

## **FITCH AFFIRMS WUESTENROT BAUSPARKASSE AND WUESTENROT BANK AT 'BBB+'; OUTLOOKS STABLE**

Fitch Ratings-London/Frankfurt-18 December 2009: Fitch Ratings has today affirmed the Long-term Issuer Default Ratings (IDRs) of Germany-based Wuestenrot Bausparkasse AG (WBSK) and its sister bank, Wuestenrot Bank AG Pfandbriefbank (WBP), at 'BBB+' with Stable Outlooks respectively. The agency has also affirmed the following ratings of both banks: Short-term IDRs at 'F2', Support Ratings at '3' and Support Rating Floors at 'BB+'.

Fitch has also affirmed WBSK's Individual Rating at 'B/C' and removed it from Rating Watch Negative (RWN). At the same time, WBP's Individual Rating has been upgraded from 'C/D' to 'B/C' and removed from Rating Watch Positive (RWP).

Separately, Fitch has today affirmed Wuestenrot & Wuerttembergische AG's (W&W AG) - WBSK's and WBP's 100% owner and holding company - Long-term IDR at 'BBB+'. The agency has affirmed the Insurer Financial Strength (IFS) Ratings of 'A-' and the Long-term IDRs of 'BBB+' of W&W AG's insurance entities: Wuerttembergische Lebensversicherung AG, Wuerttembergische Versicherung AG and Wuerttembergische Krankenversicherung AG. The Outlooks are Stable. (For further information, please see the 18 December 2009 comment, entitled 'Fitch Affirms Wuestenrot & Wuerttembergische Insurance Entities' Ratings; Outlook Stable', which is available at [www.fitchratings.com](http://www.fitchratings.com)).

The alignment of WBSK and WBP's Individual ratings concludes an extended review and reflects both banks' increased and far-reaching integration. This integration particularly consists of a common management team and the sharing of essential functions such as treasury and risk management. Consequently, Fitch assesses both banks as a single economic entity, the so-called BausparBank. The equalisation of both banks' Individual Ratings at 'B/C' is based on the agency's expectation that WBSK's financial performance will remain sustainably sufficient to compensate for WBP's weaker credit profile. WBP's stand-alone credit profile is strained by its low profitability and tight capitalisation. These features are due to the bank's positioning within the larger W&W group as internal liquidity provider, capitalising on its status as Pfandbrief issuer, while new lending business is increasingly concentrated at WBSK. Therefore Fitch expects WBP to remain a low profit contributor.

Today's rating actions reflect Fitch's expectation that, following several years of weak results, the BausparBank's profitability will stabilise at a solid level during the current challenging economic environment and beyond. While the BausparBank has notably benefited from the benign interest rate environment prevailing in the first nine months of 2009, its solid performance in that period is also attributable to the structural impact of its efficiency improvement programme initiated in 2006. At the same time, the agency continues to consider the German Bauspar and retail mortgage lending market as structurally challenging. WBSK's acquisition of its smaller competitor Vereinsbank Victoria Bauspar AG (VVB) in mid-2009 will strengthen the BausparBank's position as the third-largest German building and loan association. At the same time, it will require particular management attention to ensure a smooth integration and to secure a sufficient and sustainable level of new business generation at adequate margins.

Fitch considers the BausparBank's capitalisation as solid in light of the low credit risk of its granular residential mortgage-lending business and resilient asset quality. The agency also views as appropriate management's measures to address the challenges of the Bauspar market, notably the extension of its efficiency improvement programme until 2012. The ratings also reflect the BausparBank's monoline business model and WBSK's exposure to interest rate risk.

Fitch continues to believe that there is a strong willingness by W&W AG to support its banking operations. However, the large scale of the BausparBank relative to other group resources could restrict W&W AG's ability to support it in extreme circumstances. Based on its position as a residential mortgage lender, retail deposit gatherer and Pfandbriefe (covered bond) issuer, Fitch

believes that there is a moderate probability of support from the German authorities, in case of need.

In Fitch's rating criteria, a bank's standalone risk is reflected in Fitch's Individual ratings and the prospect of external support is reflected in Fitch's Support ratings. Collectively these ratings drive Fitch's Long- and Short-term IDRs.

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