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Research Update:

Germany-Based Bancassurance Group W&W Upgraded To 'A-' On Higher Projected Risk-Weighted Capital; Outlook Stable

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Overview

- We believe that the earnings and capital position has improved at Germany-based Wuestenrot & Wuerttembergische bancassurance group (W&W) based on our opinion that the banking subgroup's risk-adjusted capital ratio will remain stronger than we previously anticipated.
- We are raising the ratings on W&W's holding company to 'BBB+' from 'BBB', and on the group's core operating entities to 'A-' from 'BBB+'.
- We are also raising the ratings on the subordinated bonds of Wuerttembergische Versicherung and Wuerttembergische Lebensversicherung from 'BBB-' to 'BBB'.
- We currently continue to assess the stand-alone credit profile of the insurance subgroup, which represents over half of the combined entity, as strong, and slightly stronger than that of the banking subgroup.
- The stable outlook reflects our expectation that W&W will deliver on its restructuring plan to improve its operating performance.

Rating Action

On Dec. 28, 2012, Standard & Poor's Ratings Services raised its long-term counterparty credit and insurer financial strength ratings on the core operating companies of Germany-based Wuestenrot & Wuerttembergische (W&W) bancassurance group to 'A-' from 'BBB+'. We also raised the counterparty credit ratings on W&W AG Holding to 'BBB+' from 'BBB'. The outlook is stable.

Rationale

The upgrade of the core operating entities and the holding company reflects our revision of the combined banking subgroup's stand-alone credit profile (SACP) to 'bbb+' from 'bbb'. The higher SACP reflects a better assessment of the combined banking subgroup's capital and earnings position to "strong" compared with "adequate" previously, as our criteria define the terms, because we believe the risk-adjusted capital (RAC) ratio will remain stronger than we previously anticipated. With some growth in lending, we expect the RAC ratio to settle at about 12%-12.5% in the next two years.

The SACP of the banking subgroup continues to reflect the anchor of 'a-', which represents our view about economic conditions and banking industry risk in Germany. It also reflects the banking subgroup's "moderate" business

position in view of its concentrated business profile; "moderate" risk position due to significant risks not fully captured by our RAC analysis; "average" funding; and "adequate" liquidity, based on a healthy mix of core deposits and mainly secured funding, and adequate liquidity metrics.

The SACP of the insurance subgroup remains unchanged at 'a-', reflecting strong operating performance, strong capitalization, as well as a strong competitive position. Our assessment of the insurance subgroup is based on its favorable competitive position, favorable operating performance, and the favorable capitalization of its core operating insurance entities. We view the group's primary non-life underlying underwriting performance as strong. For the life business, we expect that low interest rates will entail higher reserving requirements, which will tend to constrain the gross surplus. We currently assess the SACP of the insurance subgroup, which represents over half of the combined entity, as strong, and slightly stronger than that of the banking subgroup.

We believe that the insurance as well as the banking subgroups will remain intrinsic parts of the group.

Outlook

The stable outlook reflects our expectation that W&W will deliver on its restructuring plan to improve its operating performance in terms of profit from operations and new business margins. We also expect that W&W will maintain its capitalization at least at strong and its competitive position at strong levels as well.

We would consider a negative rating action if W&W fails to meet the following measures in 2013 to 2015:

- Counteract unfavorable investment conditions by further improving margin management and by reducing interest rate dependence, which would increase risk and cost results and profit from operations;
- Report a sustained RAC ratio for the banking subgroup above 10% in the next two years; and
- Conserve group capital adequacy according to our model at least at strong levels.

Based on our criteria and persistently low interest rates, we currently consider further positive rating actions as remote.

Related Criteria And Research

- Principles Of Credit Ratings, Feb. 16, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Group Methodology, April 22, 2009
- Interactive Ratings Methodology, April 22, 2009
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Holding Company Analysis, June 11, 2009
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Summary Of Standard & Poor's Enterprise Risk Management Evaluation Process For Insurers, Nov. 26, 2007

Ratings List

Upgraded; Ratings Affirmed

	To	From
Wuestenrot & Wuerttembergische AG		
Counterparty Credit Rating		
Local Currency	BBB+/Stable/A-3	BBB/Stable/A-3
Wuerttembergische Lebensversicherung AG		
Wuerttembergische Versicherung AG		
Counterparty Credit Rating		
Local Currency	A-/Stable/--	BBB+/Stable/--
Financial Strength Rating		
Local Currency	A-/Stable/--	BBB+/Stable/--
Subordinated	BBB	BBB-
Wuestenrot Bank AG Pfandbriefbank		
Wuestenrot Bausparkasse AG		
Counterparty Credit Rating	A-/Stable/--	BBB+/Stable/--

NB: This list does not include all entities affected.

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