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Research Update:

Core Entities Of German Insurance Group W&W Affirmed At 'A-'; Outlook Stable

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Overview

- We continue to view multiline insurance group W&W's business risk profile as resilient to ongoing difficult operating conditions, thanks to the strong performance of property/ casualty insurance.
- Our view of W&W's consolidated capital and earnings position is unchanged, as a conservative investment strategy has offset restructuring costs in the insurance and banking segments.
- We are affirming our 'A-' ratings on the group's core operating entities and our 'BBB+/A-2' ratings on Wuestenrot & Wuerttembergische AG, the holding company.
- The stable outlook reflects our assumption that W&W's insurance and banking operations will be able to at least maintain the same revenue base as in 2016 and stable profitability metrics.

Rating Action

On July 26, 2017, S&P Global Ratings:

- Affirmed its 'A-' long-term counterparty credit and insurer financial strength ratings on W&W group's core entities, Wuerttembergische Lebensversicherung AG and Wuerttembergische Versicherung AG. The outlook on all entities is stable.
- Affirmed its 'BBB+' long-term and counterparty credit and insurer financial strength ratings, as well as its 'A-2' short-term counterparty credit rating on the group's holding company, Wuestenrot & Wuerttembergische AG (W&W Holding). The outlook is stable.
- Affirmed its 'BBB+/A-2' long- and short-term counterparty credit ratings on Germany-based Wuestenrot Bank AG Pfandbriefbank (WBP). We subsequently withdrew our ratings on WBP at the bank's request. The outlook was stable at the time of withdrawal.
- Raised its short-term counterparty credit rating on Wuestenrot Bausparkasse AG (BSW) by one notch to 'A-1' from 'A-2', and removed it from "under criteria observation" (UCO), where it was placed on April 7, 2017 (see "Short-Term Ratings On 55 Entities Under Criteria Observation On Publication Of Revised Criteria," published on RatingsDirect). We affirmed our 'A-' long-term rating on BSW. The outlook is stable.

Rationale

The affirmation on the long-term ratings reflects our view that W&W group will be able to maintain its capital and earnings position at levels in line with prior years, thanks to a conservative investment strategy and sound retained

earnings. We forecast the consolidated insurance capital adequacy under our model will remain close to but below the 'A' level, which we assess as moderately strong.

We expect W&W's competitive position to remain resilient in an ongoing difficult operating environment, thanks to strong performance of its property/casualty insurance business and the benefits of having a diversified bancassurance model in Germany with a dual brand strategy.

Our view of W&W's strong enterprise risk management capabilities uplift our assessment of the stand-alone creditworthiness of the insurance operations. However, our 'A-' rating on the insurance group also incorporates in particular our weaker assessment of the creditworthiness of the banking subgroup at 'bbb+'.

The affirmation of the counterparty credit rating on WBP reflects our view that the bank will remain highly strategic to its parent W&W Holding. We subsequently withdrew our ratings on WBP at the bank's request. The stable outlook at the time of withdrawal reflected our view that WBP will remain an integral part of W&W group's digitalization strategy, and we expect that WBP will further increase its focus on digitalization initiatives, which might also result in cooperation with other market participants.

The rating actions on BSW follows the completion of our criteria review and reflects that, under our updated methodology, our short-term ratings on core members of groups take into account the group's liquidity assessments. In cases where we believe the parent's liquidity is exceptional and would be available to the subsidiary in case of distress, we now assign a higher short-term rating of 'A-1' to the subsidiary to reflect this strength, if the long-term rating on the subsidiary is 'A+'. This rating action stems solely from the application of our revised methodology for linking long-term and short-term ratings, and does not reflect any other change in our assessment of the credit ratings.

We regard the liquidity of W&W group and W&W Holding as exceptional, owing to the strength of available liquidity sources, premium income, and its asset portfolio. There are no refinancing concerns at this stage, and we believe the group is capable of managing unexpectedly large claims for both banking and insurance subsidiaries.

Outlook

The stable outlook reflects our assumption that W&W group's insurance and banking operations will be able to at least maintain the same revenue base as in 2016 and stable profitability metrics.

Downside scenario

We might lower the ratings over the next two years if, contrary to our expectations, W&W group was unable over a prolonged period to:

- Further improve cost-structures and efficiency measures on its banking operations in order to offset negative effects on profitability from the low-interest-rate environment, mainly on its building savings and residential real estate lending franchise; or
- Maintain capital adequacy close to but below the 'A' level on a consolidated basis. Deterioration could result from a stronger decline in earnings than we currently expect, for example, as a consequence of prevailing low interest rates, or due to an increase in capital requirements for market risks.

Upside scenario

We consider a positive rating action a remote possibility during the next two years, given the ongoing pressure of capital and earnings from the low-yield environment, both in the life insurance and the building society banking business.

Related Criteria

- 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
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Criteria - Insurance - Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And

Assumptions, Dec. 6, 2010

- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed

Wuestenrot & Wuerttembergische AG

Counterparty Credit Rating	BBB+/Stable/A-2
Financial Strength Rating	BBB+/Stable/--

Wuerttembergische Lebensversicherung AG

Counterparty Credit Rating	A-/Stable/--
Financial Strength Rating	A-/Stable/--
Subordinated	BBB
Junior Subordinated	BBB

Wuerttembergische Versicherung AG

Counterparty Credit Rating	A-/Stable/--
Financial Strength Rating	A-/Stable/--
Subordinated	BBB

Wuestenrot Bank AG Pfandbriefbank

Counterparty Credit Ratings	BBB+/Stable/A-2
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Ratings Affirmed; Upgraded

	To	From
Wuestenrot Bausparkasse AG		
Counterparty Credit Ratings	A-/Stable/A-1	A-/Stable/A-2

Ratings Subsequently Withdrawn

Wuestenrot Bank AG Pfandbriefbank		
Counterparty Credit Ratings	NR/--/NR	BBB+/Stable/A-2

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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