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CREDIT OPINION
26 October 2023

Update

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RATINGS

Bausparkasse Schwaebisch Hall AG

Domicile	Germany
Long Term CRR	Aa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Aa2
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 Schwaebisch Hall AG

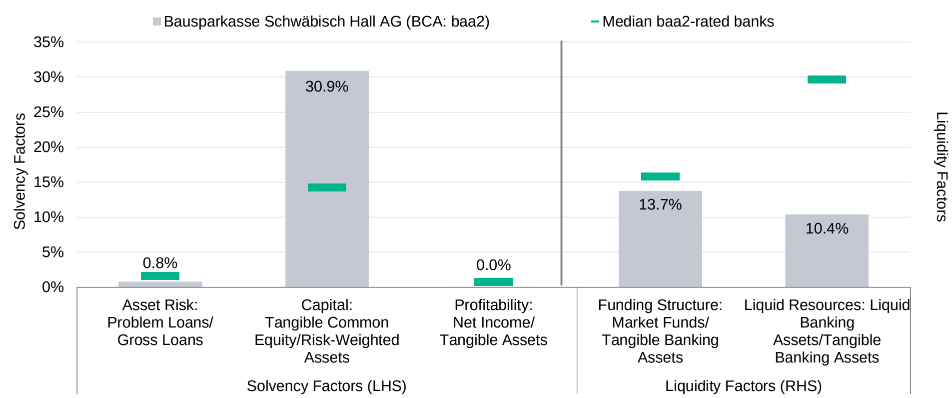
Update to credit analysis

Summary

Bausparkasse Schwaebisch Hall AG's (BSH) Aa2 deposit and issuer ratings reflect the bank's baa2 BCA, two notches of rating uplift from its membership in the institutional protection scheme of the German cooperative banking association (Genossenschaftliche FinanzGruppe, G-Finanzgruppe), the application of our Advanced Loss Given Failure (LGF) analysis, which incorporates the relative loss severity of a liability class results in three notches of rating uplift, and a one-notch rating uplift resulting from government support because of its membership in the systemically relevant G-Finanzgruppe.

BSH's baa2 BCA reflects the bank's strong ties with its parent, DZ BANK AG (DZ BANK, Aa2/Aa2 stable, baa2)[1], including a profit-and-loss transfer agreement and sizeable investments in DZ BANK's liabilities. The BCA takes into account BSH's solid asset quality and sound funding profile which is predominantly based on granular deposits. Our assessment also considers BSH's low profitability and increasing industrywide capital requirements, which soften its relative capital strength. Our view of BSH's solid financial profile is balanced by the very narrowly focused business model as a building society (Bausparkasse), which requires it to focus exclusively on residential mortgage lending products.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Investors Service

Credit strengths

» Exceptionally strong and high-quality risk-weighted capitalisation, with unchanged buffers despite rising industrywide capital requirements

» Sound asset quality, which benefits from granular and low-risk residential mortgage loans, with a clear focus on Germany (Aaa stable)

» Very strong funding profile reflecting sizeable and granular and long-term retail deposits

Credit challenges

» Low profitability and limited earnings diversification, balanced by slowly abating pressure on net interest margins as interest rates are normalizing

» Moderated liquidity balanced by access to cash-rich German cooperative banking sector, if needed

» BSH's highly focused and narrow business model within the specific building and loan association legal framework

Outlook

» The stable outlook reflects our expectation that BSH's financial profile remains resilient despite intensifying economic challenges in Germany and that the bank can weather the pressures from the low - albeit rising - interest rates. Further, we expect the intrinsic strength of DZ BANK, which caps BSH's BCA at baa2, to remain broadly unchanged over the 12 to 18 months outlook horizon. Similarly, we do not anticipate a change in its affiliate support or in the liability structure of DZ BANK uplift during this time frame.

Factors that could lead to an upgrade

» An upgrade of BSH's ratings could be triggered by an upgrade of the bank's BCA, or by an improvement in the cooperative sector's financial strength. Please refer to the latest Credit Opinion of DZ BANK for detailed factors that could lead to an upgrade or downgrade of the parent's BCA. BSH's ratings already benefit from the highest possible uplift under our Advanced LGF analysis.

» An upgrade of BSH's BCA could be prompted by an upgrade of DZ BANK's BCA which caps BSH's BCA at baa2 and, at the same time, BSH at least maintaining its own financial profile. An upgrade of BSH's unconstrained BCA could be prompted by a sustained improvement in the bank's profitability, in particularly from a material reduction in the risk stemming from low interest rates on its core business.

Factors that could lead to a downgrade

» A downgrade of BSH's ratings could result from a joint weakening of the financial strength of G-Finanzgruppe and DZ BANK, or if DZ BANK significantly reduces its liabilities designed to absorb losses in bail-in relative to its tangible banking assets.

» BSH's BCA could be downgraded in the case of a downgrade of DZ BANK's BCA, because it caps BSH's BCA. BSH's unconstrained BCA could be downgraded as a result of lower capitalisation; pressure on profitability; more aggressive risk-taking which could hurt the bank's asset quality; or a significantly higher dependence on market funding.

Key indicators

Exhibit 2

Bausparkasse Schwaebisch Hall 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)	85.6	85.4	81.7	77.5	71.7	4.5[4]
Total Assets (USD Billion)	91.4	96.7	99.9	87.0	81.9	2.8[4]
Tangible Common Equity (EUR Billion)	5.1	5.1	5.0	5.0	4.7	2.2[4]
Tangible Common Equity (USD Billion)	5.4	5.8	6.1	5.6	5.3	0.4[4]
Problem Loans / Gross Loans (%)	0.7	0.8	0.9	1.0	1.1	0.9[5]
Tangible Common Equity / Risk Weighted Assets (%)	30.9	31.0	31.9	34.4	32.5	32.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	8.2	9.7	10.4	10.4	10.9	9.9[5]
Net Interest Margin (%)	0.9	0.7	0.7	0.7	1.1	0.8[5]
PPI / Average RWA (%)	1.5	0.7	0.7	0.6	2.2	1.1[6]
Net Income / Tangible Assets (%)	0.0	0.1	0.1	0.1	0.3	0.1[5]
Cost / Income Ratio (%)	70.8	81.8	82.5	85.3	61.5	76.4[5]
Market Funds / Tangible Banking Assets (%)	13.7	12.0	9.9	8.0	6.3	10.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	10.4	15.3	15.8	16.5	16.1	14.8[5]
Gross Loans / Due to Customers (%)	99.3	94.8	90.8	85.0	79.6	89.9[5]

[-] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [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 Schwaebisch Hall AG (BSH) is Germany's largest building and loan association (*Bausparkasse*), with a domestic market share of around 30% and additional business activities via its subsidiary in Hungary (Baa2 stable), and through joint ventures in China (A1 stable) and Slovakia (A2 negative).

As a *Bausparkasse*, BSH is subject to specific legislation for German building and loan associations, which exclusively focus on long-term financial planning solutions for homebuyers. BSH's core product is the "Bauspar" contract, whereby customers make deposits over a flexible number of years in order to save for a later down payment on the home property.

At the end of 2022, BSH reported consolidated assets of €88.6 billion, of which €66.2 billion or around 77% reflected loans to customers. Around 98% of these loans are from domestic clientele, arising from 7.2 million Bauspar contracts to 6.5 million individuals. In 2022, BSH's average workforce increased to 3,934 employees, up from 3,268 in 2021.

BSH is a member of Germany's cooperative sector Institutional Protection Scheme (IPS) and benefits from access to the sector's primary banks' client base and very close collaboration, based on an integrated sales approach. DZ BANK, the central institution of the cooperative sector (*G-Finanzgruppe*), owns a 97.6% stake in BSH. The remaining shares are mostly held by cooperative banks (*Volks- und Raiffeisenbanken*).

Weighted Macro Profile of Strong+

Around 95% of BSH's credit exposure relates to Germany, with the remainder arising from its activities in China and Slovakia (via JVs), as well as Hungary (via subsidiary). We therefore assign a Strong+ Weighted Macro Profile to BSH, which is mainly derived from Germany's Strong+ Macro Profile.

Detailed credit considerations

Close integration with DZ BANK limits BSH's standalone BCA

We cap BSH's standalone BCA at baa2, which reflects the level of DZ BANK's BCA, its parent. BSH is one of several specialised financial institutions that are consolidated by DZ BANK, the central institution of the cooperative sector. BSH's customer base significantly overlaps with the sector's primary banks, and its lending products complement the product suit of Germany's *Volks- und Raiffeisenbanken*. The mutual interest in fee-generating cross-selling products and the membership in a well-established and effective IPS ensure a solid alignment of BSH's economic interests within that of *G-Finanzgruppe*.

In addition to the profit-and-loss transfer agreement, BSH maintains strong financial ties with DZ BANK through investments of excess deposits, via financial securities issued by group members. Additional nonfinancial ties exist because of the integration of BSH's bank management within the group framework, for example, in the area of risk policy and as DZ BANK's centre of excellence for residential property finance.

Strong capitalization with unchanged buffers despite higher regulatory requirements

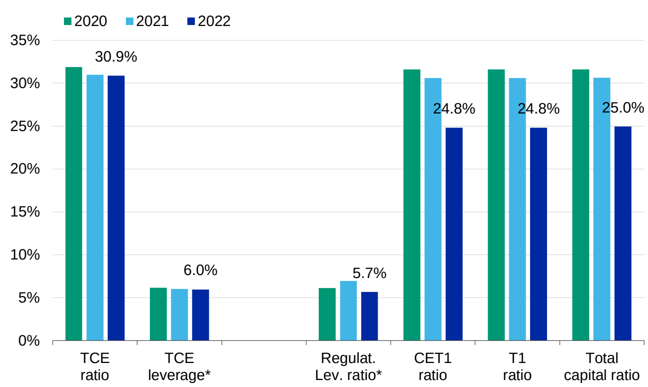
We assign a Capital score of aa2 to BSH, one notch below the aa1 initial score. The assigned score reflects the *Bausparkasse*'s very strong Common Equity Tier 1 (CET1) and Tangible Common Equity (TCE) ratios, key metrics for assessing its capital strength. Our negative adjustment reflects BSH's limited ability to retain earnings, because of the earnings transfer agreement with DZ BANK, as well as our expectation of moderately declining capital ratios, due to rising risk-weighted assets (RWA).

BSH's very strong TCE ratio of 30.9% as of end-2022 benefits from a low risk density of 19%, which compares RWA to assets. The low ratio reflects BSH's conservatively underwritten residential mortgages and the application of the internal ratings-based (IRB) approach to calculate RWA. We expect RWA to grow because of cyclical pressures following the normalization of interest rates, as well as the effects from the regulatory output floor phase-in for internal models, as suggested by the finalisation of the Basel III rules during 2025-30, also referred to as Basel IV.

Since 1 February 2023, the German banking supervisory authority BaFin applies additional capital requirements of 0.75% for domestic risk-weighted exposures and 2.0% systemic risk buffer for risk-weighted exposures collateralised by residential real estate. Because BSH's loan book is strongly exposed to German residential real estate, the *Bausparkasse* has to comply with a higher combined buffer requirement of 4.18% at the end of June 2022, compared with 2.57% in 2022. However, BSH's excess capital above the higher regulatory minimum requirements remained unchanged over that period at 1,772 basis points (bps; 2021: 2,357 bps). This is because the usually delayed auditing of annual financials supported the increase of BSH's CET1 capital to €4.4 billion from €4.1 billion over the same period, helping to balance the higher requirements.

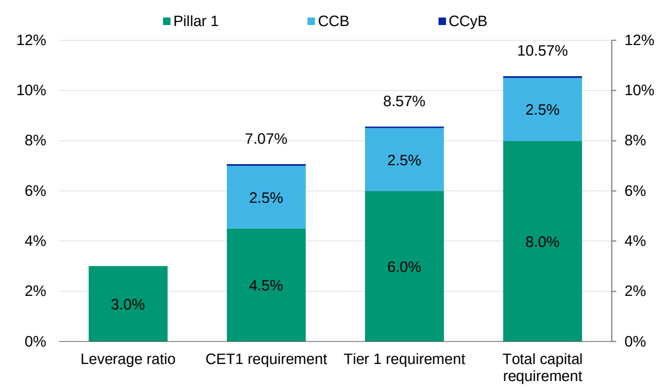
As of end-2022, BSH's TCE ratio of 30.9% was broadly unchanged compared with 31.0% in 2021. Our capital measure excludes fair value changes of financial assets booked through Other Comprehensive Income (OCI), because we consider these changes temporary. However, the effects are included in *Bausparkasse*'s regulatory ratios and were the main driver for the decline in BSH's CET1 ratio to 24.8% (2021: 30.6%) and leverage ratio to 5.7% over the same period, while our TCE leverage ratio remained unchanged at 6.0%.

Exhibit 3
BSH exhibits very high capital ratios ...
Data in % of risk-weighted assets*



Note: *TCE leverage compares TCE to tangible banking assets. The regulatory Leverage ratio compares Tier 1 capital to Exposure at Default.
Sources: Company reports, Moody's Investors Service

Exhibit 4
... which exceed minimum requirements by large margins.
Data in % of risk-weighted asset, as of year-end 2022



CCB = Capital conservation buffer; CCyB = Countercyclical capital buffer.
Source: Company reports, Moody's Investors Service

Low-risk and highly granular mortgage exposure limits asset risks

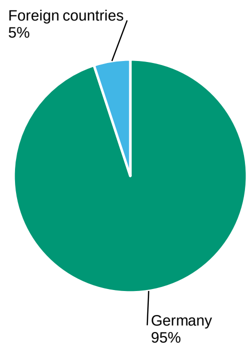
We assign an a2 Asset Risk score to BSH, three notches below the aa2 initial score. The assigned score reflects the *Bausparkasse's* very low problem loans with high historic recoveries, and solid coverage from on-balance sheet reserves. Our negative adjustment reflects

BSH's overall concentrated exposure to residential real estate, reflecting its specialized business model, and the inherent high interest rate sensitivity which renders its solvency sensitive to a sudden increase in interest rates.

We believe that higher inflation and interest rates will not materially weaken the strong credit performance of BSH's mortgage loans, but we expect a moderate weakening of its very low non-performing loan (NPL) ratio, which will require incremental provisions. This is because of tighter disposable income, in particular for lower-income borrowers, and our expectation that the German economy enters a mild recession in 2023. BSH's asset quality has benefitted from the strong price increase of German residential properties until 2022.

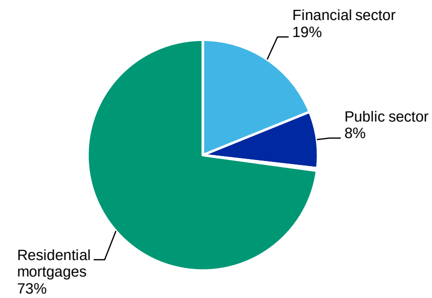
BSH's credit risk arises from lending volume of €79.1 billion, which is mostly geared to Germany (Exhibit 5). The portfolio focuses on residential mortgages, accounting for €57.5 billion or 73% of total (Exhibit 6), and exhibits high granularity. Financial sector loans accounted for 19% and public sector loans for 8% of the total as of year-end 2022.

Exhibit 5
BSH's lending is largely domestic ...
Data as of year-end 2022



Source: Company reports, Moody's Investors Service

Exhibit 6
... and strongly geared to residential mortgages
Data as of year-end 2022

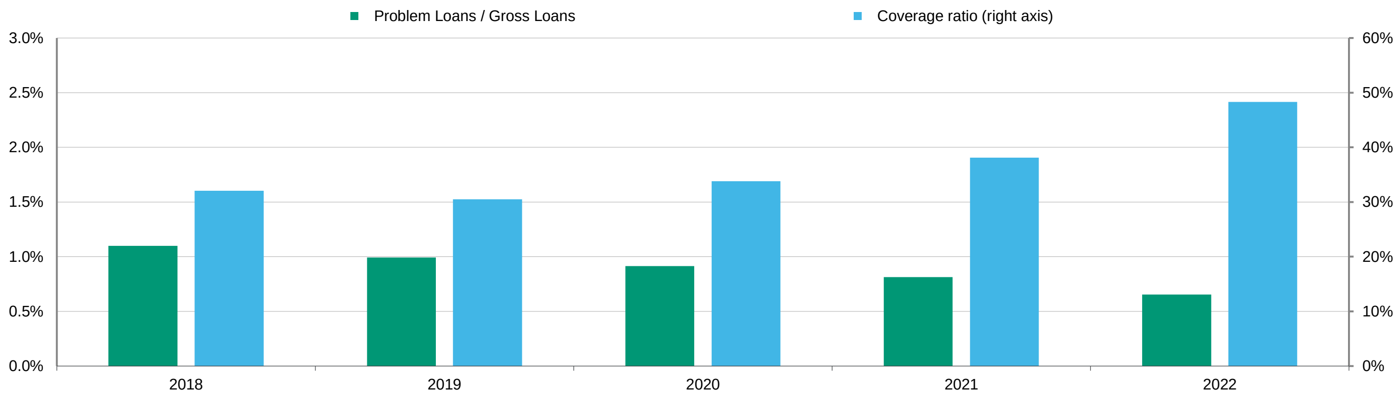


Source: Company reports, Moody's Investors Service

BSH's limited asset risks are demonstrated by the very low NPL ratio of 0.7% at the end of 2022. Despite the pandemic and energy crisis, this reflects a moderate improvement from 1.0% at the end of 2019, supported by Germany's sizeable support programs. BSH's problem loans amounted to €435 million as of year-end 2022 (2021: €513 million), down from €537 million in 2019. We consider BSH's solid NPL coverage of 48.3% (2021: 38.1%) adequate in light of the conservative loan-to-value (LTV) limits set by the German special law for building and loan associations. For loans subject to the Bausparkassengesetz, the maximum LTV ratio has been capped at 100% for owner-occupied property since 2015, and it remains capped at 80% for all other residential mortgage loans.

Exhibit 7

Despite the pandemic and energy crisis, BSH's asset quality has gradually improved and benefits from improved loan-loss reserve coverage*
Data in %



Note: * The coverage ratio compares specific and generic loan-loss reserves to non-performing loans.
Sources: Company reports, Moody's Investors Service

BSH's exposure to interest rate risk in its banking book is low and it does not run a trading book. However, its business model is sensitive to changes and the level of interest rates, because they can change client behaviour. The extended period of negative interest rates incentivized Bauspar clients to extend the savings periods for their fixed-rate deposits and increase deposit balances further, while BSH and its peers were challenged to profitably reinvest such additional funds. Conversely, unexpectedly rapid and pronounced rate increases expose the its business model to deposit outflows and to rising demand for loans at previously agreed fixed interest rates under the Bauspar product.

Low profitability and limited earnings diversification, balanced by slowly abating pressure on net interest margins as interest rates are normalizing

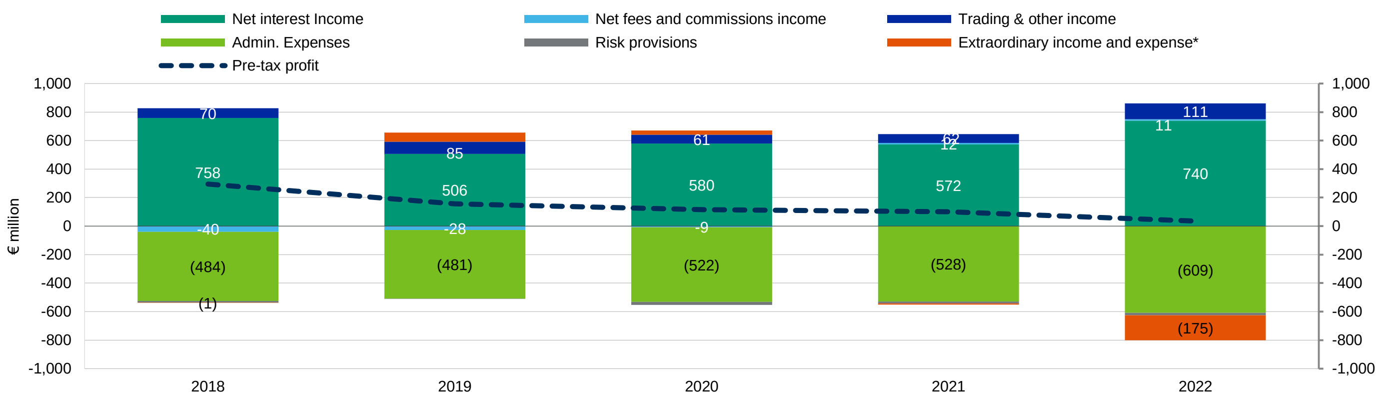
We assign a b2 Profitability score to BSH, one notch above the b3 initial score. The assigned score balances our expectation of continued strong competition for mortgage loans, which creates margin pressure, and the potential of higher net interest income from new loans as interest rates normalize, which supports stronger pre-provision income.

We believe that the strong increase of lending rates since 2022 will lead to a gradual repricing of BSH's loans, which — in line with the broader German mortgage 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 to finance or modernize property. At the same time, the attractiveness of legacy savings contracts as vehicles for pure return-driven deposit placements is fading. For BSH, this could create higher net interest income, which, at around 90%, is the *Bausparkasse*'s most important revenue item.

The previously low or negative rate environment had impaired BSH's profitability. For the year's 2019-21, the *Bausparkasse*'s net income to assets (ROA) fell to around 10 basis points (bps), compared with around 35 bps in 2017 and 2018. During that period, fixed-rate mortgage loans originated at significantly lower rates than maturing loans and financial securities rolled over at much lower coupon rates. The low conversion rate of costly deposits into *Bauspar* loans limited BSH's ability to stabilise the net interest margin, which fell to 0.7% in 2021 from 1.2% in 2017 (2014: 1.6%).

For 2022, BSH reported net income of €91 million, unchanged from €90 million the year before (2020: €59 million). The strong and unexpected increase in interest rates triggered a reversal of previously booked provisions of €185 million for loyalty bonuses associated with *Bauspar* deposits[2], which reduced the *Bausparkasse*'s interest expense. This helped to increase BSH's reported net interest income by around 28% to €744 million, balancing lower interest income on newly underwritten mortgage loans. This positive was offset by fair value losses of €90 million (2021: net gain of €22 million), triggered by a €59 million net loss from the sale of financial instruments and a negative €31 million value adjustment for its joint ventures. BSH's reported operating expenses, including depreciation and amortization, increased moderately to €528 million in 2022 from €515 million in 2021, while credit provisions remained broadly stable at €17 million (2021: €14 million), equivalent to around three bps of gross loans, a ratio that is unchanged since 2014. BSH's reported pretax profit of €143 million in 2022 (2021: €130 million) also reflects a sizeable provision of €47.4 million for possible litigation risks associated with specific *Bauspar*contracts.

Exhibit 8
BSH's operating income highly depends on the net interest income
Data in € million



Note: * The extraordinary expense item in 2022 reflects our pre-tax standard adjustment for pension accounting because of the decline in BSH's defined benefit plan assets as interest rates have increased.
Sources: Company reports, Moody's Investors Service

We believe BSH's cost-to-income ratio will only improve slowly. Initial investments in cost initiatives and IT implementation will gradually be recovered through a declining operating costs. We expect declining pressure from interest bonus provisioning together with positive mix effects through a replacement of maturing securities with new residential mortgage loans to increasingly outweigh the drag on net interest income from the maturity of higher-yielding fixed rate mortgages underwritten in the past decade.

For the first half of 2023, DZ BANK reported a pretax loss of €14 million (H1 2022: pretax profits of €168 million) for its BSH segment. The strong deterioration mainly reflects the absence of last year's extraordinary benefit from the reversal of provisions for interest rate bonuses ("bauspartechnische Rueckstellungen"). New mortgage lending, which BSH partly underwrites on behalf of G-Finanzgruppe's primary banks, was at €6.7 billion in the first six months of 2023, roughly one third lower than €10.3 billion over the same period in 2022. In addition, BSH signed new *Bauspar* contracts with a volume of €17.9 billion in H1 2023, up from €16.1 billion in H1 2022. BSH benefited from a moderate increase in its domestic *Bauspar* market share to 30.0% from 28.9% over the same period, reflecting an overall strong market growth.

Very strong funding profile reflecting sizeable and granular and long-term retail deposits

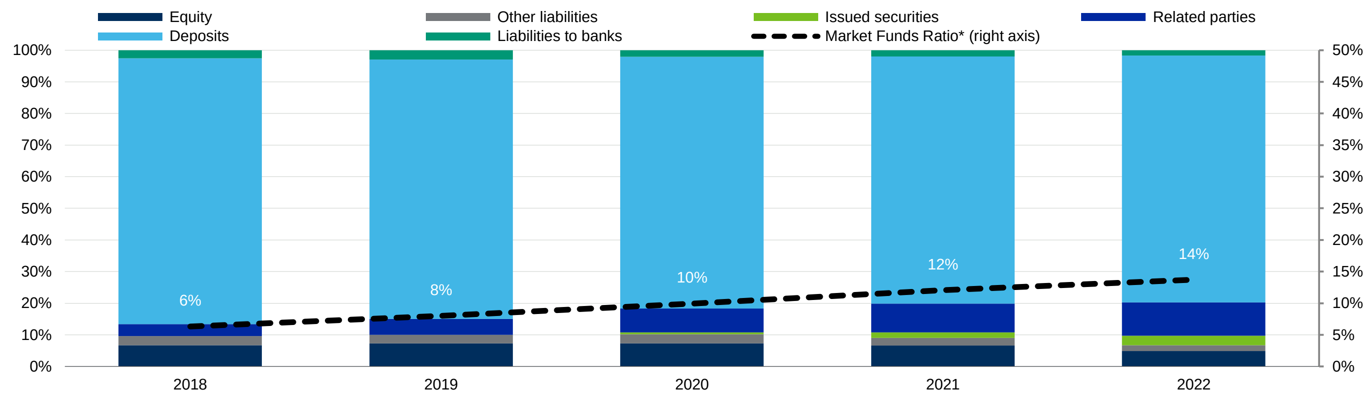
We assign an aa3 Funding Structure score to BSH, two notches above the initial score. The high score reflects BSH's clear focus on deposit funding and the fact that most of its liabilities to banks relate to members of the cooperative sector. The adjustment to the initial score also reflects our expectation that the *Bausparkasse*'s use of market funding will rise moderately because BSH plans to expand its mortgage covered bond issuance programme (Aaa stable), which will somewhat diversify its funding profile away from Bauspar deposits.

BSH's very strong funding profile is supported by its strong integration into German's cooperative sector's client base, to which the *Bausparkasse* caters as the mortgage specialist. BSH's primary funding source arises from highly granular retail deposits, accounting for around €67 billion or 78% of liabilities at the end of 2022. This funding strength is further expressed by BSH's still solid gross loan-to-deposit ratio of 99% at the end of 2022, which, however, has increased from 95% in 2021 and 91% in 2020, reflecting that loans grew faster than deposits because of attractive low fixed-rate mortgage contracts with long terms.

BSH has compensated the strong loan demand by accessing sector funding which increased to around €9.1 billion or 11% of liabilities at the end of 2022, up from 9% in 2021 and 7% in 2020. This is the main driver of the gradual increase in the *Bausparkasse*'s Market Funds ratio to 14% in 2022, compared with 12% in 2021 (Exhibit 9). Our ratio also reflects BSH's ambition to diversify funding sources, started in 2020, through the issuance of mortgage covered bond issuances. At the end of 2022, the outstanding volume was around

€2.5 billion, compared with €1.5 billion in 2021. In October 2020, BSH issued its first benchmark-size mortgage covered bond with a 10-year tenor at a negative yield.

Exhibit 9
BSH's rising market funds ratio reflects increasing sector funding and the issuance of covered bonds
Liabilities, in percent of tangible banking assets (TBA)



Note: *Market Funds Ratio = Market funds/tangible banking assets
Source: Company reports, Moody's Investors Service

BSH's liabilities to banks are sourced on a selective basis, including funds from member banks of the cooperative sector at arm's length and a very limited amount of promotional funding passed through to clients as part of residential mortgage financing solutions.

Moderated liquidity balanced by access to cash-rich German cooperative sector, if needed

We assign a baa2 Liquidity score to BSH, two notches above the initial score. Our assessment reflects the bank's moderated liquidity, balanced by additional intra-sector loans to banks and financial securities which could, at least partly, mitigate liquidity needs.

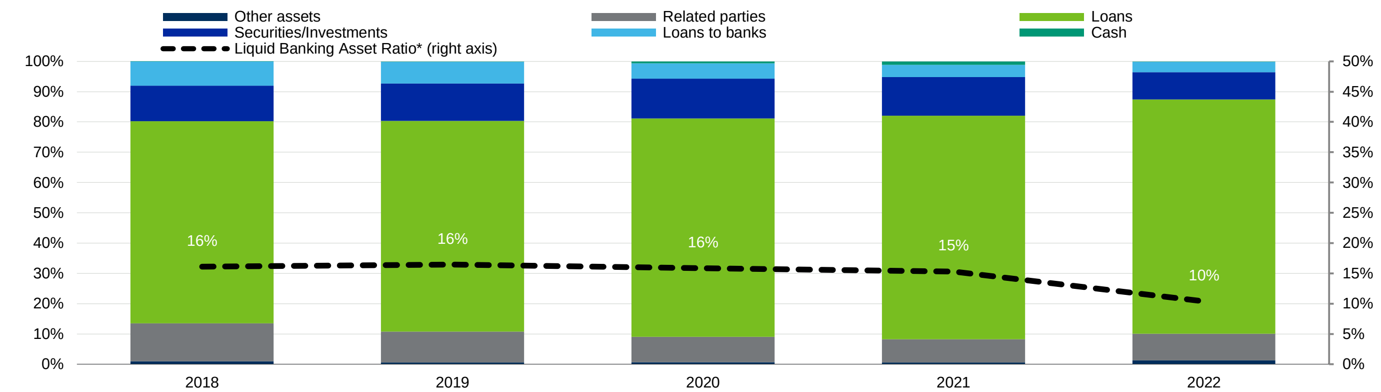
Despite strong loan growth[3] and declining yields on financial securities, BSH held liquidity broadly stable, as expressed by our Liquid Banking Asset ratio of around 15% for the years 2018-21. The strong and sudden increase of interest rates in 2022 triggered a reduction in the *Bausparkasse*'s financial securities portfolio, excluding issuers of the cooperative sector, to around €7.8 billion at the end of 2022 (2021: €10.9 billion) or nine percent of assets, compared with around 12-13% since 2016. The reduction was the main driver for our lower LBA ratio of 10% in 2022 (Exhibit 10).

The portfolio is designed to absorb any potential liquidity stress that could arise under adverse conditions and will likely shrink as BSH provides additional loans. However, as part of its liquidity management and due to its strong interconnectedness with the cooperative sector, BSH also holds intragroup claims and bonds, at around €7.6 billion at the end of 2022 (2021: €6.6 billion) that could be used, at least partly, to cover any liquidity shortfalls, if needed.

Exhibit 10

BSH's liquid resources have somewhat declined reflecting a lower share of financial securities, issued outside the German cooperative banking sector

Assets, in percent of tangible banking assets (TBA)



Note: *Liquid banking assets ratio = Liquid assets/tangible banking assets

Source: Company reports, Moody's Investors Service

Further, we believe that BSH can access additional liquidity, if needed, through issued covered bonds because pledged loans from the cover pool can also be used to generate central bank liquidity. BSH's very conservative liquidity management is also expressed by a very favorable regulatory liquidity coverage ratio, which was 317% at the end of 2022 (2021: 1,781%), and thus strongly above the minimum requirement of 100%.

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.

BSH's high concentration in mortgage lending and the *Bauspar* product in particular leads us to deduct a full notch from its a3 Financial Profile score. BSH depends almost exclusively on one business line, i.e. mortgage savings and loan contracts. Therefore, we classify it as a monoline bank. In terms of assets, BSH, like its building and loan association peers, has put strong emphasis on residential mortgage loan products marketed either along with *Bauspar* contracts or on a standalone basis. The scope of these activities is narrowly limited by the special law applicable for German Bausparkassen under which BSH operates.

Most of BSH's funding structure rests on retail deposits sourced under *Bauspar* contracts. Although BSH is diversifying its funding structure by issuing covered bonds, we expect that *Bauspar* deposits will to continue to dominate its liabilities.

ESG considerations

Bausparkasse Schwaebisch Hall AG's ESG Credit Impact Score is CIS-2

Exhibit 11
ESG Credit Impact Score

CIS-2
Neutral-to-Low

NEGATIVE IMPACT
POSITIVE IMPACT

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Bausparkasse Schwaebisch Hall AG's (BSH) **CIS-2** reflects the limited credit impact of environmental and social factors on the ratings to date and neutral-to-low governance risk

Exhibit 12
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-2	S-4	G-2
Neutral-to-Low	Highly Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental
BSH faces low exposure to environmental risks, which is lower than its industry. The group has limited exposure to carbon transition risks because its loan book is concentrated in German residential mortgages.

Social
BSH 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. BSH 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
BSH's governance risks are low, despite concentration risks inherent in its business model as a building and loan association. As a building society (Bausparkasse) its strategy, risk management function and organizational structure are in line with industry practices. BSH is wholly owned by Germany's cooperative sector, including DZ Bank AG. We have aligned the subsidiary's board structure, policies and procedures score with that of its parent, given the bank's strategic importance and public affiliation with the cooperative group, the parent's oversight of its subsidiary board and the regulated nature of both entities.

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

Affiliate support

BSH's a3 Adjusted BCA benefits from the strong fundamentals of and our assessment of a very high probability of support from the German cooperative banking association, G-Finanzgruppe, which provides support to all members through its institutional protection scheme.

As a member of the cooperative group of banks, BSH is highly likely to receive affiliate support in case of need. This support significantly reduces the probability of default because the cooperative group's cross-sector support mechanism aims to stabilise its members by avoiding any form of loss participation by creditors or bail-ins. Our affiliate support assumptions result in two notches of rating uplift from the baa2 BCA, benefiting the bank's issuer and deposit ratings, and CRRs.

Loss Given Failure (LGF) analysis

BSH is subject to the Bank Recovery and Resolution Directive, 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. BSH is a domestic subsidiary of DZ BANK and we include it in the resolution perimeter of the parent for the purpose of our Advanced LGF analysis, which is based on the liability structure at the DZ BANK level.

In line with our standard assumptions, we further assume a residual TCE of 3%, post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits. Because we use private data provided by DZ BANK to determine current amounts of senior unsecured and junior senior debt, as well as our future new issuance expectations, we do not disclose the underlying volumes of the liability tranches included in our Advanced LGF analysis for the group.

For BSH's deposit and issuer ratings, our LGF analysis indicates an extremely low loss given failure, leading to a three-notch uplift from its a3 Adjusted BCA.

Government support considerations

We incorporate one notch of uplift into our senior unsecured debt and deposit ratings for members of G-Finanzgruppe, reflecting our assumption of a moderate probability of support.

Our government support assumptions, which are included in BSH's ratings, reflect the size and high systemic relevance at the domestic level of the group of cooperative banks. Such support would probably not be provided to the bank directly but rather to G-Finanzgruppe, in the unlikely event that the group either cannot provide the required support or cannot provide it quickly enough, based on the sector's combined financial strength.

Counterparty Risk Ratings (CRRs)

BSH's CRRs are Aa2/P-1

The CRRs are four notches above BSH’s a3 Adjusted BCA, based on the extremely low loss given failure from the high volume of instruments at the DZ BANK level that are subordinated to CRR liabilities, reflected in three notches of uplift; and one notch of rating uplift based on government support, in line with our support assumptions on deposits and senior unsecured debt.

Counterparty Risk (CR) Assessment

BSH's CR Assessment is Aa2(cr)/P-1(cr)

BSH’s Aa2(cr) CR Assessment is four notches above the a3 Adjusted BCA, three notches of which are based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, primarily senior unsecured debt. Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

Methodology

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

About Moody's Bank Scorecard

Our 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 13

Bausparkasse Schwaebisch Hall 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	0.8%	aa2	↔	a2	Sector concentration	Collateral and provisioning coverage
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	30.9%	aa1	↔	aa2	Risk-weighted capitalisation	Capital retention
Profitability						
Net Income / Tangible Assets	0.0%	b3	↔	b2	Return on assets	Expected trend
Combined Solvency Score		a2		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	13.7%	a2	↔	aa3	Extent of market funding reliance	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	10.4%	ba1	↔	baa2	Stock of liquid assets	Additional liquidity resources
Combined Liquidity Score		baa1		a2		
Financial Profile				a3		
Qualitative Adjustments				Adjustment		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Baa2		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				-		
Adjusted BCA				a3		

Balance Sheet is not applicable.

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	-	-	-	-	-	-	-	3	0	aa3
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	aa3 (cr)
Deposits	-	-	-	-	-	-	-	3	0	aa3
Senior unsecured bank debt	-	-	-	-	-	-	-	3	0	aa3

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	aa3	1	Aa2	Aa2
Counterparty Risk Assessment	3	0	aa3 (cr)	1	Aa2(cr)	
Deposits	3	0	aa3	1	Aa2	Aa2
Senior unsecured bank debt	3	0	aa3	1	Aa2	Aa2

[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 14

Category	Moody's Rating
BAUSPARKASSE SCHWAEBISCH HALL AG	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa2
ST Issuer Rating	P-1
PARENT: DZ BANK AG	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa2
Senior Unsecured	Aa2
Junior Senior Unsecured	A3
Junior Senior Unsecured MTN -Dom Curr	(P)A3
Subordinate	Baa1
Commercial Paper	P-1
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Investors Service

Endnotes

1 The ratings shown are DZ BANK's long-term deposit and senior unsecured ratings and outlook, and BCA.

2 In 2021, BSH released €204 million and in 2020 added €115 million, driving volatility of its net interest income.

3 Between 2018-21, gross loans to customers increased by on average 9.7% annually.

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