S&P Global
Ratings

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Wuestenrot & Wuerttembergische AG

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Wuestenrot & Wuerttembergische AG

Anchor	a
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Strong**
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a

+

Support	0
Group support	-1
Government support	0

=

A-/Stable/--	Financial strength rating
BBB+/Stable/A-2	Holding company ICR

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

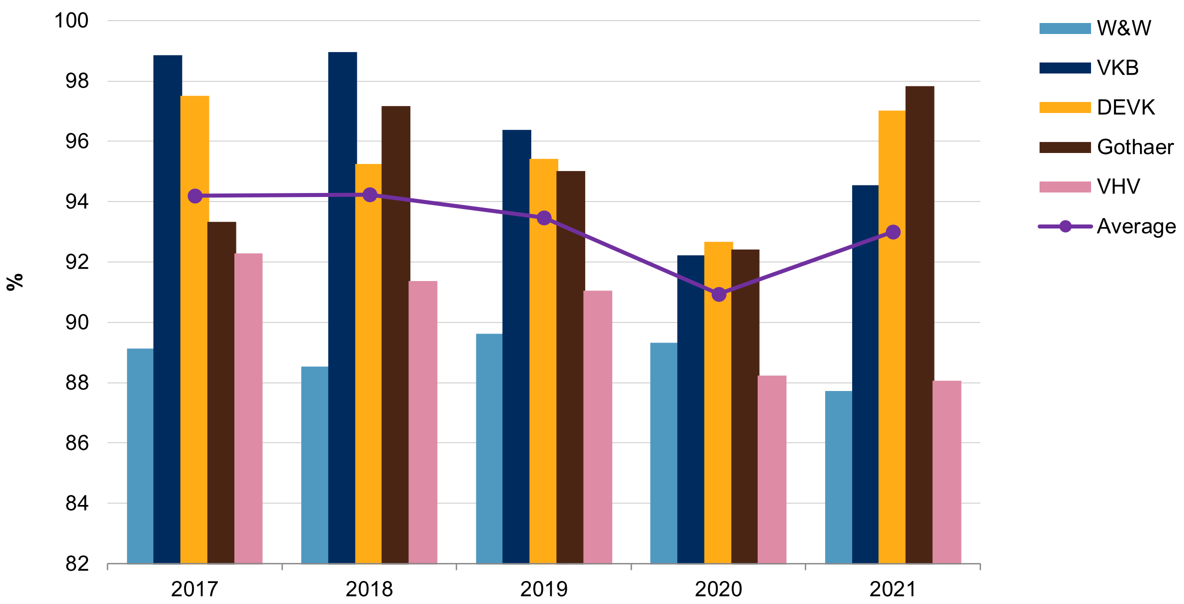
Strengths	Risks
Diversified bancassurance group in Germany with a dual-brand, multi-distribution strategy.	Volatile capital markets, elevated inflation, and the economic downturn in Germany, which could put pressure on the earnings profile.
Well-diversified product profile offering property and casualty (P/C) insurance, life insurance, home savings, and other banking products.	Modest profitability and strong competition in the residential real estate banking segment, despite support from rising interest rates.
Strong performance in the P/C insurance segment.	

S&P Global Ratings expects Germany-based multiline insurance group Wuestenrot & Wuerttembergische AG (W&W) to maintain a strong competitive position. The group's dual-brand strategy, the advantages of its bancassurance model, its evolving digital capabilities, and its sustainable and strong performance in P/C insurance support our view of W&W's competitiveness. W&W's P/C business has a track record of outperformance against peers owing to strict underwriting guidelines, favorable reinsurance protection, and superior strategic risk-management capabilities that strengthen the group's risk-return profile and market position in the German insurance industry.

We expect W&W to sustain healthy underwriting profitability and generate robust earnings over 2022-2023. W&W's earnings remained strong in 2021 despite high claims due to natural catastrophes in Germany and pandemic-related lockdowns in the first quarter of 2021. The group's net income increased to €352 million in 2021 from €211 million in 2020. The P/C business continues to generate strong earnings, mostly thanks to its sound underwriting profitability, indicated by a combined (loss and expense) ratio of 87% in 2021 (see chart 1). This was despite heavy rain in June and severe floods due to storm Bernd in July. For 2022-2024, we expect that W&W will generate annual net income of €200 million-€250 million per year, based on normalized natural catastrophe losses.

Chart 1

W&W's Underwriting Performance Is Its Key Strength



f--Forecast. Source: S&P Global Ratings.

We anticipate that W&W will maintain its sound capital position. Over the next two-to-three years, we expect W&W to maintain capitalization at the 'A' level as per our risk-based model, owing to the group's ability to balance capital, earnings, and business growth; prudent dividend payments; and its conservative investment strategy. Our view is also supported by the strong Solvency II ratio of the group and its subsidiaries. The Solvency II ratio was 243.3% at the end of 2021.

Outlook: Stable

The stable outlook reflects our view that W&W will maintain its strong performance in insurance and cope with potential pressure on earnings from volatility in investment income.

Downside scenario

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

- Further improve the cost structure and efficiency of its banking operations to offset the negative effects of still relatively low interest rates on profitability. This mainly affects its building-savings loans, bauspar, and its residential real estate lending franchise.
- Maintain capital adequacy close to our 'A' level on a consolidated basis. Deterioration could result from a stronger decline in earnings than we expect, for example, as a consequence of volatility in investment income, or due to an increase in capital requirements to counter market risks.

Upside scenario

We consider a positive rating action to be a remote possibility in the next 12-24 months. It would hinge on a material and sustained improvement in earnings diversification, mainly in the banking and life insurance operations, through which the group could enhance the resilience of its business.

Key Assumptions

- Real GDP in Germany of about 1.9% in 2022, 2.0% in 2023, and 1.9% in 2024, reflecting the economic recovery after the pandemic.
- An unemployment rate in Germany of 3%-4% over 2022-2024.
- An average 10-year bond yield of 1.1% in 2022, followed by 1.7%-1.8% over 2023-2024.
- High inflation of 7.0% for the eurozone and 7.6% for Germany in 2022, as prices rise sharply due to oil and gas supply chain disruptions.

Table 1

Wuestenrot & Wuerttembergische AG--Key Metrics

	2023f	2022f	2021	2020	2019	2018	2017	2015	2014
Gross premiums written (mil. €)	4,800-5,000	4,750-4,900	4,718.5	4,491.0	4,319.7	4,065.4	3,873.4	4,040.5	4,033.3
Net income (mil. €)	200-250	200-250	352.2	210.8	249.1	215.2	258.0	274.3	242.0
Return on shareholders' equity (%)	>4	>4	7.1	4.2	5.5	5.2	6.6	7.5	7.0
P/C net combined ratio (%)	<95	<95	87.0	89.3	89.6	88.5	89.1	91.9	95.7

Table 1

Wuestenrot & Wuerttembergische AG--Key Metrics (cont.)									
	2023f	**2022f**	**2021**	**2020**	**2019**	**2018**	**2017**	**2015**	**2014**
Life: Net investment yield (%)	2-3	2-3	2.7	2.2	2.8	3.3	3.0	3.8	3.5
S&P Global Ratings' capital adequacy	Strong	Strong	Strong	Strong	Strong	Strong	Moderately strong	Upper adequate	Moderately strong
Fixed-charge coverage (x)	>10	>10	31.7	23.4	23.4	20.3	18.0	14.1	13.3
Financial leverage (%)	10-13	10-13	11.0	5.9	6.1	5.7	4.4	8.5	10.2

f--S&P Global Ratings' forecast. P/C--Property/casualty.

Table 2

Wuestenrot Bausparkasse AG--Key Metrics					
	--Fiscal year-end Dec. 31--				
(Mil. €)	**2021**	**2020**	**2019**	**2018**	**2017**
Adjusted assets	29,704	29,195	28,144	27,398	28,353
Customer loans (gross)	23,235	22,190	20,589	19,653	19,943
Return on average common equity	2.5	2.6	2.7	3.3	3.8
Tier 1 capital ratio	17.8	16.2	16.8	16.4	16.0
S&P Global Ratings' RAC ratio before diversification	13.8	13.8	13.9	14.4	13.7
Net interest income/operating revenues	83.2	87.5	78.5	71.3	60.1
Cost-to-income ratio	88.3	92.4	90.7	80.9	88.9
Gross nonperforming assets/customer loans + other real estate owned	1.0	1.0	0.8	1.0	1.3
Core deposits/funding base	83.0	84.5	84.3	85.9	82.1
Stable funding ratio	102.3	101.4	101.9	106.5	106.2
Broad liquid assets/short-term wholesale funding (x)	2.6	2.6	2.3	4.0	3.0

RAC--Risk-adjusted capital.

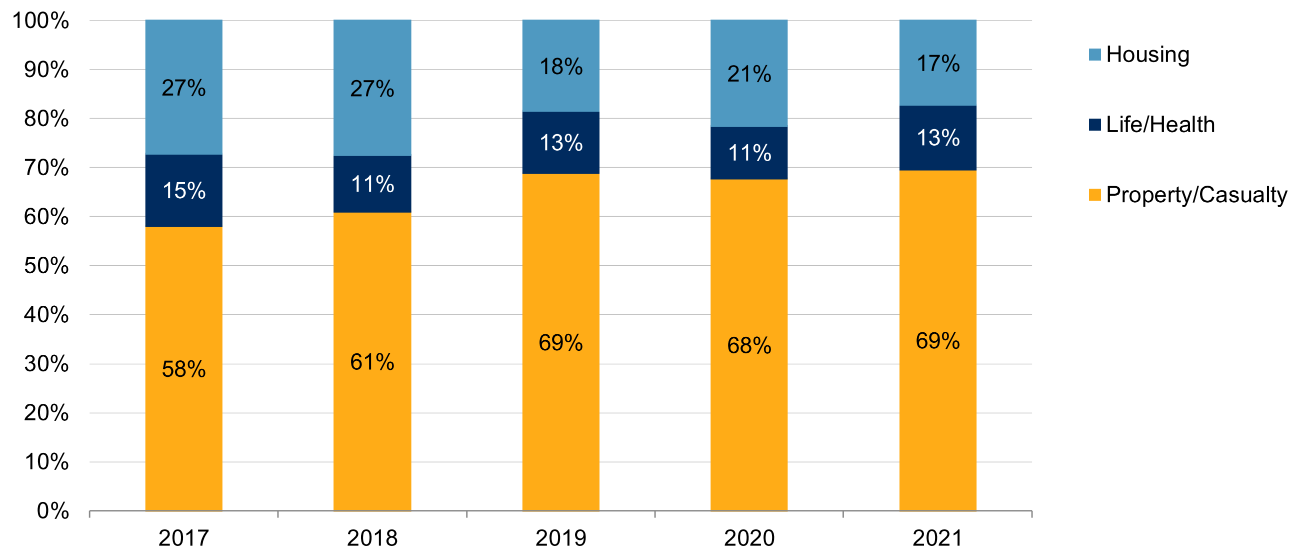
Business Risk Profile: Strong

In our view, W&W's business profile is anchored by the group's unique bancassurance structure, sound profitability, and product diversification. W&W has a track record of maintaining solid profitability while growing above the market average. We regard W&W's dual-brand, multi-distribution approach as successful, based on its strong and diverse tied-agent network, which benefits both the insurance and banking segments and supports W&W's competitive position.

We believe that W&W's competitive position also benefits from the group's strong earnings, as well as well-balanced revenues. The P/C business contributes 69% to total earnings, followed by the housing segment contributing 17%, and the life segment contributing 13% (see chart 2). Furthermore, in terms of premiums, W&W's insurance business is well-balanced and comprises 55% life/health premiums and 45% nonlife premiums. We believe that the P/C business will remain the major earnings contributor in 2022-2024, given the group's strong pricing discipline and underlying risk management.

Chart 2

The P/C Segment Is The Key Earnings Contributor



Source: W&W annual/half-year reports.

In 2021, W&W's P/C insurance carrier, Wuerttembergische Versicherung AG (WV), posted a favorable combined ratio of 87.0%, despite record-high catastrophe losses in Germany and some pandemic-related claims that were more than offset by lower motor claims. The five-year average (2017-2021) net combined ratio for the P/C segment stands at 88.7% (2016-2020: 89.3%). In 2021, the P/C segment witnessed some high gross claims from floods and hailstorms in Germany, but W&W benefitted from its efficient and comprehensive reinsurance structure.

In the first half of 2022, the combined ratio stood at 85.5% (first-half 2021: 82.4%) despite some winter storms in February 2022. We believe that W&W's P/C segment can absorb higher natural catastrophe losses thanks to efficient reinsurance protection and a sound equalization reserve. For 2022-2024, we believe that the P/C segment's profitability will remain solid, supported by favorable combined ratios stemming from low claims and sound cost management.

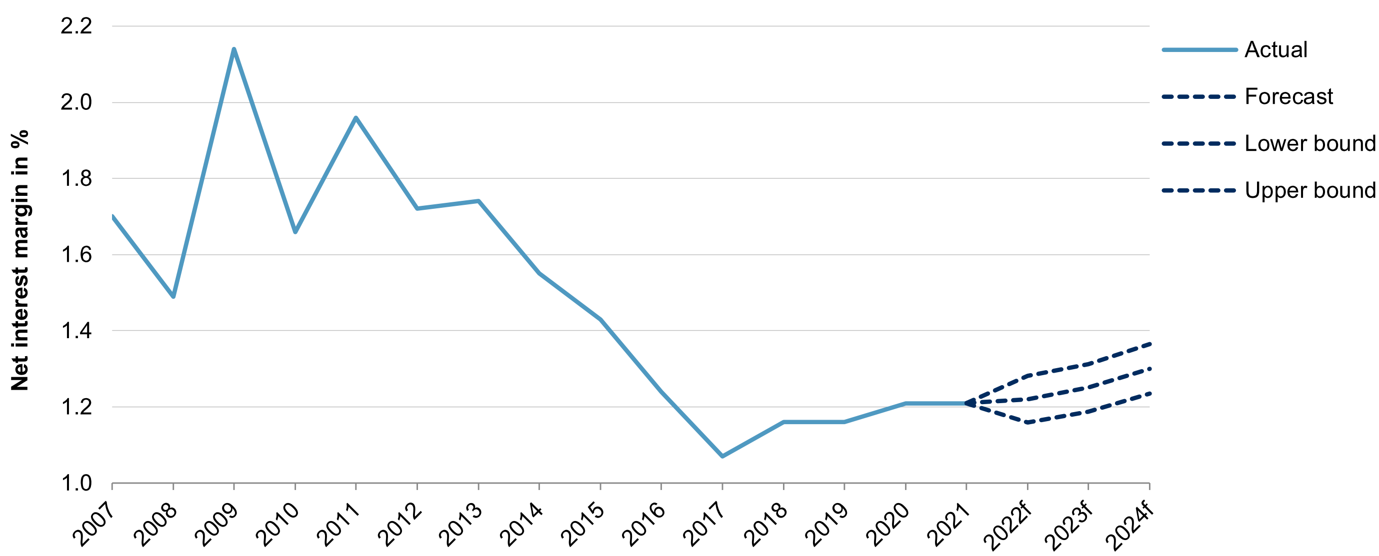
Wuerttembergische Lebensversicherung AG (WL), W&W's life insurance carrier, has a broad product portfolio and a back book dominated by traditional annuities and endowment products. However, WL has already shifted its new business portfolio toward less capital-intensive products. As a result, more than 85% of new business includes unit-linked, disability, and biometric risk products and more flexible guarantees.

The banking franchise of Wuestenrot Bausparkasse AG (WBSK), the group's banking entity, still shows little diversification and an above-average reliance on interest income, given its focus on building-savings loans (bauspar) and residential mortgage products. In our assessment, we take a positive view of ongoing support from WBSK's membership in a diversified bancassurance group, which we believe provides stability and cross-selling opportunities.

We generally consider the expectation of rising interest rates as positive for WBSK's core bauspar contracts, as the product protects customers from rising interest rates. However, we expect a positive effect on earnings and profitability to materialize only gradually (see chart 3). At the same time, the costs of legacy bauspar contracts will fall as their share continues to fall and as general interest rates rise compared to previous years. Nevertheless, we consider continued cost discipline as necessary to compensate for inflationary pressure on costs.

Chart 3

Gradually Rising Margins Provide Support To WBSK



Source: S&P Global Ratings.

Financial Risk Profile: Strong

We expect that W&W's robust earnings and conservative but diversified investment portfolio will enable the group to maintain capital adequacy above the 'A' benchmark in our risk-based capital model. Furthermore, the Solvency II ratio of the group and its subsidiaries remains resilient, reflected in solid Solvency II ratios of 243.3% for the group, 409% for WL (with transitional measures), and 206.2% for WV at year-end 2021.

In first-half 2022, W&W reported net profit of €96 million, down from €196.2 million in first-half 2021. The decline was mainly driven by lower investment income and a decline in asset values due to volatile equity and bond markets. We expect net income to be about €200 million-€250 million in 2022 and 2023.

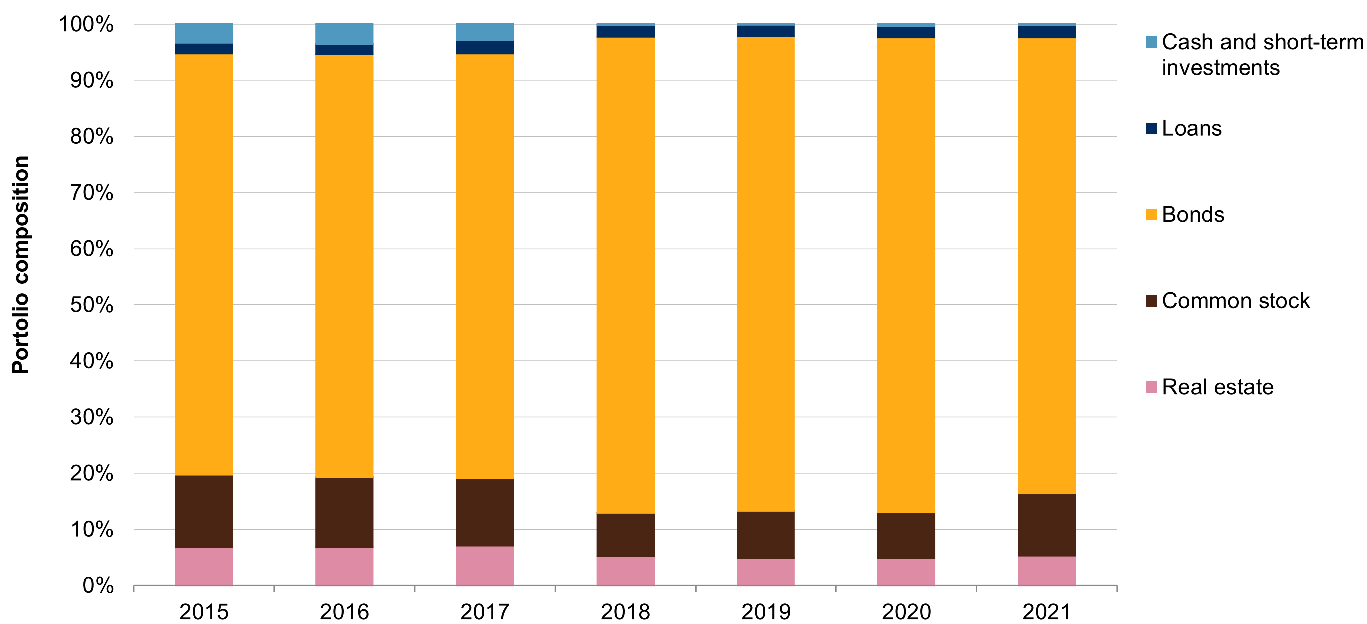
We expect continued pressure on investment income given the current volatility in investment income and the revaluation of assets due to elevated inflation and an economic downturn in Germany as a result of the Ukraine-Russia conflict. W&W has no material exposure to Russia, Ukraine, or Belarus. Furthermore, we expect that higher interest rates will help to increase the earnings from fixed-income investments over time.

WL benefits from a cautious bonus policy, but we assume that a further reduction in bonuses will have only a marginal impact.

In our view, W&W has a diversified investment portfolio, with over 70% of the instruments being fixed-income securities with credit quality of 'AA' (see chart 4). The insurance subgroup has favorable leverage and coverage ratios. We anticipate that W&W will maintain financial leverage below our threshold of 40% over the next two years, and that its fixed-charge coverage will remain very strong, in line with our earnings forecast.

Chart 4

W&W's Investment Portfolio Is Conservative But Diversified



Source: S&P Global Ratings.In 2018, W&W changed its reporting from International Accounting Standards to International Financial Reporting Standards.

We consider market risk to be the group's key risk, particularly for the life insurance and bauspar operations, which are highly exposed to interest rate fluctuations.

WBSK's capitalization remains a strength for its stand-alone creditworthiness, mainly mirroring our expectation that our risk-adjusted capital (RAC) ratio will remain in the 13%-14% range over the next two years, following 13.8% at year-end 2021.

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 remains key within the group's building-savings operations, which are highly sensitive to interest rate fluctuations, for example, due to commitments to make bonus payments under legacy tariff schemes. 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.

WBSK adjusted its tariffs to the low interest rates relatively early on. However, in the current environment, with quickly rising interest rates, bauspar loans with relatively low pre-agreed interest rates are becoming increasingly attractive compared to traditional mortgages. This could, in turn, lead to high future acceptance ratios of bauspar contracts and put pressure on net margins. We expect WBSK to meet elevated demand for bauspar loans by drawing the remaining funds from the building-savings reserve fund--Fonds zur bauspartechnischen Absicherung (FbtA)--to strengthen its capital base. However, WBSK has used the reserves from the FbtA over the past few years to mitigate profitability pressures in an environment of low interest rates. Capital build-up potential is therefore limited, as the remaining reserves had reduced to €30 million as per year-end 2021.

In terms of credit risk, we believe that WBSK's focus on collateralized residential mortgage lending will limit its 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, partly because we expect German real estate prices to remain stable despite increasing interest rates. Mortgages rates are usually fixed for 10 or more years, supporting debt-servicing capacity. WBSK is mainly exposed to more rural areas in Germany where house-price imbalances have been less pronounced than in larger German cities. Therefore, we expect the cost of risk to remain contained compared to the levels that our normalized credit losses imply.

We assess WBSK's funding and liquidity as neutral for its stand-alone creditworthiness. The bank's funding is based on a healthy mix of core deposits and capital market issuance, mainly covered bonds and high amounts of excess liquidity. Most of the funding base comprises relatively stable and granular core customer deposits sourced from the building-savings business. We expect that our stable funding ratio will remain in line with previous years' levels of above 100% (102% as of year-end 2021).

WBSK's liquidity ratios are in line with those of its domestic peers and commensurate with its business model. In the past, the building-savings business model and customer deposits from such building-savings operations have proved more sensitive to interest rates than retail banks' customer deposits. In particular, we believe that in the short term, with rising interest rates, building-savings loans will become more attractive again, which could weaken the bank's ample liquidity buffers. WBSK's coverage of short-term wholesale funding by broad liquid assets stood at a sound 2.6x as of year-end 2021. However, this was also a consequence of previous years' low interest rates, which often made customers decide not to conclude a building-savings loan when allocated.

Other Key Credit Considerations

Governance

We have a favorable view of W&W's very experienced management and governance, based on the group's established record of sound strategic planning that focuses on improving operational efficiencies, and conservative and sophisticated financial management.

Liquidity

The liquidity profile is sound, thanks to the various liquidity sources at W&W's disposal, such as premium income, a favorable liability profile, and a very liquid asset portfolio. We do not foresee any refinancing concerns.

Factors specific to the holding company

We rate the holding company, W&W, one notch lower than the group's core operating entities. This reflects the structural subordination of the holding company's creditors to the group's insurance policyholders and bank depositors. Given its diversified earnings streams, low financial leverage, and active internal reinsurance operations, we regard the holding company as an operating holding company, and apply a one-notch downward adjustment from the rating on the core operating subsidiaries.

Enterprise risk management

W&W's strong strategic risk management capabilities enhance the ratings on the insurance subgroup. The group has implemented a robust and consistent risk management culture across all insurance and banking segments and business units. Our view of the group's risk controls is positive. The group has an established record of sound strategic planning, focusing on improving operational efficiencies, as well as conservative and sophisticated financial management. Management still has inroads to make in developing and leveraging an effectively run bancassurance model with efficient processes.

Other considerations

We assess the stand-alone credit profile (SACP) of the insurance subgroup at 'a' and continue to see the SACP of the banking segment as somewhat weaker, at 'bbb'. We combine the subgroups' SACPs to derive the group credit profile (GCP), reflecting the relative weight of the insurance and banking operations by risk capital and profit contribution, and considering diversification benefits. The GCP for W&W is one notch higher than the SACP of the banking subgroup, reflecting our view that the banking subgroup is core to the overall group. We consider the insurance operations and the banking subgroups to be core parts of the group and assess their overall unsupported GCP at 'a-'.

In our assessment of WBSK's stand-alone creditworthiness, we view as positive the business' stability and the group's ongoing support, which includes access to a diversified and stable customer base and moderate return targets. Furthermore, we continue to recognize that the diversification benefits of W&W's bancassurance business model will continue to support the group's aggregate creditworthiness at the current level.

The short-term rating on WBSK is 'A-1', as we believe the parent's liquidity is exceptional and would be available to the subsidiary in case of distress. We assign a higher short-term rating to the group's core subsidiary to reflect this strength if the long-term rating on the subsidiary is 'A-'.

Accounting considerations

W&W discloses consolidated financial statements under International Financial Reporting Standards (IFRS). Additionally, all group entities report under German generally accepted accounting principles (GAAP). We used the German GAAP figures to supplement our evaluation of the individual segments. We assess the group's capitalization by combining the capital requirements for both the banking and insurance subgroups, based on our respective criteria, using IFRS data.

We adjust W&W's capital position for the specific insurance and banking components, as follows:

- Crediting 50% of the life insurance value-in-force not included on the balance sheet;
- Crediting 50% of the P/C reserve redundancy;
- Adding the free and unallocated portion of the policyholder bonus reserve in life insurance; and
- Deducting WBSK's FbtA, a reserve fund aimed at protecting the savings/loan collective, which is part of IFRS equity. WBSK does not have full discretion over this fund.

Environmental, social, and governance (ESG)

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

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

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Wuestenrot & Wuerttembergische's Junior Subordinated Callable Fixed-To-Floating Notes Rated 'BBB-', Aug 30, 2021
- Germany-Based Wuestenrot & Wuerttembergische Group Affirmed At 'A-'; Outlook Stable, Jun 24, 2021

Appendix

W&W's--Credit Metrics History

Ratio/Metric	2021	2020	2019	2018
S&P Global Ratings' capital adequacy*	Strong	Strong	Strong	Strong
Total invested assets (mil. €)	47,093.0	49,250.2	47,471.9	43,983.6
Total shareholder equity (mil. €)	4,873.6	5,085.2	4,835.1	4,236.3
Gross premiums written (mil. €)	4,718.5	4,491.0	4,319.7	4,065.4
Net premiums written (mil. €)	4,559.4	4,354.9	4,173.4	3,944.6
Net premiums earned (mil. €)	4,564.7	4,345.6	4,184.8	3,946.9
Reinsurance utilization (%)	0.0	0.0	0.0	0.0
EBIT (mil. €)	499.4	324.9	374.0	341.5
Net income (attributable to all shareholders) (mil. €)	352.2	210.8	249.1	215.2
Return on assets (excluding investment gains/losses) (%)	0.7	0.4	0.5	0.5
Return on shareholders' equity (reported) (%)	7.1	4.2	5.5	5.2
P/C: Net combined ratio (%)	87.0	89.3	89.6	88.5
P/C: Net expense ratio (%)	25.1	24.9	26.2	26.3
P/C: Return on revenue (%)	9.3	9.2	5.9	9.6
EBITDA fixed-charge coverage (x)	31.7	23.4	23.4	20.3
EBIT fixed-charge coverage (x)	26.6	18.0	18.3	17.1
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	31.7	23.4	23.4	20.3
Financial obligations / EBITDA adjusted (x)	0.1	0.2	0.2	0.1
Financial leverage including pension deficit as debt (%)	11.0	5.9	6.1	5.7
Net investment yield (%)	2.7	2.2	2.8	3.3
Net investment yield including investment gains/(losses) (%)	5.2	4.2	4.2	4.8

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	**Strong**	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	**a/a-**	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of September 21, 2022)*

Wuestenrot & Wuerttembergische AG	
Financial Strength Rating	
Local Currency	BBB+/Stable/--
Issuer Credit Rating	
Local Currency	BBB+/Stable/A-2
Junior Subordinated	BBB-
Related Entities	
Wuerttembergische Lebensversicherung AG	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--
Junior Subordinated	BBB
Wuerttembergische Versicherung AG	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--
Junior Subordinated	BBB
Wuestenrot Bausparkasse AG	
Issuer Credit Rating	A-/Stable/A-1
Senior Secured	AAA/Stable
Subordinated	BBB
Domicile	Germany

*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.