

## FITCH REVISES WUESTENROT & WUERTTEMBERGISCHE INSURANCE ENTITIES' OUTLOOK TO POSITIVE

Fitch Ratings-London/Frankfurt-18 November 2011: Fitch Ratings has revised Wuerttembergische Lebensversicherung AG's (WL, life insurance), Wuerttembergische Versicherung AG's (WV, property and casualty insurance) and Wuerttembergische Krankenversicherung AG's (WK, health insurance) Outlooks to Positive from Stable and affirmed their Insurer Financial Strength (IFS) at 'A-' and Long-term Issuer Default Ratings (IDR) at 'BBB+'. The agency also revised the Outlook on Wuestenrot & Wuerttembergische AG (W&W AG) to Positive from Stable and affirmed its Long-term IDR at 'BBB+'. W&W AG is the Wuestenrot & Wuerttembergische group's (W&W) holding company. WL's EUR130m subordinated debt issue is affirmed at 'BBB-'.

The Outlook revision reflects the insurance entities' improved profitability during the first nine months of 2011 and the expectation that the 'W&W2012' strategic initiative will lead to the group achieving sustained higher profitability from 2012. The capitalisation of W&W's insurance entities has benefitted from the de-risking of their investment portfolio and the group's capitalisation continues to be supportive of the current ratings. Fitch views WV, WL and WK as core and integral parts of W&W.

In 2010 WL improved its acquisition cost ratio to 6.4% from 6.8% and its expense ratio to 2.8% from 2.9% (2009). The regulatory solvency margin, which during 2010 increased to 171% (165%), further improved during 9M11 to 177%.

WV achieved a gross combined ratio of 97.6% (2009: 90.1%) while the German market reported a ratio of 98.0% in 2010. WV was hit by natural hazards and larger claims in 2010, which explains the increase. Fitch understands that the prior-year reserve adjustment is likely to be lower in 2011 compared to 2010. Considering these two factors, Fitch expects a combined ratio of about 96% for 2011, slightly above the reported 95.2% for 9M11.

In 2010, W&W started its 'W&W2012' strategic initiative, which aims to improve profitability and reduce expenses. W&W is targeting reported net income of at least EUR250m from 2012 onwards. Solid progress in successfully implementing the 'W&W2012' initiative would be a key rating driver for an upgrade. The cost and efficiency ratio would need to improve further, at least to the levels of the peer group. Conversely, ratings could be downgraded if there were a substantial erosion of capital with the insurance entities' regulatory capital ratios falling below 150%.

W&W is a bancassurance group operating mainly in Germany. At end-2010, W&W had total assets of EUR76bn. W&W generated gross written premiums (GWP) of EUR3.9bn in 2010. WL and WV are the group's main insurance entities and rank among the top ten in the German life and non-life markets, in terms of GWP.

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Applicable criteria, 'Insurance Rating Methodology', dated 22 September 2011, are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:

Insurance Rating Methodology

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=651018](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=651018)

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