow focus of BKM's building and loan association (Bausparkassen) business model on residential mortgage lending in Germany and the risks associated with customer options granted under this model. Its sector concentration exposes BKM to a macro environment that offers both revenue potential from higher interest rates and challenges for its mortgage customers stemming from declining property prices and higher financing rates over time.

Exhibit 1
Rating Scorecard - Key financial ratios



Asset risk and profitability ratios reflect the worse of the average for 2020-22 or the latest reported figure.
Source: Moody's Investors Service

Credit strengths

- » Strong degree of collateralisation in BKM's loan book
- » Limited reliance on market funding sources
- » Improved 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 residential mortgage lending exposes it to the risks in Germany's housing market.
- » In an environment of higher rates, the Bauspar model will produce significantly lower excess liquidity.
- » We expect pressure on operating revenue, so far driven by BKM's high reliance on net interest income, to abate as the challenges arising from the low rate environment fade.

Outlook

The stable outlook reflects our expectation that BKM's management will be able to continue to steer the bank safely through an environment of dynamic interest rate developments and that its core financials remains largely unchanged, as well as the rating agency's expectation that BKM's funding profile will continue to utilize more junior instruments to protect its favourable rating uplift from our LGF analysis.

Factors that could lead to an upgrade

- » An upgrade of BKM's 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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Bausparkasse Mainz AG (Consolidated Financials) [1]

	12-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	2.8	2.7	2.5	2.4	2.4	3.2[4]
Total Assets (USD Billion)	3.0	3.1	3.1	2.7	2.8	1.5[4]
Tangible Common Equity (EUR Billion)	0.1	0.1	0.1	0.1	0.1	5.2[4]
Tangible Common Equity (USD Billion)	0.2	0.2	0.2	0.1	0.1	3.4[4]
Problem Loans / Gross Loans (%)	0.3	0.3	0.3	0.5	0.7	0.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	13.4	13.3	13.3	13.8	12.9	13.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	4.0	5.0	4.1	7.6	10.8	6.3[5]
Net Interest Margin (%)	1.5	1.6	1.7	1.6	1.5	1.6[5]
PPI / Average RWA (%)	0.9	0.9	0.8	0.9	1.2	1.0[6]
Net Income / Tangible Assets (%)	0.2	0.2	0.2	0.3	0.2	0.2[5]
Cost / Income Ratio (%)	76.2	77.2	79.6	79.5	74.6	77.4[5]
Market Funds / Tangible Banking Assets (%)	13.7	11.8	13.8	14.7	19.5	14.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	16.3	17.7	16.2	17.1	16.8	16.8[5]
Gross Loans / Due to Customers (%)	112.8	107.0	109.5	108.9	110.6	109.8[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 Investors Service 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 2022, BKM is one of the smaller entities among the 15 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

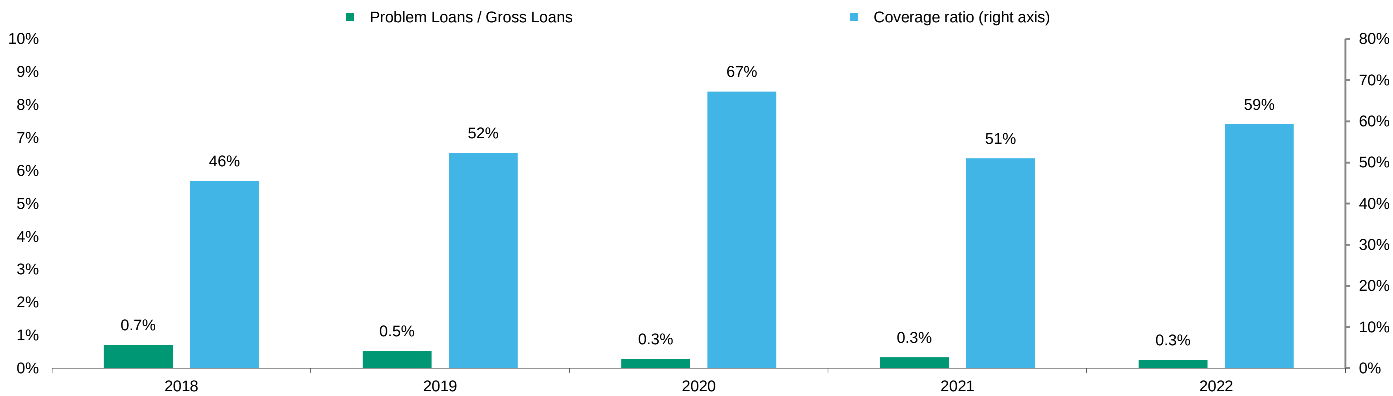
Sound asset quality because of the highly granular and collateralised loan book

We assign an a2 Asset Risk score, four notches below the aa1 initial score, reflecting our view that BKM's most recently reported nonperforming loan metrics that form the basis for the aa1 initial score are substantially below the normalised problem loan levels that we expect to observe over the long run. The a2 score also reflects BKM's concentrated exposure to the German residential property lending market.

The credit risk of BKM's loan book is relatively 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.

We expect the increase in inflation and interest rates as well as subdued economic growth to moderately weaken the strong credit performance of BKM's mortgage loan book in 2024, because we expect the bank's very low problem loan ratio to rise moderately because of tighter disposable income for lower-income mortgage borrowers. As of year-end 2022, loans with specific loan loss reserves accounted for only 0.3% of gross loans. BKM's low reported nonperforming loan ratio also benefitted from the strong price performance of German residential properties until 2022, because BKM excludes claims that are more than covered by stressed collateral values from its problem loan metric. We expect property price declines during 2023-24 to lead to an increase in the share of problem loans that attract specific loan loss provisions.

Exhibit 3
BKM's asset-quality metrics have remained sound



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

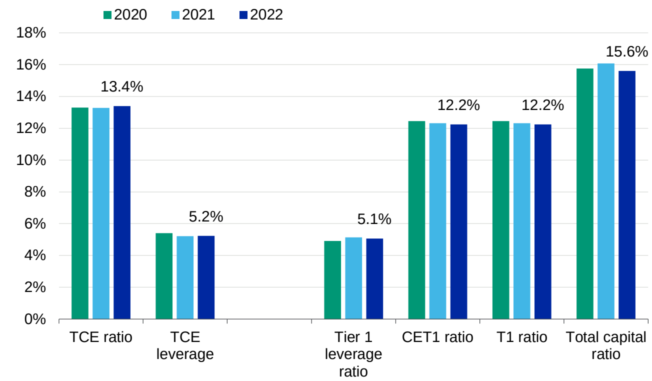
Increased capital requirements reduce BKM's sound buffers

We assign an a3 Capital score, one notch below the initial score, which takes into account 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 improving internal capital generation and its conservative calculation of risk-weighted assets (RWA) under the standardised approach. We consider BKM's current capitalisation levels commensurate with the institution's relatively low risk profile.

With its highly collateralised loan book and the chosen standardised approach for calculating RWA, we expect BKM to be less exposed to capital risks stemming from cyclical pressures and regulatory risks because the bank will be broadly unaffected by the finalisation of the Basel III rules during 2025-30. However, a 0.75% countercyclical buffer on domestic risk-weighted exposures and a 2.0% systemic risk buffer for risk-weighted exposures collateralised by residential real estate took effect in 2023. Because BKM's loan book is exclusively derived from Germany and solely represents residential real estate exposures, the bank faces, at least temporarily, a substantial increase in its capital requirements.

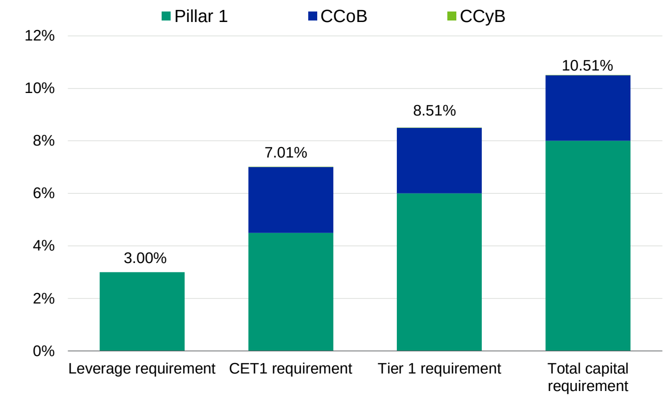
As of year-end 2022, BKM's Moody's-adjusted tangible common equity (TCE) ratio of 13.4% remained almost unchanged compared with 13.3% as of December 2021. This ratio includes the €3.2 million after-tax value of the bank's 340f contingency reserves[1], which, together with the earlier recognition of retained profit, are the main drivers of the TCE ratio exceeding the regulatory Common Equity Tier 1 (CET1) capital ratio of 12.2% as of year-end 2022. In 2022, the bank's regulatory leverage ratio remained stable at 5.1%, which is broadly on par with our 5.2% TCE leverage ratio.

Exhibit 4
BKM's risk-weighted regulatory capital ratios softened, while leverage remained broadly stable



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

Exhibit 5
BKM's capital requirements as of year-end 2022



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

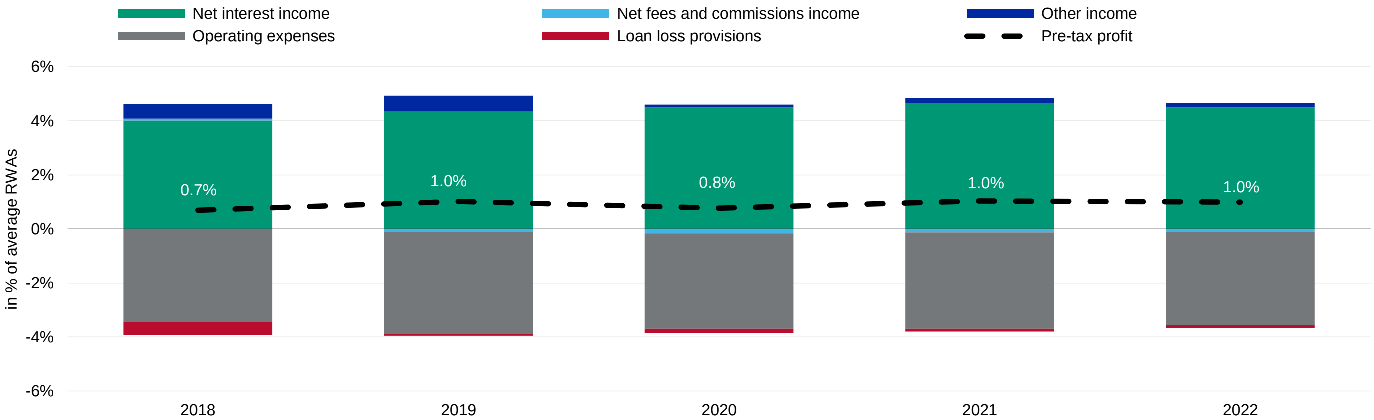
Profitability will improve only gradually and depends highly on net interest income

We assign a b1 Profitability score, at the level of the b1 initial score. The b1 assigned score reflects our expectation that profitability will stabilise at moderately higher levels than historically, supported by stronger pre-provision income generation. BKM has shown some success in defending its modest profitability levels, and it does have 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 revenue and inflexible costs. Like its peers within the German building and loan association sector, BKM is highly dependent on net interest income. The strong increase in mortgage lending rates over the course of 2022 and 2023 will lead to a gradual repricing of BKM's mortgage loan book, which — in line with the broader German mortgage lending market — has a high share of long-term fixed-rate contracts. Within an environment of rising mortgage rates, the customers of German building societies increasingly consider their traditional core products, the Bauspar savings contracts, as a vehicle to secure still-low fixed rates for the future acquisition or modernisation of properties. At the same time, the attractiveness of legacy savings contracts as vehicles for pure return-driven deposit placements is slowly fading. Also, BKM's market funding and non-Bauspar term deposits will reprice to higher coupons. However, we expect this initial drag on net interest margins to be more than offset by lower pressure from BKM's pension liabilities.

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 stabilised at 1.78% as of December 2022 (December 2021: 1.87%). The recent increase in market rates has resulted in a reversal of the multiyear downward trend in the average rate, which moderately recovered to 1.82% as of 31 December 2023. This will help improve pension discounting costs for BKM in 2023 and beyond.

Exhibit 6
BKM's earnings have been resilient, but remain subdued



Sources: Moody's Investors Service and company reports

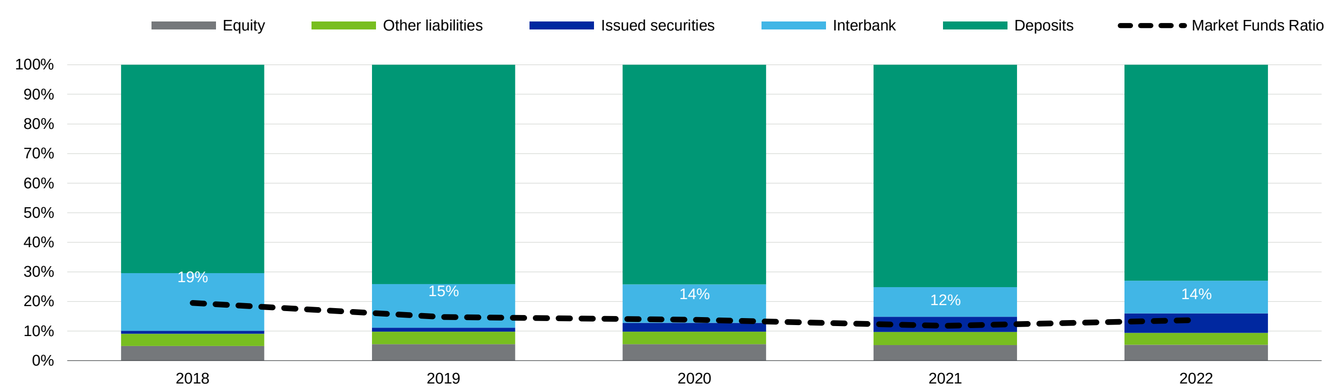
BKM benefits from a diversified funding structure; dependence on debt markets is low

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.

The bank's retail deposit base represented €2.1 billion, or 76% of total assets, as of December 2022. Included in this figure were €806 million of fixed-rate Bauspar deposits, which funded 29% of total assets. Although substantial for the bank, this proportion is considerably below the average for the sector. Its more diversified funding profile had protected BKM from the pronounced funding cost pressure experienced by some of its Bausparkassen-peers during the low rates environment. Following the increase in rates, in particular savings under more recently signed Bauspar contracts now offer the sector attractively priced funding tools. We expect BKM to increasingly take advantage of this traditional funding channel. At the same time, the use of additional, and now relatively more expensive, funding tools, including term deposits and market funds, reduce BKM's exposure to future loan payout promises that will decrease the building and loan association sector's ample liquidity buffers over time.

Only a moderate amount of BKM's funding relies on institutional funds at present. As of year-end 2022, market funds comprised €305 million (including promissory notes) of interbank liabilities, and BKM had an additional €51 million in promissory notes sold to customers. The bank's covered bond liabilities, which are less sensitive to market sentiment, approached an outstanding amount of €150 million as of December 2022 and further grew moderately to €172.7 million as of September 2023. From a regulatory compliance standpoint, BKM's net stable funding ratio of 138% as of year-end 2022 comfortably exceeded the 100% minimum requirement.

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 Investors Service

BKM maintains sound liquidity buffers

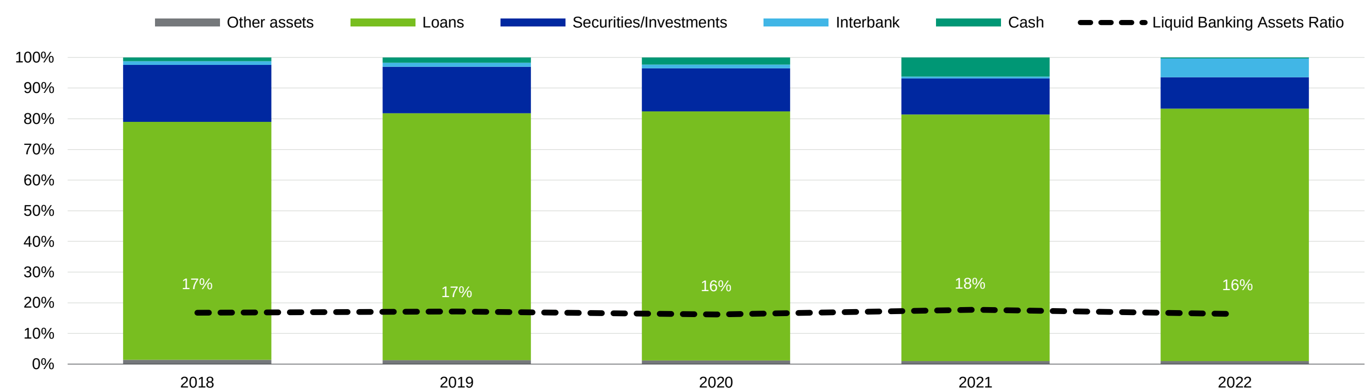
We assign a baa3 Liquid Resources score, one notch below the baa2 initial score. The downward adjustment takes into account our expectation that excess liquidity from the Bauspar product will tighten over the course of the next few years.

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. If mortgage rates remain around current levels, we expect a pickup in the demand for Bauspar loans, and a corresponding reduction in excess deposits, which will induce BKM and its peers to manage liquidity more tightly.

At present, the size and quality of BKM's liquidity portfolio are good. With €283.5 million, or 10% of total assets as of year-end 2022, it contains a high proportion of central bank-eligible securities to counter unexpected liquidity outflows. At the same time, the increase in market interest rates resulted in a gap of €26.6 million between the accounting value of these bonds and their (lower) market value as of year-end 2022. BKM, however, also held €380 million (notional value) of derivatives contracts as of year-end 2022 to manage its interest rate exposure. The €37.1 million positive market value of these contracts exceeded the unrecognised securities losses as of year-end 2022. Further, they helped BKM limit its sensitivity to further unexpected shifts in market rates.

From a regulatory perspective, the bank's liquidity buffers are also sound, given its very high liquidity coverage ratio of 242% in 2022. Moreover, because BKM has established a covered bond programme, over-collateralisation of the bank's cover pool would allow the bank to issue retained covered bonds at short notice to generate additional liquidity.

Exhibit 8
BKM's liquid resources have remained sound



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

The narrow business model of mortgage lending constrains the BCA

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.

BKM's high concentration in mortgage lending, and the Bauspar product in particular, leads us to deduct a full notch from its Financial Profile score. BKM is almost exclusively dependent on one business line, that is, mortgage savings and loan contracts, and we, therefore, classify the bank as a monoline bank.

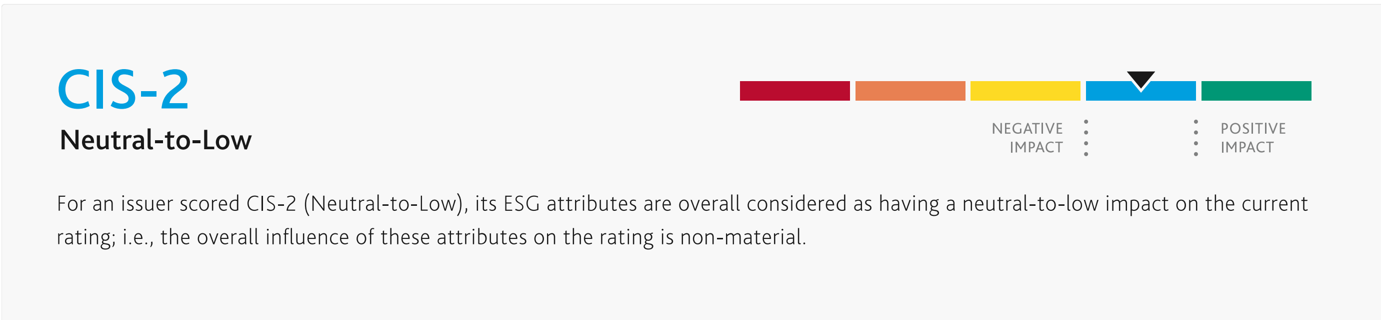
BKM was an early mover in increasing viable mortgage loan products outside the Bauspar product; however, it will take time before the move sustainably offsets the risks related to the concentration in long-term Bauspar savings and lending, and translates into sound profit generation. For the time being, BKM's business model remains vulnerable to changes in market dynamics and legislation.

ESG considerations

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

Exhibit 9

ESG Credit Impact Score



Source: Moody's Investors Service

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 Investors Service

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 high industrywide social risks related to customer relations and associated regulatory risk, litigation exposure and high compliance standards in its diversified operations. These risks are mitigated by the bank's developed policies and procedures. High cyber and personal data risks are mitigated by technology solutions and organisational measures to prevent data breaches. BKM and its peers among Germany's savings and loan associations (Bausparkassen) are regularly targeted by consumer protection associations because banks try to terminate costly legacy client relationships, which makes them vulnerable to challenges in court.

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

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Support and structural considerations

Loss Given Failure (LGF) analysis

BKM is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. Therefore, we apply our Advanced LGF analysis, under which we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution.

In our Advanced LGF analysis, we consider the results of both the formal legal position (pari passu, or “de jure” scenario), to which we assign a 75% probability, and an alternative liability ranking, reflecting the resolution authority's discretion to prefer deposits over senior unsecured debt (full depositor preference, or “de facto” scenario), to which we assign a 25% probability.

We further assume residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits. These ratios are in line with our standard assumptions. In addition, we assume that only a very small percentage (10%) of the deposit base can actually be considered junior and qualify as bail-in-able under the BRRD.

For BKM's counterparty risk liabilities and 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.

Counterparty Risk Ratings (CRRs)

BKM's CRRs are A2/P-1

The CRR is three notches above the baa2 Adjusted BCA, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities. BKM's CRR does not benefit from government support, in line with our support assumptions on deposits.

Counterparty Risk (CR) Assessment

BKM's CR Assessment is A2(cr)/P-1(cr)

The CR Assessment is three notches above the baa2 Adjusted BCA, based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, including junior deposits and junior senior unsecured debt. BKM's CR Assessment does not benefit from any rating uplift based on government support, in line with our support assumptions on deposits.

Methodology and scorecard

Methodology

The principal methodology we used in rating BKM was the Banks Methodology, published in July 2021.

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
Bausparkasse Mainz AG

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	0.3%	aa1	↓	a2	Sector concentration	Expected trend
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	13.4%	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		a2		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	13.7%	a2	↓	baa1	Extent of market funding reliance	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	16.3%	baa2	↓	baa3	Stock of liquid assets	Expected trend
Combined Liquidity Score		a3		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	456	16.5%	628	22.7%
Deposits	1,972	71.3%	1,834	66.3%
Preferred deposits	1,775	64.2%	1,686	60.9%
Junior deposits	197	7.1%	148	5.3%
Junior senior unsecured bank debt	222	8.0%	189	6.8%
Dated subordinated bank debt	33	1.2%	33	1.2%
Equity	83	3.0%	83	3.0%
Total Tangible Banking Assets	2,767	100.0%	2,767	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	16.4%	16.4%	16.4%	16.4%	3	3	3	3	0	a2
Counterparty Risk Assessment	16.4%	16.4%	16.4%	16.4%	3	3	3	3	0	a2 (cr)
Deposits	16.4%	11.0%	16.4%	11.0%	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 Investors Service

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 Investors Service

Endnotes

1 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.

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REPORT NUMBER 1386864

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