MOODY'S INVESTORS SERVICE

CREDIT OPINION

17 February 2020

Update

Rate this Research

RATINGS

Bausparkasse Mainz AG

Domicile	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	Negative

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 to credit analysis

Summary

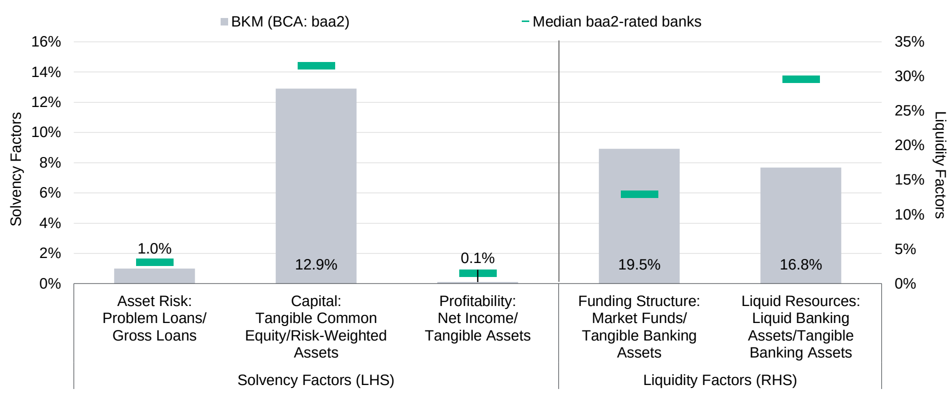
We assign A2 long-term deposit ratings with a negative outlook, P-1 short-term deposit ratings and A2/P-1 Counterparty Risk Ratings to Bausparkasse Mainz AG (BKM). We further assing baa2 Baseline Credit Assessment (BCA) and Adjusted BCA, as well as A2(cr)/P-1(cr) Counterparty Risk (CR) Assessment to BKM.

Bausparkasse Mainz AG (BKM)'s A2 deposit ratings reflect the bank's baa2 Baseline Credit Assessment (BCA) and the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities, yielding three notches of rating uplift.

BKM's baa2 BCA reflects the bank's strong asset quality and capitalisation, as well as its sound funding profile, in particular vis-à-vis business model peers. The BCA further considers the low profitability of the bank, and importantly, the narrowly focused business model as a monoline building society (Bausparkasse), which results in material concentration risk to that business and legal limitations as regards to diversification opportunities.

Exhibit 1

Rating Scorecard - Key financial ratios



Asset risk and profitability ratios reflect the worse of 1) the average for the period 2016 - 2018; or 2) the latest reported figure.
Source: Moody's Financial Metrics

THIS REPORT WAS REPUBLISHED ON 18 FEBRUARY 2020 WITH THE CORRECTED AMOUNT OF TANGIBLE BANKING ASSETS IN LGF ON PAGE 9.

Credit strengths

» Sound asset quality, which benefits from the bank's highly granular and largely collateralised loan book

» Adequate capitalisation, which is partly reflected in comparatively good and gradually improving leverage ratios

» Limited dependence on market funding

Credit challenges

» Persistent pressures on margins from the low interest rate environment, compounded by eroding fee income in the next few years

» BKM's highly focused, narrow business model, which is a weakness in the low interest rate environment

» Declining liquid resources, as the bank reduces the size of its low-yielding investment portfolio

Outlook

The negative outlook reflects our expectation that sustained and increasingly adverse operating conditions in Germany will elevate the risk on profitability and credit quality for BKM.

Factors that could lead to an upgrade

» An upgrade of BKM's ratings is unlikely as reflected in the negative outlook and would require an upgrade of its BCA combined with an unchanged maximum notching uplift from our Advanced LGF analysis.

» The BCA could be upgraded as a result of (1) a significant and sustainable increase in the amount of BKM's core capital, in combination with (2) a significant improvement in the bank's profitability without compromising the quality of earnings or the bank's sound asset profile and (3) a material reduction in the risk stemming from low interest rates on its core business.

» An increase in the volume of junior deposits or subordinated instruments would not lead to additional uplift for BKM's deposit ratings because these already benefit from the highest possible LGF result, with three notches of LGF-related rating uplift from the Adjusted BCA.

Factors that could lead to a downgrade

» BKM's ratings could be downgraded as a result of a BCA downgrade or fewer notches of rating uplift from our Advanced LGF analysis.

» A downgrade of BKM's BCA could result from (1) lower capitalisation, (2) pressure on BKMs' profitability, (3) more aggressive risk-taking based on the greater flexibility afforded by the sector's specific law amended in 2015 that would hurt the bank's asset quality; or (4) a reduction in liquid resources to an extent that it weakens BKM's combined liquidity profile.

» BKM's ratings may also be downgraded if there is a change in its liability structure, particularly if the amount of junior senior debt outstanding declines from the year-end 2018 levels. This could result in higher than the currently expected extremely low loss severity for BKM's depositors.

Key indicators

Exhibit 2

Bausparkasse Mainz AG (Consolidated Financials) [1]

	12-18[2]	12-17[2]	12-16[2]	12-15[2]	12-14[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	2.4	2.4	2.4	2.6	2.5	(0.9)[4]
Total Assets (USD Billion)	2.8	2.9	2.5	2.8	3.1	(2.3)[4]
Tangible Common Equity (EUR Billion)	0.1	0.1	0.1	0.1	0.1	2.2[4]
Tangible Common Equity (USD Billion)	0.1	0.1	0.1	0.1	0.1	0.8[4]
Problem Loans / Gross Loans (%)	0.7	1.0	1.2	1.5	2.1	1.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	12.9	12.8	12.7	12.4	11.6	12.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.8	14.4	17.7	22.1	32.0	19.4[5]
Net Interest Margin (%)	1.5	1.4	1.4	1.4	1.3	1.4[5]
PPI / Average RWA (%)	1.2	0.9	0.8	0.6	0.4	0.8[6]
Net Income / Tangible Assets (%)	0.2	0.2	0.1	0.1	0.1	0.1[5]
Cost / Income Ratio (%)	74.6	77.9	82.2	87.0	90.9	82.5[5]
Market Funds / Tangible Banking Assets (%)	19.5	18.4	18.5	21.8	20.1	19.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	16.8	20.9	24.2	27.3	24.8	22.8[5]
Gross Loans / Due to Customers (%)	110.6	108.0	103.3	102.6	104.3	105.8[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 due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel III periods presented.
Source: Moody's Investors Service; Company Filings

Profile

Bausparkasse Mainz AG (BKM) is a specialised residential mortgage lender and subject to separate legislation for German building and loan associations (Bausparkassen). Bausparkassen provide long-term financial planning solutions for home buyers. 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 €2.4 billion as of 31 December 2018, BKM is one of the smaller of the 20 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, and we therefore assign to the bank a Weighted Macro Profile of Strong +, in line with the Strong + Macro Profile of Germany.

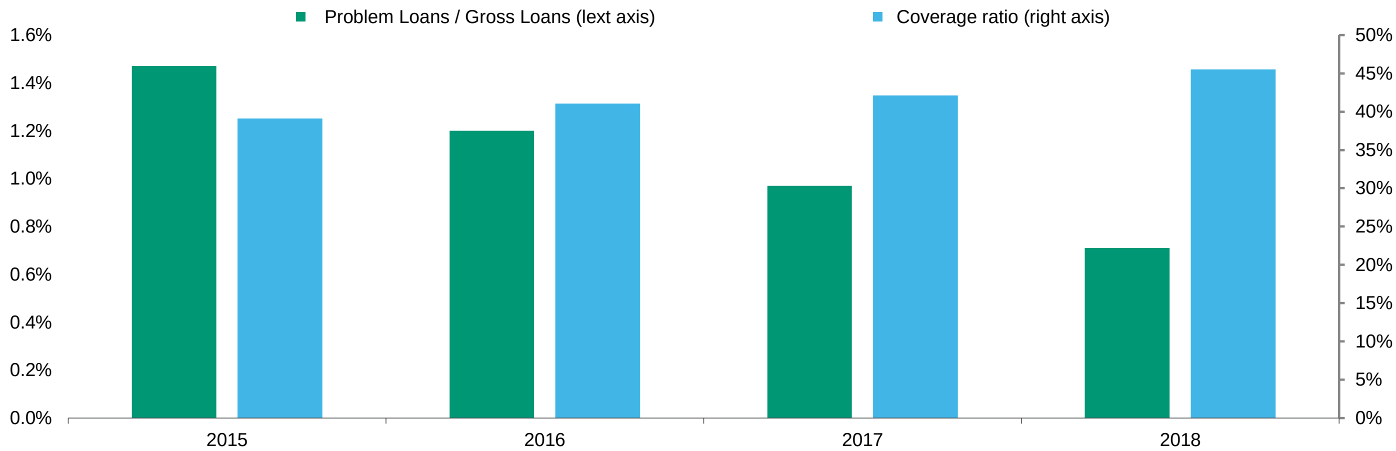
Detailed credit considerations

Sound asset quality, given the highly granular and collateralised loan book

We assign BKM an a3 Asset Risk score, four notches below the aa2 initial score, reflecting (1) our adjustments to the problem loan ratio addressing the fact that unimpaired 90 days past due loans are not captured in the historical problem loan ratio; and (2) market risk, partly because the bank's solvency is sensitive to further declining interest rates.

The credit risk of BKM's loan book is relatively low, as reflected by the institution's focus on residential mortgage lending (accounting for 76% of total assets) and the inherent high portfolio granularity. For loans subject to the Bausparkassengesetz, the maximum loan-to-value (LTV) ratio was capped at 80% until year-end 2015. Since year-end 2015, a revision of this law has increased the maximum LTV ratio for owner-occupied residences to 100%. The bank has since been allowing a portion of the new mortgage lending business to be conducted at higher LTVs, although within prudent limits and still below the market average.

Exhibit 3
BKM's improving asset quality



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

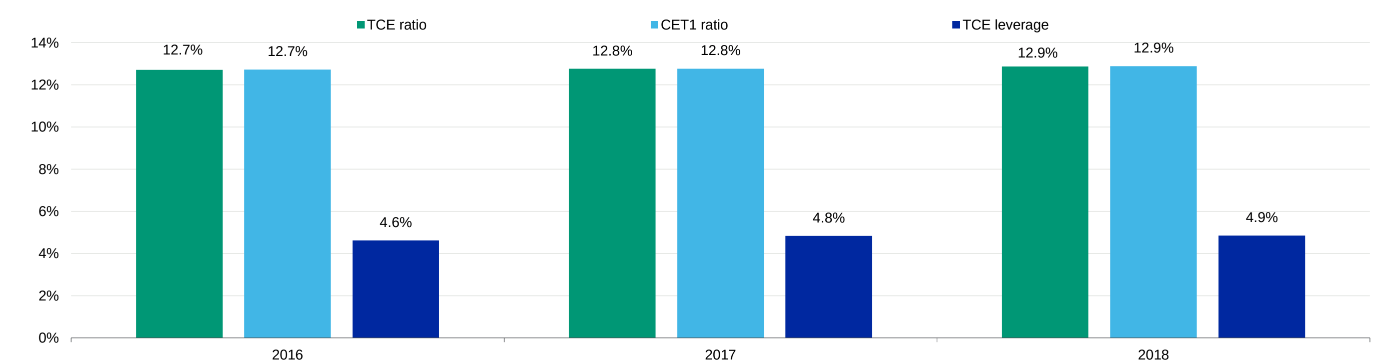
Loans subject to specific loan-loss reserves accounted for roughly 0.7% of gross loans as of year-end 2018, compared with 1.0% a year earlier, thereby continuing the positive trend in loan quality since 2013. The reported problem loan metric, which is low compared with banking peers in Germany, is understated because problem loans are published under local GAAP (the German Commercial Code or HGB). As we consider the volume of loans 90 days past due in our problem loan ratio, our adjustment brings the ratio up to a level more in line with the market.

The securities portfolio is also of high quality, considering that €351 million of the total of €453 million was eligible for repo business at central banks. However, interest rate risk in the banking book remains elevated, which is reflected in the potential negative impact of 13.6% on total capital as a result of the supervisory standard shock of ±200 basis points as of year-end 2018 (2017: 17.9%).

Capital ratios are adequate, but modest earnings outlook weighs on capital growth

We assign BKM an a2 Capital score, one notch above the a3 initial score. The a2 score combines two offsetting effects, that is, our addition of the bank's fully taxed reserves[1], benefitting the initial score and the shortcoming of BKM's modest capital generation. The addition of the bank's fully taxed reserves raises our tangible common equity (TCE) ratio to 13.7% from the unadjusted 12.9%, and the TCE-based leverage ratio to 5.2% from the unadjusted 4.9%.

Exhibit 4
BKM's stable levels of capital



TCE = Tangible common equity (Moody's calculation). CET1 = Common Equity Tier 1.
Source: Moody's Investors Service, company reports

We consider BKM's current capitalisation levels to be commensurate with the institution's relatively low-risk profile. Because of weak internal capital generation, however, which mirrors BKM's poor profitability, we expect the bank's capital volume to either remain broadly stable over the coming years or grow modestly at a slow rate. Low capital generation could limit the bank's growth potential. While BKM is aiming to further increase its loan book, the bank is expected to reduce its low-yielding investment portfolio, which will result in a decline of total assets and relatively unchanged amount of risk-weighted assets.

BKM's regulatory Common Equity Tier 1 capital ratio was 12.9% as of year-end 2018, slightly higher than the 12.8% a year earlier. The regulatory leverage ratio was slightly stronger from a year earlier at 4.8% (2017: 4.7%).

We expect BKM, with its highly collateralised loan book and the chosen standard approach to calculating risk-weighted assets, to be less exposed to (1) risks to capital stemming from cyclical pressures; and (2) regulatory risk, because the bank will be broadly unaffected by the finalisation of the Basel III rules during 2022-2026, also sometimes referred to as Basel IV. The bank does not employ an internal model-based approach to measure its risks for regulatory purposes.

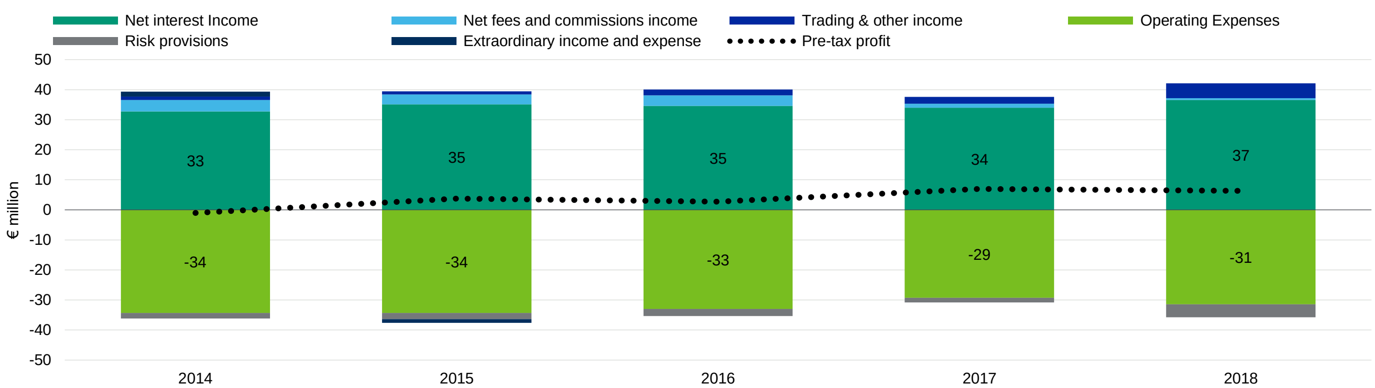
Profitability will remain subdued because of pressure on non-interest income and inflexible costs

We assign BKM a b3 Profitability score, two notches below the b1 initial score. The downward adjustment reflects our expectation of continued pressure on non-interest income and inflexible costs for the next four to five years. That said, BKM has shown some success in defending its modest profitability levels, and it does have additional scope to offset profit pressures, especially by generating higher net interest income that will benefit from lower funding costs over the next few years.

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 and we do not foresee fee income to provide diversification benefits in light of recent court decisions that fully accommodated the interests of customers and will have a strongly negative impact on the scope of banks' fee generation. Even so, we expect BKM to be able to defend its very modest level of profitability through a mix of saving funding costs and organically growing its business in the vibrant German residential mortgage market, while the less remunerative savings and lending business matures.

Exhibit 5

BKM has shown a resilient earning power in recent years



Source: Moody's Investors Service, company reports

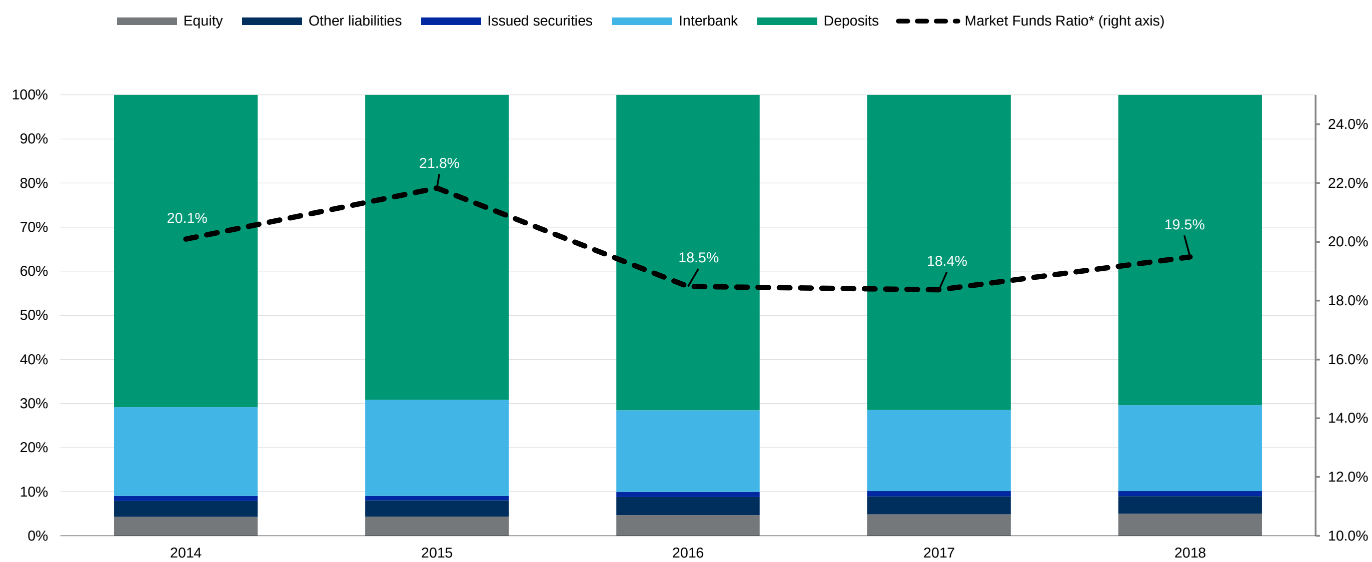
Although challenging in Germany's highly competitive environment, BKM will be increasingly able to focus on both remunerative Bauspar and non-Bauspar products such as mortgage loans. As portions of the bank's most expensive deposits reduce every year, BKM will increasingly explore cheaper funding options for new business in the market, including through the issuance of covered bonds for which we expect issues from 2020 onwards, which will potentially reduce the bank's need for interbank funding. At the same time, BKM has been successfully marketing its newer Bauspar products for some years at remunerative terms for the bank. After a long period of decline, BKM's Bauspar deposits grew again in 2018 by 1.5%, that is, to €730 million (or 43% of total customer deposits) from €719 million (42%), highlighting that its Bauspar business by volume of Bauspar deposits has recovered from a trough in 2016. That said, within the sector, BKM has the lowest percentage of Bauspar deposits within its overall funding mix, which makes it easier for BKM to fend off the related earnings pressures.

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

We assign BKM an a2 Funding Structure score, one notch above the a3 initial score. The score reflects offsetting adjustments, specifically our upward adjustment to the market funds ratio because BKM has some issued debt outstanding which the bank does not disclose as market funds in its annual reports. This adjustment raises the ratio and lowers the Funding Structure score by one notch from the initial score. On the other hand, we grant a two notch upward adjustment in the Funding Structure score because we positively take into consideration several features that underpin the bank's sound funding profile and low dependence on debt markets. These features include (1) the long duration and sticky nature of the bank's retail deposits, which help ensure a broadly matched maturity structure; (2) BKM's option to (privately) place small-ticket notes with its retail clientele; and (3) prospects of covered bond issuances, starting from 2020, for which we expect BKM to have easy market access and at very attractive terms.

The retail deposit base represented €1.7 billion, or 70% of total assets as of December 2018. Fixed-rate Bauspar deposits (a portion of which is very costly) comprised €730 million as of 31 December 2018, or 30% of total assets. Although substantial for the bank, this proportion is considerably below the average for the sector, implying a considerable cost advantage over peers in the Bauspar market. Growth in adequately priced Bauspar deposits in 2018 outpaced the decline in more costly Bauspar deposits, underpinning the stability of the deposit base.

Exhibit 6
BKM has a solid amount of highly granular and sticky deposit base



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

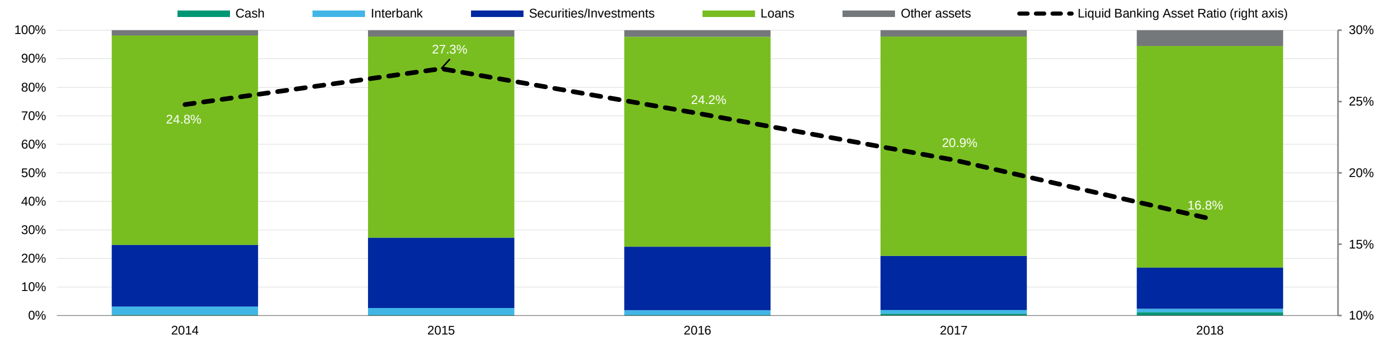
Only a moderate amount of BKM's funding relies on institutional funds. As of year-end 2018, BKM had €269 million (11% of total assets) in promissory notes outstanding, which further improved BKM's term structure. Almost a fifth of this volume was placed with the bank's own retail clientele. BKM's covered bond license, obtained in June 2018, will allow the bank to further diversify its funding options. BKM is only the second building and loan association in the German market to have obtained a covered bond licence.

BKM maintains adequate liquidity buffers

We assign BKM a baa3 Liquid Resources score, which is one notch below the baa2 initial score. The downward adjustment takes into account the encumbrance of the bank's liquid assets as well as BKM's target to slightly reduce liquidity buffers in order to save costs.

We consider in the bank's liquidity buffers still adequate, despite the reduction, given the bank's very high liquidity coverage ratio of 251% as of December 2018. Moreover, due to the fact that the bank launches its covered bond program in 2020, potential overcollateralization of the bank's cover pool might offset the decline in liquid banking assets.

Exhibit 7
BKM's liquid resources are declining



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

The size and quality of BKM's securities portfolio is very sound. It contains a high proportion of central bank-eligible assets to counter unexpected liquidity outflows. Central bank-eligible securities stood at €351 million, or 14% of total assets, as of year-end 2018.

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 this will sustainably offset the risks related to the concentration in long-term Bauspar savings and lending, and translate into healthier profit. For the time being, BKM's business model remains vulnerable to changes in market dynamics and legislation.

Environmental, social and governance (ESG) considerations

In line with our general view on the banking sector, BKM has a low exposure to environmental risks (see our environmental risks heat map[2] for further information).

For social risks, we also place BKM in line with our general view for the banking sector, which indicates a moderate exposure (see our social risks heat map[3]).

Corporate Governance is highly relevant for BKM, as it is to all entities in the banking industry. For BKM, we do not have any particular governance concern. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Loss Given Failure analysis

BKM is subject to the European Union (EU) Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. We apply our Advanced LGF analysis to BKM's liabilities, considering the risks faced by the different debt and deposit classes across its liability structure at failure. We assume residual TCE of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits. These are in line with our standard assumptions. In the case of BKM, we further assume that only a small percentage (10%) of the bank's deposit base can actually be considered junior and held by institutional investors.

For BKM's deposits, our Advanced LGF analysis indicates an extremely low loss given failure, leading us to position the bank's long-term deposit ratings three notches above the bank's 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 continue to assign a low systemic support probability assumption to BKM, which does not result in any rating uplift for government support.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

BKM's CRRs are positioned at A2/P-1

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

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

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

The CR Assessment is positioned three notches above the Adjusted BCA of baa2, based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, including junior deposits and senior unsecured debt, amounting to about 20% of BKM's tangible banking assets.

BKM's CR Assessment does not benefit from any rating uplift based on government support, in line with our support assumptions on deposits and senior unsecured debt.

Methodology and scorecard

Methodology

The principal methodology we use in rating BKM is the Banks Methodology, published in November 2019.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment 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 8

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	1.0%	aa2	←→	a3	Interest rate risk	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	12.9%	a3	↑	a2	Risk-weighted capitalisation	Expected trend
Profitability						
Net Income / Tangible Assets	0.1%	b1	←→	b3	Earnings quality	Expected trend
Combined Solvency Score		a3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	19.5%	a3	←→	a2	Deposit quality	Extent of market funding reliance
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	16.8%	baa2	↓	baa3	Expected trend	Additional liquidity resources
Combined Liquidity Score		baa1		baa1		
Financial Profile				baa2		
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				baa2 - ba1		
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	413	17.0%	529	21.7%
Deposits	1,654	67.9%	1,538	63.1%
Preferred deposits	1,489	61.1%	1,414	58.0%
Junior deposits	165	6.8%	124	5.1%
Junior senior unsecured bank debt	269	11.0%	269	11.0%
Dated subordinated bank debt	27	1.1%	27	1.1%
Equity	73	3.0%	73	3.0%
Total Tangible Banking Assets	2,436	100.0%	2,436	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	20.2%	20.2%	20.2%	20.2%	3	3	3	3	0	a2
Counterparty Risk Assessment	20.2%	20.2%	20.2%	20.2%	3	3	3	3	0	a2 (cr)
Deposits	20.2%	15.1%	20.2%	15.1%	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 9

Category	Moody's Rating
BAUSPARKASSE MAINZ AG	
Outlook	Negative
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 These reserves refer to 340f reserves under German GAAP under the German commercial code; such reserves are deducted from gross loans rather than accounted for under liabilities and not recognised in regulatory capital ratios. Under the international financial reporting standards (IFRS), such reserves would need to be released and included in balance-sheet capital and regulatory capital ratios.

2 Environmental risks can be defined as environmental hazards encompassing the impact of air pollution, soil/water pollution, water shortages, and natural and man-made hazards (physical risks). Additionally, regulatory or policy risks, like the impact of carbon regulation or other regulatory restrictions, including the related transition risks like policy, legal, technology and market shifts, which could impair the evaluation of assets are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

3 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are partly mitigated by sizable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology costs, ageing population concerns in several countries affecting the demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue bases.

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