

Research Update:

Austrian Bausparkasse Wüstenrot Outlook Revised To Positive On Strengthening Capitalization; 'BBB+' Rating Affirmed

June 19, 2024

Overview

- Bausparkasse Wüstenrot AG's consolidated capital position is improving as management executes on its sharpened strategic focus on core domestic retail bancassurance markets and retains earnings.
- We expect the wider bancassurance group's financial performance to remain resilient, also as tailwinds of the rate-hike cycle abate.
- We therefore revised our outlook on Bausparkasse Wüstenrot to positive from stable and affirmed our 'BBB+/A-2' ratings.
- The positive outlook indicates that we could raise the ratings if Bausparkasse Wüstenrot's two main segments, banking and insurance, maintain their positive earnings trajectories and consolidated asset quality remains resilient.

PRIMARY CREDIT ANALYST

Claudio Hantzsche
Frankfurt
+ 49 693 399 9188
claudio.hantzsche
@spglobal.com

SECONDARY CONTACTS

Anna Lozmann
Frankfurt
+ 49 693 399 9166
anna.lozmann
@spglobal.com

Viviane Ly
Frankfurt
+ 49 693 399 9120
viviane.ly
@spglobal.com

Rating Action

On June 19, 2024, S&P Global Ratings revised its outlook on Bausparkasse Wüstenrot AG to positive from stable and affirmed the 'BBB+' long-term and 'A-2' short-term issuer credit ratings.

Rationale

We believe Bausparkasse Wüstenrot will continue strengthening its consolidated capital base.

Bausparkasse Wüstenrot's capitalization has increased more than anticipated in the last two years, thanks to improving earnings in the wake the European Central Bank's monetary policy pivot and reduction of noncore activities and participations. At a stand-alone level, Bausparkasse Wüstenrot's risk-adjusted capital (RAC) ratio stood at 13.8% as of Dec. 31, 2023, and we expect it to increase further over the next 12-24 months, not least thanks to Bausparkasse Wüstenrot holding company's cooperative structure that limits distributions to cooperative members to

nonmeaningful amounts.

We now consider additional buffers from the group's insurance operations qualitatively in our analysis of Bausparkasse Wüstenrot's capitalization. In our calculation of Bausparkasse Wüstenrot's S&P Global Ratings-adjusted RAC ratio, we now exclude material additional buffers from excess capital in the group's insurance entity, Wüstenrot Versicherung AG. Therefore, the 2023 RAC ratio is not directly comparable with those of previous years, which still included these reserves. We changed our analytical approach in this respect to produce a RAC ratio better reflecting only the group's banking risks, which under the previous approach were increasingly overshadowed by rising insurance capital levels. However, we continue to account for the group's insurance capitalization. Primarily, we do this through our stand-alone assessment of the insurance operations, contributing to our view on the group's aggregate creditworthiness. We consider excess capitalization of the insurance operations qualitatively in our analysis of Bausparkasse Wüstenrot's capital and earnings. This provides additional headroom against potential deterioration in Bausparkasse Wüstenrot's RAC ratio and is based on our assumption of a relatively high degree of capital fungibility within the group, particularly at the current levels, significantly above any regulatory requirements.

We expect Wüstenrot Versicherung's capital to remain comfortably above levels we consider necessary to withstand a severe stress scenario over 2024-2026.

Furthermore, we continue to consider non-credit-risk-related general reserves pursuant to §57(1) of the Austrian Banking Act qualitatively in our analysis of Bausparkasse Wüstenrot's capital position. As per year-end 2023, Bausparkasse Wüstenrot had accumulated €65.5 million of such reserves.

Execution of sharpened domestic retail bancassurance strategy reduces risk exposures and supports capital. Since 2021, Bausparkasse Wüstenrot has been in the process of divesting noncore operations with the clear strategic decision to focus all of activities on its core market, Austrian retail bancassurance. Most significantly was the 2022 sale of minority equity holdings in two Austrian banks, which in tandem significantly reduced market risk exposures and bolstered capital holdings as proceeds were largely retained. More recently, in late 2023, a sale of its participation in Hungary-based Fundamenta Lakaskassza was closed, which we expect will support its RAC ratio by about 25 basis points. Remaining legacy banking operations in Slovakia and Croatia are small with an aggregated balance sheet total of €500 million compared with a banking subgroup total of €7.3 billion. Bausparkasse Wüstenrot plans to strategically exit these markets, too.

We understand Bausparkasse Wüstenrot plans to further balance capital allocation within the group. An important building block in this context are for example higher dividends from the group's insurance entity, pooling more retained earnings at the main operating entity of the group. This also proves fungibility of capital within the group.

We expect resilient performance of the aggregated banking and insurance operations.

Wüstenrot Versicherungen showed a resilient development of capitalization over recent years against an adverse environment. At the same time, we note that the company's capital position is somewhat more dependent on unrealized gains compared with those of peers. We also acknowledge that Wüstenrot Versicherungen's underwriting profitability in property/casualty (P/C) business is, albeit improving, somewhat lower than the rest of the Austrian market. Improvements of the group's aggregate creditworthiness will depend on our overall assessment of the bancassurance operations.

We continue to expect only limited diversification benefits to the group's business risk profile from the new universal banking subsidiary. In 2023, Bausparkasse Wüstenrot launched its new universal banking subsidiary, Wüstenrot Bank AG. This enables Bausparkasse Wüstenrot to broaden its banking product offerings beyond the limitations set by Austria's Bausparkassen Act. We view the increased retail banking product offering as beneficial from a diversification perspective, although we expect the overall benefits to the group will remain limited in the medium term.

Outlook

The positive outlook reflects our expectation that the wider bancassurance group and the holding company Wüstenrot Wohnungswirtschaft's performance will remain resilient in the next two years. Particularly, we expect profitability and cost efficiency metrics in both segments, banking and insurance, to remain superior to levels seen during the past low-interest-rate cycle. While we expect the banking subgroup's RAC will improve to above 15%, we note that, at the current rating level, some headroom exists for a deterioration in capitalization, considering aspects not captured in our RAC ratio. We further expect the higher-interest-rate environment in the Austrian banking sector to benefit the group over time and think the bank will maintain its prudent risk appetite and contain cost of risk.

Downside scenario

We could revise the outlook to stable or lower our ratings over the next 12-24 months if, against our current base case, we expect Bausparkasse Wüstenrot's RAC ratio to fall substantially, leading us to lower the group credit profile. A negative rating action could also follow a below-expectations development of the group's insurance operations, particularly in terms of risk costs, profitability, and cost efficiency metrics.

Upside scenario

We could raise our ratings if Bausparkasse Wüstenrot showed further progress in focusing its organizational setup on its core strengths as a domestic retail bancassurance provider and maintaining its very strong consolidated capital base. An upgrade would depend on an above average performance of the wider bancassurance group.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2
SACP	bbb+	bbb
Anchor	a-	a-
Business position	Constrained (-3)	Constrained (-3)
Capital and earnings	Very strong (+2)	Strong (+1)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)

	To	From
Issuer Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2
Comparable ratings analysis	0	0
Support	0	+1
ALAC support	0	0
GRE support	0	0
Group support	0	+1
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Bausparkasse Wüstenrot AG		
Issuer Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2

Ratings Affirmed

	To	From
Bausparkasse Wüstenrot AG		
Senior Unsecured	BBB+	BBB+

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.spglobal.com/ratings for further information. A description of each of

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