

FITCH AFFIRMS WUESTENROT AT 'BBB+'; REVISES OUTLOOK TO NEGATIVE

Fitch Ratings-Frankfurt/London-26 July 2012: Fitch Ratings has affirmed Germany-based Wuestenrot Bausparkasse AG's (BSW) and its sister bank, Wuestenrot Bank AG Pfandbriefbank's (WBP) Long-term Issuer Default Ratings (IDRs) at 'BBB+' and revised the Outlooks to Negative from Positive. Fitch has also affirmed BSW's and WBP's Short-term IDRs at 'F2' and Support Ratings at '3'. A full list of ratings is at the end of this release.

BSW and WBP are closely linked and operate to a large extent as a single economic entity, the 'Bausparbank'. This is in particular underpinned by a common management team and the sharing of essential functions such as treasury and risk management. However, BSW and WBP have to be kept as legally separate entities because BSW's protective building society (Bausparkasse) status prevents it from taking over WBP's covered bond (Pfandbrief) licence and business.

RATING ACTION RATIONALE

The Negative Outlook reflects BSW's vulnerability in the currently low interest rate environment resulting in decreasing net interest margins and potentially increasing loan waivers by Bauspar depositors, triggering interest bonus payments. BSW is less flexible in adjusting its funding costs as it still has a significant amount of high-yielding Bauspar tariffs, albeit the average yield on total deposits further declined in 2011. Fitch expects interest rates to stay low in the near to medium term, constraining BSW's recurring earnings capacity. WBP is more flexible in steering its net interest margin, although it remains low. Fitch also understands that WBP's new business could be more selective going forward to improve regulatory capital ratios. The Bausparbank has realised one-off gains to offset the decline of net interest revenues and impairments on Greek sovereign bonds in 2011 and the agency expects these one-offs to be forthcoming to maintain profitability.

The entities' 100% parent, Wuestenrot & Wuerttembergische AG ('BBB+/Positive'), has announced a further optimisation initiative (W&W 2015) across the group to offset the negative implications from the low interest rate environment. Fitch believes that management's proactive approach to streamline its business is positive but also notes that this transformation takes time and will likely require one-off expenses to realise positive contributions in later periods.

Fitch believes BSW will integrate Allianz Dresdner Bauspar AG (ADB), which was acquired from Commerzbank AG ('A+/'Stable) in 2010, as planned by 2013. Despite ADB being integrated, the Positive Outlook assigned on 1 August 2012 was also subject to an assumed positive earnings development based on a more favourable interest rate environment, which is no longer a realistic scenario.

RATING DRIVERS AND SENSITIVITIES - IDR AND VR

The affirmation of both banks' IDRs, which are driven by their Viability Ratings, reflects their solid capitalisation, anticipating the implementation of the advanced internal rating-based approach by 2014, in light of granular and low risk residential mortgage loans and resilient asset quality, driven by a robust residential property market in Germany. With Greece off the balance sheet and limited exposure to Spain and Italy, tail risk has become of less concern in Fitch's view, albeit still a threat. Fitch has received pro-forma liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) data and does not expect these ratios to be a challenge for either bank under Basel III. However, the ratings also reflect their monoline business model in a competitive Bauspar and residential mortgage lending market, strong competition concerning retail deposits and considerable exposure to interest rate risk.

BSW's and WBP's ratings are sensitive to swings in interest rates. Interest rates staying at the current low level for a prolonged period of time could result in a downgrade of the two banks current 'bbb+' Viability Ratings and consequently their IDRs. Further downward pressure could

result from potential stress in the domestic residential property market, which is not of immediate concern for Fitch. Further downward pressure would arise from the sovereign debt crisis reaching a more critical stage, for example a Greece exit from the eurozone. Upside potential could only arise from a significant improvement of the bank's recurring profitability and capitalisation, which Fitch does not expect to happen in the foreseeable future.

RATING DRIVERS AND SENSITIVITIES - SUPPORT RATING AND SUPPORT RATING FLOOR

Given both banks' significant retail deposit base, their role as residential mortgage lenders and WBP's status as a Pfandbrief issuer, Fitch would expect moderate support from the German authorities, reflecting the banks current Support Ratings. BSW and WBP would, if ever needed, first look for support to their 100% parent Wuestenrot & Wuerttembergische AG. Although strong, its willingness to support cannot be relied upon, in Fitch's view, as its ability to do so would be restricted by the large relative scale of the Bausparbank.

The rating actions are as follows:

Wuestenrot Bausparkasse AG

Long-Term IDR: affirmed at 'BBB+', Outlook revised to Negative from Positive

Short-Term IDR: affirmed at 'F2'

Viability Rating: affirmed at 'bbb+'

Support Rating: affirmed at '3'

Support Rating Floor: affirmed at 'BB+'

Wuestenrot Bank AG Pfandbriefbank

Long-Term IDR: affirmed at 'BBB+', Outlook revised to Negative from Positive

Short-Term IDR: affirmed at 'F2'

Viability Rating: affirmed at 'bbb+'

Support Rating: affirmed at '3'

Support Rating Floor: affirmed at 'BB+'

Senior debt: affirmed at 'BBB+'

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Additional information is available on www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria 'Evaluating Corporate Governance', dated 13 December 2011 and 'Global

Financial Institutions Rating Criteria', dated 16 August 2011 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Evaluating Corporate Governance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=657143

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=649171

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