

# Wuestenrot Bausparkasse AG

September 23, 2024

## Ratings Score Snapshot

**SACP: bbb**

**Support: +2**

**Additional factors: ---**

Anchor	bbb+	
Business position	Moderate	-1
Capital and earnings	Strong	1
Risk position	Moderate	-1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment	0	

ALAC support	0
GRE support	0
Group support	2
Sovereign support	0

Issuer credit rating
<b>A-/Stable/A-1</b>

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## Credit Highlights

### Overview

Key strengths	Key risks
Membership of the Wuestenrot & Wuerttembergische AG (W&W) bancassurance group provides stability.	High dependence on Germany's residential real estate sector.
Strong stand-alone capitalization and good asset quality.	The behavior of bauspar customers is very sensitive to interest rate expectations.
Very granular and stable retail funding base with stable liquidity buffers.	Comparatively low profitability and cost efficiency.

## Outlook

The stable outlook reflects our view that W&W's historically strong performance in property/casualty (P/C) insurance will recover, and the group will cope with potential pressure on earnings from volatility in investment income and claims development.

### Downside scenario

We could lower the ratings over the next two years if, over a prolonged period and contrary to our expectations, W&W cannot:

- Further improve the cost structure and efficiency of its banking operations. This mainly affects its building-savings loans, and its residential real estate lending franchise.
- Maintain consolidated capital adequacy above our 99.8% level. Deterioration could result from a stronger decline in earnings than expected, for example, following volatility in investment income, from elevated P/C claims, or due to an increase in capital requirements.

## Upside scenario

We consider a positive rating action a remote possibility in the next 12-24 months. It would hinge on a material recovery in P/C insurance earnings at least to levels observed in prior years and a sustained improvement in earnings diversification, mainly fueled by the banking and life insurance operations.

## Key Metrics

Wuestenrot Bausparkasse AG Key ratios and forecasts

(%)	2022a	2023a	2024f	2025f	2026f
Growth in operating revenue	-13.8	39.4	(10.0)-(12.0)	(10.0)-(12.0)	(0.5)-(1.5)
Growth in customer loans	7.2	4.5	6.5-7.5	7.5-8.5	6.0-7.0
Growth in total assets	3.4	3.4	3.5-4.5	5.0-6.0	3.0-4.0
Net interest income/average earning assets (NIM)	1.31	1.78	1.35-1.45	1.30-1.40	1.30-1.40
Cost-to-income ratio	107.3	83.4	83.0-86.0	82.0-85.0	80.0-83.0
Core earnings/average adjusted common equity	-2.1	5.0	3.0-3.5	3.0-3.5	3.5-4.0
New loan loss provisions/average customer loans	0.0	0.0	0.05-0.15	0.00-0.10	0.00-0.10
Gross nonperforming assets/customer loans	1.0	1.2	1.0-1.2	0.9-1.1	0.8-1.0
Risk-adjusted capital ratio	15.9	13.9	13.50-14.00	13.00-13.50	12.75-13.25

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

## Anchor: 'bbb+' Reflecting WBSK's Operations In Germany's Diverse And Resilient Economy

Our anchor, the starting point in assigning an issuer credit rating, for a bank operating mainly in Germany is 'bbb+', based on an economic risk score of '2' and an industry risk score of '4'. We view the economic risk and the industry risk trends as stable.

Our economic risk assessment for Germany views the economy's competitiveness and wealth, and its track record in absorbing large economic and financial shocks as positive. Despite structural risks to Germany's economic model, higher sensitivity to geopolitical stress, and a modest economic outlook compared with European peers', we expect German households and corporates to remain resilient. We forecast only a modest increase in domestic credit losses from low levels to 20 basis points (bps) in 2024 and 2025 annually, up from 15 bps in 2023. This is also based on our expectation of a robust German labor market, the deterioration of which would be a key risk for credit losses. In our opinion, the significant exposure of German banks to the commercial real estate sector represents a risk factor for the asset quality and profitability of some German banks but will likely not impair their capital position and therefore does not pose a systemic risk to the German banking sector.

Our industry risk assessment for Germany considers the structurally modest profitability of the banking sector relative to peers'. German banks have benefited significantly from higher interest rates, but we expect cyclical interest rate support to peak in 2024 and profitability to decline again as policy rates begin to fall. We anticipate that inefficient cost bases, overcapacity, and intense competition will put a structural strain on profit margins. In our view, the banking sector's access to a very stable and broad domestic funding market is positive. The funding profile of German banks largely includes sticky retail deposits, which benefit from a comprehensive deposit protection scheme, as well as covered bonds, which represent a very reliable and cost-efficient funding source.

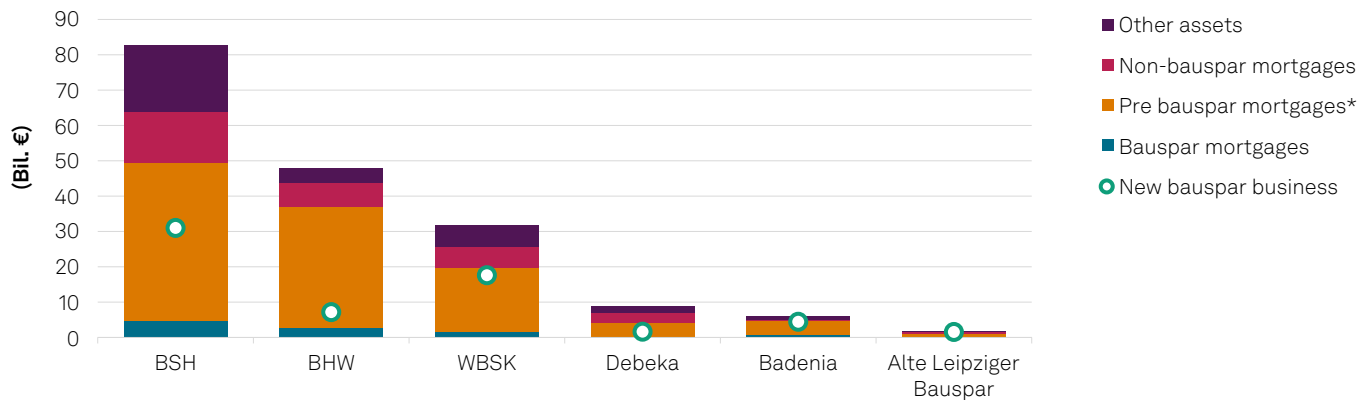
## Business Position: Narrow Business Model With Relatively Low Profitability And Efficiency

A narrow focus on residential real estate is only partially balanced by bancassurance group membership. Wuestenrot Bausparkasse AG (WBSK) has an established market position as one of the largest private baupar providers (bauparen is a combined savings and mortgage contract) in Germany with total assets of €32.5 billion as of June 30, 2024. However, their main product directly competes with universal banks' offering full banking services to retail customers (see chart below).

We also incorporate ongoing benefits to WBSK of being part of the wider W&W bancassurance group positively in our assessment. In our view, this provides stability and significant cross-selling opportunities.

### Wuestenrot Bausparkasse among largest baupar banks

Balance sheet structure and new business of selected baupar peers

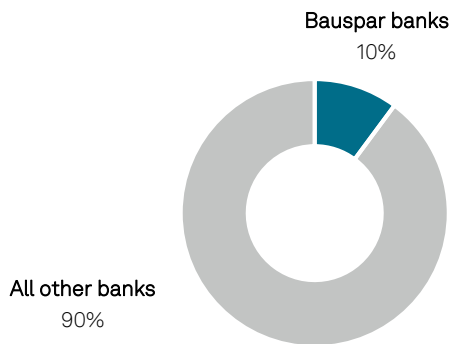


BSH--Bausparkasse Schwäisch Hall. All data as per FY 2023. \*Pre/interim loans in combination with baupar contract. Source: Company reporting, S&P Global Ratings.

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### The bauspar segment competes with other banks for the same customers

Outstanding loans for real estate financing to domestic corporates and retail customers



Source: Bundesbank, S&P Global Ratings.

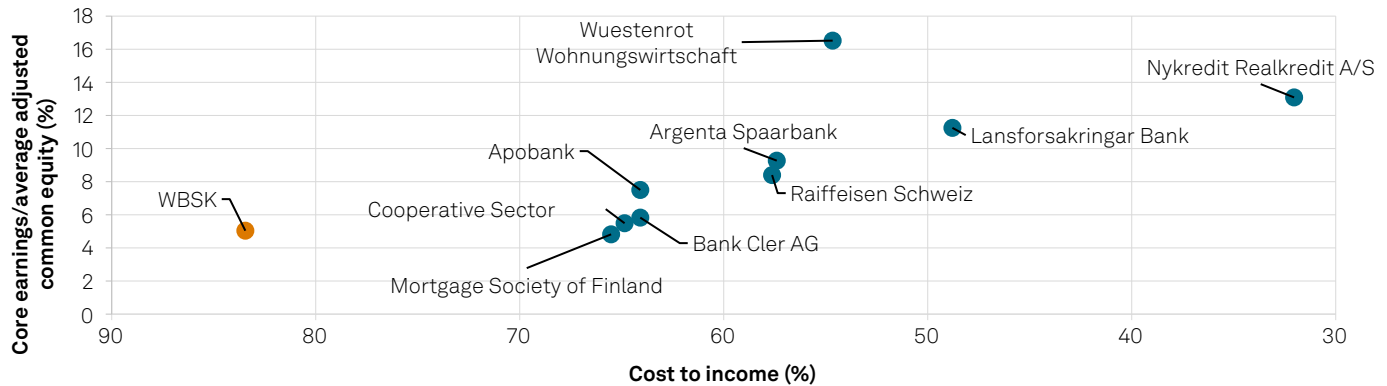
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While the interest rate environment remains supportive, we do not expect core earnings to remain at 2023 levels. WBSK's net interest income improved to €552 million in 2023. Besides higher income securities investments, earnings were also supported by higher demand for bauspar products bundled with plain vanilla mortgages in light of interest rate volatility. At the same time, interest expenses even reduced thanks to timely closing of swaps. WBSK's net fee and commission income is structurally negative and decreased to €81 million in 2023, which is due to its distribution model heavily relying on sales partners receiving commission--indicative of its stronger new business. As the demand tailwinds for bauspar products abate, we expect net interest income to reduce while the negative net fee and commission income will improve.

We compare WBSK primarily against peers with a similar business risk profile. These are primarily retail-oriented real estate lenders in Germany and other European markets with similar industry risks. Although WBSK's profitability and cost efficiency metrics improved supported by rates, it compares weak against these peers (see chart below). We expect this pattern to persist, considering structurally low earnings capacities in German retail real estate financing. Against this backdrop, continued cost discipline is necessary.

### Profitability and cost efficiency are weak compared to peers

WBSK versus selected peers



Source: S&P Global Ratings.

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## Capital and Earnings: Strong Capitalization On A Stand-Alone Basis

WBSK's capitalization remains a strength for its stand-alone creditworthiness. We expect our risk-adjusted capital (RAC) ratio will remain comparatively stable between 12.75%-14.00%, after it stood at 13.9% per as of end-2023. With the anticipated peak of interest rates, new bauspar business will fall to pre-hike levels and we expect earning assets to grow at between 3.5% and 5.5% annually over 2024-2026. We also forecast a drop in net interest margin to about 1.30%-1.40% by 2026 compared to 1.78% in 2023 (1.44% in the first half of 2024). We expect cost of risk to remain at medium single digit basis point levels, reflecting WBSK's good and highly collateralized asset quality.

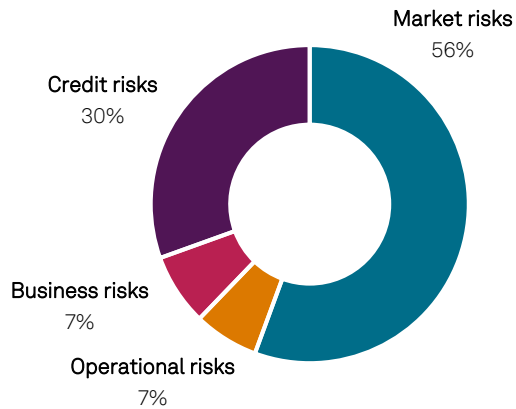
Qualitative factors support WBSK's capital position. We note that the bank's total adjusted capital entirely consists of common equity and also positively acknowledge W&W's past conservative dividend expectations, particularly during the tough operating environment in the low-interest rate era, with effectively no dividend payout before 2021. We assume a dividend payout ratio of 50% in our forecasts.

## Risk Position: Sensitivity To Interest Rate Movements Only Partially Balanced By Prudent Underwriting Policy

We consider that WBSK's risk position limits its stand-alone creditworthiness, reflecting its exposure to significant risks not captured by our RAC analysis. Market risk, and particularly interest rate risk which is inherent to the bauspar business model dominates WBSK's risk profile (see chart below). Bauspar operations are highly sensitive to interest rate expectations and fluctuations, as these products essentially serve as an interest call option to customers exposing WBSK to risks from quickly rising rates. Moreover, building-savings products often feature customer options linked to interest-rate movements. These aspects have led to substantially increased provisions and depressed earnings in the past. We note that WBSK has closed interest rate swaps, which will also support net interest income going forward.

### Market risks dominate Wuestenrot Bausparkasse's risk profile

Risk drivers in percentage of total risk according to WBSK's internal modeling



WBSK--Wuestenrot Bausparkasse. Source: Company reporting, S&P Global Ratings.

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In the current environment, characterized by high and volatile interest rates, bauspar loans with relatively low pre-agreed interest rates have become increasingly attractive for existing customers compared with traditional mortgages. This could, in turn, lead to rising acceptance ratios of bauspar contracts and put pressure on net margins. These would directly depress future earnings.

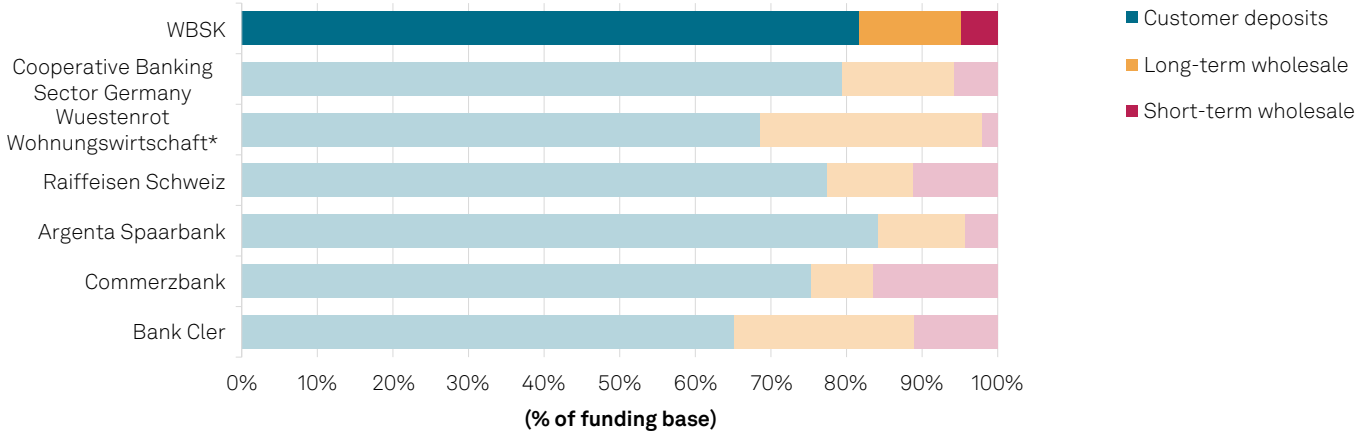
We think that WBSK's focus on collateralized residential mortgage lending will limit its credit risk compared with peers that have a stronger focus on corporate banking or commercial real estate. Overall, we expect that the quality of WBSK's residential mortgage portfolio will remain sound, despite the correction in German residential real estate prices amid high interest rates.

## Funding And Liquidity: Stable Retail Deposits And Historically Solid Liquidity Metrics

We assess WBSK's funding and liquidity as neutral for its stand-alone creditworthiness. The bank's funding is based on a mix of relatively stable and granular core deposits from its bauspar business and capital market issuance, mainly covered bonds and substantial excess liquidity. We expect that our stable funding ratio will remain in line with previous years' levels of above 100% (108% as of end-2023).

**Wuestenrot Bausparkasse's funding profile compares well with peers**

Composition of funding by type, WBSK and selected peers



\*Banking subgroup of Austrian Wuestenrot Wohnungswirtschaft. Source: S&P Global Ratings.

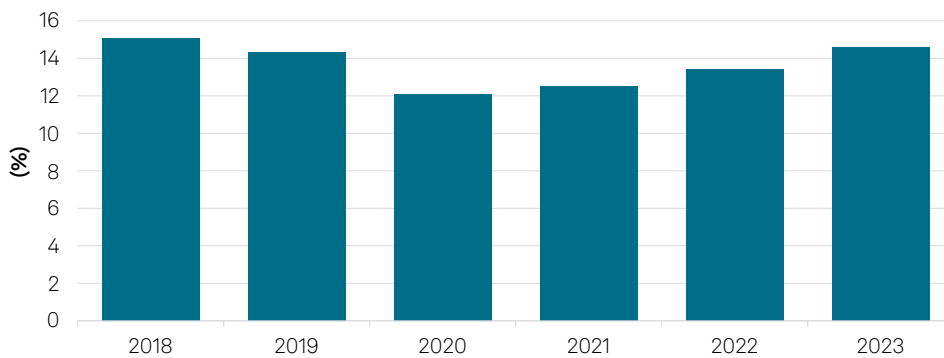
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WBSK’s already solid liquidity ratios temporarily benefited from renewed attractiveness for bauspar contracts. WBSK’s liquidity buffers benefitted from both higher customer bauspar deposits due to renewed attractiveness of the product and lower demand for standard mortgages, in the wake of the recent rate hikes. In previous cycles, bauspar deposits had been more sensitive to interest rates than retail banks’ standard customer deposits. If interest rates remain higher for longer, this would make bauspar mortgages more attractive again, which could weaken the bank’s ample liquidity buffers.

Short-term wholesale funding represented only 4.8% as per year-end 2023 and is well covered 3.3x by broad liquid assets.

**Higher bauspar inflows and limited new lending business kept liquidity buffers stable against rising rates**

Broad liquid assets as a percentage of total assets



Source: S&P Global Ratings.

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## Support: Two Notches Of Uplift For Group Support

We base our ratings on WBSK on our assessment of W&W's aggregate creditworthiness, given the significant size of both its banking and insurance segments. We consider WBSK a core entity to the larger group.

We derive the overall group assessment by combining our view of the creditworthiness of the banking operations, which we assess at 'bbb' and the insurance operations, which we assess at 'a'. When combining these to derive the overall group credit profile, we consider the subgroups' relative weights by assets, risk capital, and profit contribution. Furthermore, we recognize that the diversification benefits of W&W's bancassurance business model will support the group's aggregate creditworthiness at the current level.

## Environmental, Social, And Governance

ESG factors have no material influence on our credit rating analysis of the W&W group.

### Wuestenrot Bausparkasse AG Key Figures

Mil. EUR	2024*	2023	2022	2021	2020
Adjusted assets	32,491	31,766	30,710	29,704	29,195
Customer loans (gross)	26,840	26,034	24,911	23,235	22,190
Adjusted common equity	1,323	1,307	1,276	1,155	1,118
Operating revenues	246	511	367	425	392
Noninterest expenses	191	426	393	375	362
Core earnings	20	65	(25)	51	18

\*2024 data is for the 6 months to end-June. EUR--euro.

### Wuestenrot Bausparkasse AG Business Position

(%)	2024*	2023	2022	2021	2020
Total revenues from business line (currency in millions)	246	511	491	427	490
Other revenues/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	3.0	3.1	2.6	2.5	2.6

\*2024 data is for the 6 months to end-June.

### Wuestenrot Bausparkasse AG Capital And Earnings

(%)	2024*	2023	2022	2021	2020
Tier 1 capital ratio	17.7	18.8	18.9	17.8	16.2
S&P Global Ratings RAC ratio before diversification	N/A	13.9	15.9	13.8	13.8
Adjusted common equity/total adjusted capital	100.0	100.0	97.7	97.5	97.4
Net interest income/operating revenues	93.7	108.0	107.2	83.2	87.5
Fee income/operating revenues	(9.0)	(15.9)	(16.9)	(11.2)	(16.4)
Market-sensitive income/operating revenues	2.4	(2.8)	(8.2)	14.3	18.5
Cost to income ratio	77.6	83.5	107.3	88.3	92.4
Provision operating income/average assets	0.3	0.3	(0.1)	0.2	0.1



Wuestenrot Bausparkasse AG Capital And Earnings

Core earnings/average managed assets	0.1	0.2	(0.1)	0.2	0.1
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\*2024 data is for the 6 months to end-June. N.M.--Not meaningful.

Wuestenrot Bausparkasse AG Risk-Adjusted Capital Framework Data

(€ 000s)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global RWA
<b>Credit risk</b>				
Government and central banks	2,275,850	297,634	13	166,420
Of which regional governments and local authorities	149,876	0	0	5,396
Institutions and CCPs	3,022,782	477,030	16	374,096
Corporate	863,517	657,810	76	575,337
Retail	26,499,465	4,642,739	18	7,326,579
Of which mortgage	22,136,336	3,447,780	16	4,804,794
Securitization§	0	0	0	0
Other assets†	37,006	42,627	115	36,053
Total credit risk	32,698,621	6,117,841	19	8,478,485
<b>Credit valuation adjustment</b>				
Total credit valuation adjustment	--	2,798	--	0
<b>Market Risk</b>				
Equity in the banking book	107	107	100	934
Trading book market risk	--	0	--	0
Total market risk	--	107	--	934
<b>Operational risk</b>				
Total operational risk	--	783,055	--	900,047
	<b>Exposure</b>	<b>Basel III RWA</b>	<b>Average Basel II RW (%)</b>	<b>S&amp;P Global RWA</b>
<b>Diversification adjustments</b>				
RWA before diversification	--	6,903,801	--	9,379,466
Total Diversification/ Concentration Adjustments	--	--	--	2,209,387
RWA after diversification	--	6,903,801	--	11,588,853
		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>
Capital ratio before adjustments		1,300,040	18.8	1,306,792
Capital ratio after adjustments‡		1,300,040	18.8	1,306,792

\*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g., transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of 'Dec. 31 2023', S&P Global Ratings.

Wuestenrot Bausparkasse AG Risk Position

(%)	2024*	2023	2022	2021	2020
Growth in customer loans	6.2	4.5	7.2	4.7	7.8

**Wuestenrot Bausparkasse AG Risk Position**

Total diversification adjustment/S&P Global Ratings RWA before diversification	N/A	23.6	23.0	19.0	17.1
Total managed assets/adjusted common equity (x)	24.6	24.3	24.1	25.7	26.1
New loan loss provisions/average customer loans	0.2	0.0	0.0	(0.1)	0.1
Gross nonperforming assets/customer loans + other real estate owned	0.0	1.2	1.0	1.0	1.0

\*2024 data is for the 6 months to end-June. N.M.--Not meaningful.

**Wuestenrot Bausparkasse AG Funding And Liquidity**

(%)	2024*	2023	2022	2021	2020
Core deposits/funding base	81.6	81.6	81.92	83.0	84.5
Customer loans (net)/customer deposits	108.8	108.5	108.3	103.9	100.0
Long-term funding ratio	95.3	95.4	94.4	95.1	95.2
Stable funding ratio	106.9	107.8	104.0	102.3	102.2
Short-term wholesale funding/funding base	4.9	4.8	5.9	5.1	5.0
Regulatory net stable funding ratio	--	130.0	126.5	--	--
Broad liquid assets/short-term wholesale funding (x)	3.0	3.3	2.5	2.6	2.8
Broad liquid assets/total assets	13.5	14.6	13.4	12.1	12.5
Broad liquid assets/customer deposits	17.8	19.3	17.9	16.0	16.5
Net broad liquid assets/short-term customer deposits	68.2	77.8	82.9	75.1	89.6
Regulatory liquidity coverage ratio (LCR) (x)	171.0	284.5	171.4	--	--
Short-term wholesale funding/total wholesale funding	26.7	26.2	32.5	29.8	32.1
Narrow liquid assets/3-month wholesale funding (x)	4.1	2.6	2.8	2.3	2.3

\*2024 data is for the 6 months to end-June.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Banking Industry Country Risk Assessment: Germany, Aug. 7, 2024
- Wuestenrot & Wuerttembergische AG's Capital Adequacy Is Expected To Remain Sound After The Second Profit Warning, July 26, 2024
- German-Based W&W Insurance Group And Core Subsidiaries 'A-' Ratings Affirmed Following Revised Capital Model Criteria, June 25, 2024
- Wuestenrot & Wuerttembergische AG Can Absorb Lower-Than-Expected Profits In 2023 And 2024, Oct. 26, 2023

## RatingsDetail

### Ratings Detail (as of September 23, 2024)\*

#### Wuestenrot Bausparkasse AG

Issuer Credit Rating	A-/Stable/A-1
Senior Secured	AAA/Stable
Subordinated	BBB

#### Issuer Credit Ratings History

26-Jul-2017	A-/Stable/A-1
28-Dec-2012	A-/Stable/A-2
20-Dec-2006	BBB+/Stable/A-2

#### Sovereign Rating

Germany	AAA/Stable/A-1+
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#### Related Entities

#### Wuerttembergische Lebensversicherung AG

Financial Strength Rating	
<i>Local Currency</i>	A-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A-/Stable/--

#### Wuerttembergische Versicherung AG

Financial Strength Rating	
<i>Local Currency</i>	A-/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A-/Stable/--

#### Wuestenrot & Wuerttembergische AG

Financial Strength Rating	
<i>Local Currency</i>	BBB+/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	BBB+/Stable/A-2
Junior Subordinated	BBB-

**Ratings Detail (as of September 23, 2024)\***

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\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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