

Update: Bausparkasse Wüstenrot AG

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Update: Bausparkasse Wüstenrot AG

Ratings Score Snapshot

Issuer Credit Rating
 BBB+/Positive/A-2

SACP: **bbb+** → Support: **0** → Additional factors: **0**

Anchor	a-		ALAC support	0	<table border="1"> <tr> <th colspan="2">Issuer credit rating</th> </tr> <tr> <td colspan="2" style="text-align: center;">BBB+/Positive/A-2</td> </tr> </table>	Issuer credit rating		BBB+/Positive/A-2	
Issuer credit rating									
BBB+/Positive/A-2									
Business position	Constrained	-3	GRE support	0					
Capital and earnings	Very strong	+2	Group support	0					
Risk position	Adequate	0	Sovereign support	0					
Funding	Adequate	0							
Liquidity	Adequate								
CRA adjustment	0								

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

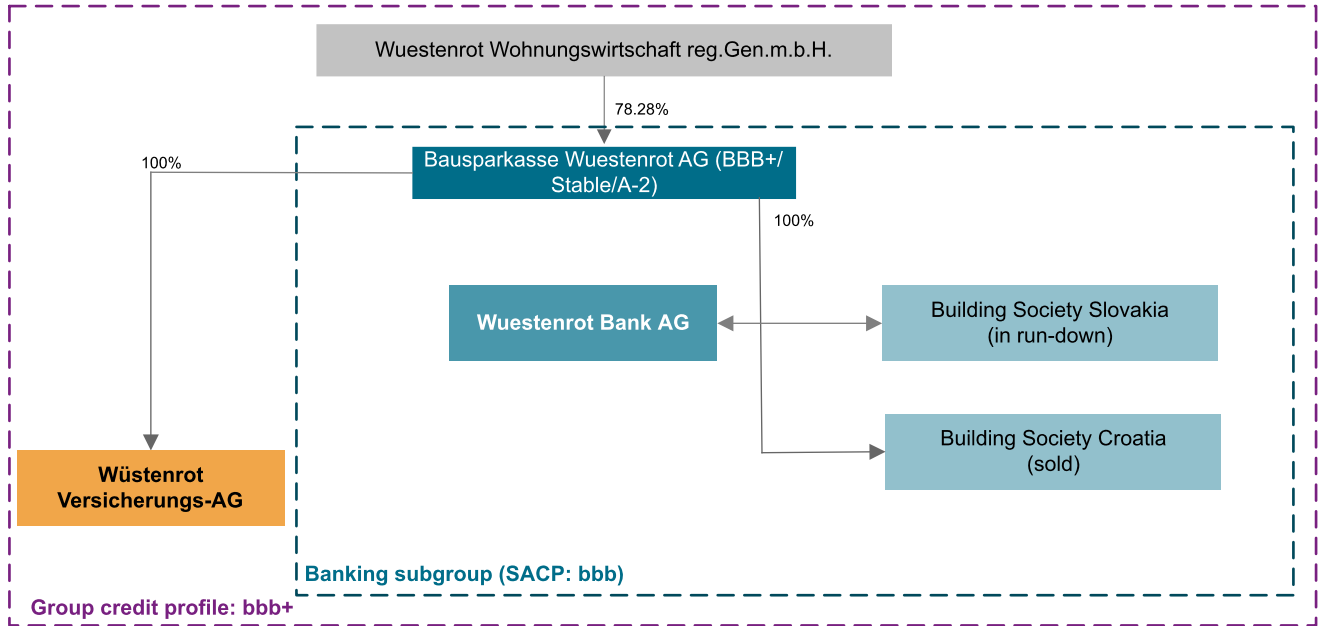
Overview

Key strengths	Key risks
High levels of fungible capital at both the banking and insurance subgroup.	High competitive pressure, both within the bauspar niche and from universal banks.
Established position in Austria's bauspar niche.	Concentrated exposure to residential real estate lending in Austria.
Highly granular retail deposit base.	

No changes likely in the group's established domestic bancassurance strategy, which sets it apart in the Austrian market. We base our ratings on Bausparkasse Wüstenrot AG, the group's main operating entity for its bauspar business and direct holding company of subsidiaries, on the group's aggregate creditworthiness. We combine separate assessments of the group's banking and insurance operations with broadly equal weights based on a holistic view on capital and asset relativities and considering additional diversification benefits. We expect the rated entity, Bausparkasse Wüstenrot, to remain a core entity of the group (see chart 1).

Chart 1

Wüstenrot Wohnungswirtschaft--Simplified organizational structure

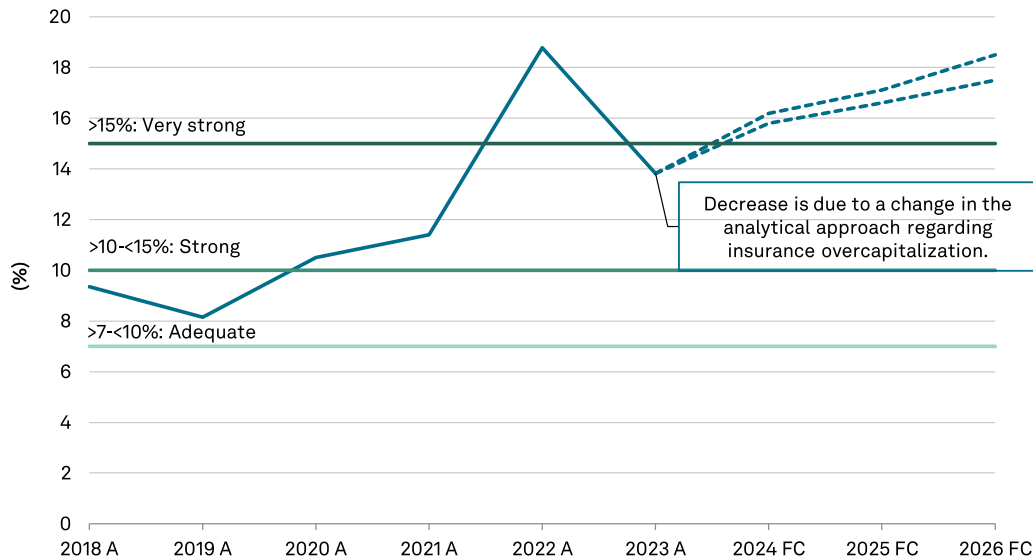


Bausparkasse Wüstenrot AG is the rated entity.GCP--Group credit profile.SACP--Stand-alone credit profile.
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We see further upside to Bausparkasse Wüstenrot's consolidated capital position. Bausparkasse Wüstenrot's capitalization has increased more than we anticipated in the past two years, thanks to improving earnings in the wake of 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. This is thanks to full earnings retention and further reduction of risk exposures, such as the sale of the remaining central and eastern European (CEE) subsidiaries (see chart 2).

Chart 2**We expect further upside to Bausparkasse Wüstenrot's capitalization**

S&P Global Ratings' RAC ratio before diversification



Thresholds according to Table 9 of S&P Global Ratings financial institutions criteria. Dashed lines indicate upper and lower bounds of our forecast. Source: S&P Global Ratings.
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The RAC ratio excludes additional buffers from excess capital in the group's insurance entity, Wüstenrot Versicherung AG. We previously included these buffers, and consider them to be largely fungible within the group. We also expect these excess reserves to be sustainably available because Wüstenrot Versicherung's capital should be sufficient to withstand even a severe stress scenario.

Our measure of total adjusted capital (TAC) also excludes €65.5 million of reserves pursuant to §57(1) of the Austrian Banking Act. We understand the bank could convert the reserves into common equity at any time. We consider both additional buffers qualitatively in our analysis of Bausparkasse Wüstenrot's capital position.

We do not see additional material risk factors beyond those captured in our analysis of capital and earnings.

Bausparkasse Wüstenrot's credit risk is low with cost of risk at 10 basis points and a nonperforming loan ratio of 0.98% at year-end 2023. Our neutral assessment of risk position is further supported by high collateralization ratios (95% of its credit portfolio per December-2023), a loan-to-value cap of 80% under Austria's Bauspar Act, and the fact that interest rates are only fixed at the time of the underwriting of the loan, limiting interest rate risk.

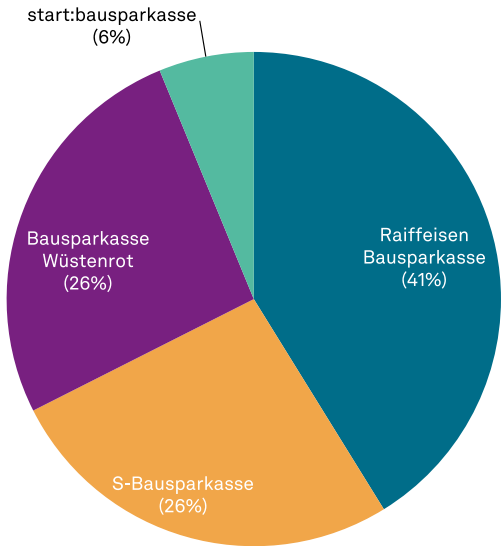
Narrow business activities are a weakness of Bausparkasse Wüstenrot's stand-alone creditworthiness. Bausparkasse Wüstenrot has an established market position in Austria's bauspar segment. However, it is a niche player competing with not only offerings by other bauspar banks but also standard mortgage products provided by large universal banks,

among others (see charts 2 and 3).

Chart 3

Bausparkasse has an established market position within the bauspar segment ...

Market share by outstanding mortgages of Austrian bauspar banks

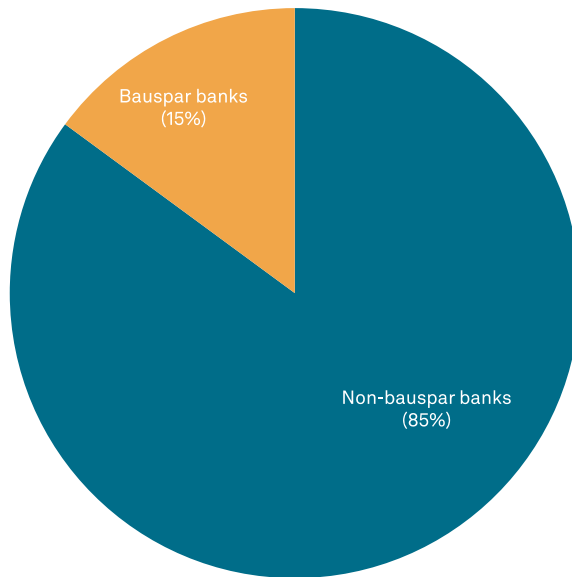


Source: Company reporting, S&P Global Ratings.
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Chart 4

... but operations remain within a niche subsegment

Outstanding mortgages of bauspar banks and non-bauspar banks



Sources: OENB, company reporting, S&P Global Ratings.
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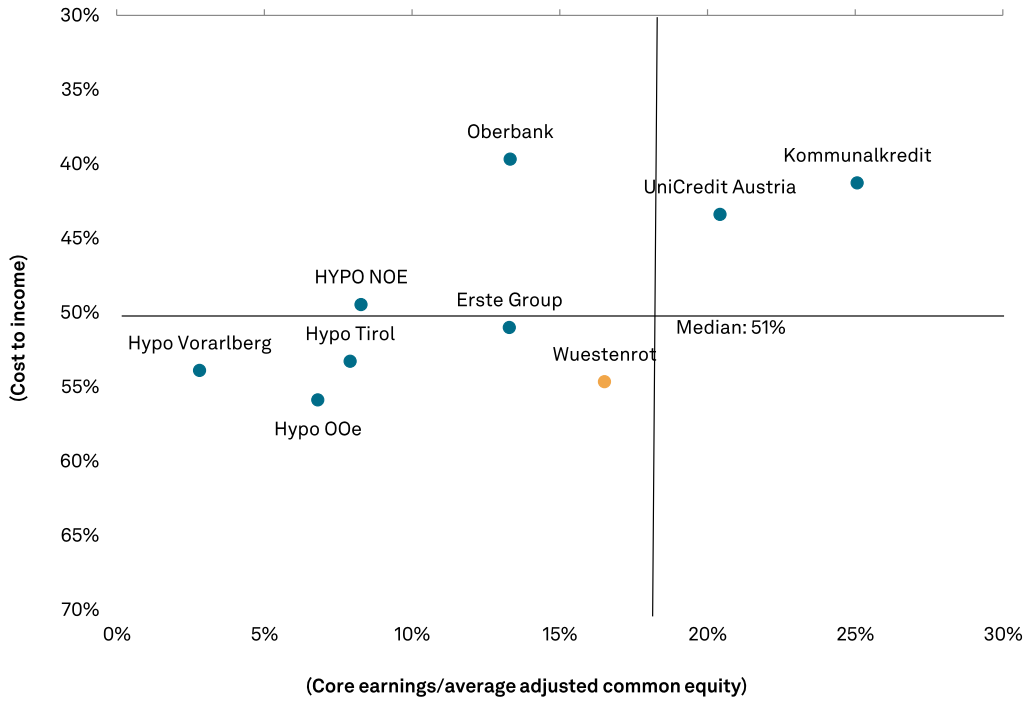
Bausparkasse Wüstenrot's universal banking subsidiary Wüstenrot Bank AG will allow the banking subgroup to expand its product offering beyond the restrictions of Austria's Bauspar Act. However, we do not expect any significant diversification of overall business risks over the next few years.

We expect Bausparkasse Wüstenrot's product offerings to remain concentrated on mortgages and other real estate-related lending products, with a high reliance on interest income. While we expect the net interest margin to remain higher than during the low interest rate environment of the past, it is likely to peak over 2023-2024 and reduce thereafter. At the same, given relatively low risk and funding costs, Bausparkasse Wüstenrot is now better in the range of the Austrian peers in terms of profitability and cost efficiency (chart 5).

Chart 5

Bausparkasse Wüstenrot has caught up with Austrian peers

Profitability and cost efficiency ratios of selected Austrian banks



Note: Data as per year-end 2023. Source: S&P Global Ratings.
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Outlook

The positive outlook reflects our expectation that the wider bancassurance group and the holding company Wüstenrot Wohnungswirtschaft's performance will remain resilient over the next two years. Particularly, we expect profitability and cost efficiency metrics in both the banking and insurance segments to remain superior to levels seen during the past low-interest-rate cycle.

While we expect the banking subgroup's RAC ratio to 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 high-interest-rate environment to benefit the group and believe the bank will maintain its prudent risk appetite and contain cost of risk.

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.

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 revise downward 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.

Key Metrics

Wuestenrot Wohnungswirtschaft (Banking subgroup)--Key ratios and forecasts

	--Fiscal year ended Dec. 31 --				
(%)	2022a	2023a	2024f	2025f	2026f
Growth in operating revenue	7.1	11.4	(11.0)-(12.0)	0.0-(1.0)	0.0-(1.0)
Growth in customer loans	6.9	-0.4	0.0-(1.0)	1.0-1.2	1.8-2.2
Net interest income/average earning assets (NIM)	1.17	1.39	1.35-1.45	1.30-1.40	1.25-1.35
Cost to income ratio	60.9	54.7	65.0-70.0	65.0-70.0	65.0-70.0
Return on average common equity	22.2	10.0	7.0-8.0	4.0-5.0	4.0-5.0
New loan loss provisions/average customer loans	0.15	0.10	0.05-0.15	0.05-0.15	0.00-0.10
Gross nonperforming assets/customer loans	0.85	0.98	0.5-1.5	0.5-1.5	0.5-1.5
Risk-adjusted capital ratio	18.8	13.8	15.8-16.2	16.6-17.1	17.5-18.5

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin. N.M.--Not meaningful.

Key Statistics

Table 1

Wuestenrot Wohnungswirtschaft (Banking subgroup)--Key figures					
--Year ended Dec. 31--					
(Mil. €)	2023	2022	2021	2020	2019
Adjusted assets	7,319	7,269	6,998	7,134	7,249
Customer loans (gross)	5,830	5,853	5,477	5,425	5,352
Adjusted common equity	478	442	297	285	319
Operating revenues	186	167	156	190	191
Noninterest expenses	102	101	105	147	147
Core earnings	76	43	40	37	45

Table 2

Wuestenrot Wohnungswirtschaft (Banking subgroup)--Business position					
--Year ended Dec. 31--					
(%)	2023	2022	2021	2020	2019
Return on average common equity	10.0	22.2	6.6	6.0	7.4

Table 3

Wuestenrot Wohnungswirtschaft (Banking subgroup)--Capital and earnings					
--Year ended Dec. 31--					
(%)	2023	2022	2021	2020	2019
Tier 1 capital ratio	22.4	18.1	14.7	13.9	13.4
S&P Global Ratings' RAC ratio before diversification	13.8	18.8	11.4	10.5	8.2
S&P Global Ratings' RAC ratio after diversification	10.8	14.0	8.8	8.0	6.2
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	49.7	45.4	54.8	49.4	52.8
Fee income/operating revenues	10.5	15.9	4.7	4.2	4.6
Market-sensitive income/operating revenues	5.0	3.0	2.8	2.5	4.3
Cost to income ratio	54.7	60.9	67.8	77.4	76.9
Provision operating income/average assets	1.2	0.9	0.7	0.6	0.6
Core earnings/average managed assets	1.0	0.6	0.6	0.5	0.6

Table 4

Wuestenrot Wohnungswirtschaft (Banking subgroup)--Risk-adjusted capital framework data					
	Exposure*	Basel III RWA	Average Basel III RW(%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government & central banks	513,506,940.2	781,081.3	0.2	31,926,487.3	6.2
Of which regional governments and local authorities	51,633,710.1	0.0	0.0	3,218,002.4	6.2
Institutions and CCPs	447,830,671.2	69,113,615.1	15.4	84,624,238.3	18.9

Table 4

Wuestenrot Wohnungswirtschaft (Banking subgroup)--Risk-adjusted capital framework data (cont.)					
Corporate	51,664,047.4	51,208,313.5	99.1	49,888,402.0	96.6
Retail	6,054,231,046.5	2,365,774,571.3	39.1	1,967,072,599.1	32.5
Of which mortgage	5,153,142,107.6	1,758,222,595.4	34.1	1,250,018,006.8	24.3
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	251,198,435.3	211,084,945.3	84.0	357,966,956.5	142.5
Total credit risk	7,318,431,140.5	2,697,962,526.4	36.9	2,491,478,683.3	34.0
Credit valuation adjustment					
Total credit valuation adjustment	--	6,964,658.0	--	0.0	--
Market Risk					
Equity in the banking book	136,286,490.8	572,366,042.8	420.0	615,790,874.1	451.8
Trading book market risk	--	0.0	--	0.0	--
Total market risk	--	572,366,042.8	--	615,790,874.1	--
Operational risk					
Total operational risk	--	243,700,119.9	--	348,219,375.0	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	5,951,729,404.3	--	3,455,488,932.4	100.0
Total Diversification/Concentration Adjustments	--	--	--	981,785,382.6	28.4
RWA after diversification	--	5,951,729,404.3	--	4,437,274,315.0	128.4
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio before adjustments		792,705,475.5	13.3	477,635,245.0	13.8
Capital ratio after adjustments‡		792,705,475.5	22.4	477,635,245.0	10.8

*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.

Table 5

Wuestenrot Wohnungswirtschaft (Banking subgroup)--Risk position					
--Year ended Dec. 31--					
(%)	2023	2022	2021	2020	2019
Growth in customer loans	(0.4)	6.9	1.0	1.4	1.0
Total diversification adjustment/S&P Global Ratings' RWA before diversification	28.4	33.9	30.0	30.8	31.0
Total managed assets/adjusted common equity (x)	15.3	16.5	23.6	25.1	22.7
New loan loss provisions/average customer loans	0.1	0.2	0.1	0.1	0.1

Table 5

Wuestenrot Wohnungswirtschaft (Banking subgroup)--Risk position (cont.)					
	--Year ended Dec. 31--				
(%)	2023	2022	2021	2020	2019
Gross nonperforming assets/customer loans + other real estate owned	1.0	0.8	1.2	1.1	1.1
Loan loss reserves/gross nonperforming assets	66.0	64.5	57.5	61.2	53.8

Table 6

Wuestenrot Wohnungswirtschaft (Banking subgroup)--Funding and liquidity					
	--Year ended Dec. 31--				
(%)	2023	2022	2021	2020	2019
Core deposits/funding base	68.6	71.0	78.4	91.8	93.2
Customer loans (net)/customer deposits	135.5	131.4	113.0	93.5	88.7
Long-term funding ratio	98.3	97.6	97.2	99.0	99.2
Stable funding ratio	106.7	103.0	105.1	107.4	111.1
Short-term wholesale funding/funding base	2.0	2.8	3.1	1.2	0.8
Broad liquid assets/short-term wholesale funding (x)	5.8	3.3	3.5	10.2	17.5
Broad liquid assets/total assets	9.8	7.8	9.7	10.5	12.9
Broad liquid assets/customer deposits	16.8	12.9	14.2	13.0	15.6
Net broad liquid assets/short-term customer deposits	51.0	26.9	32.5	29.8	38.2
Regulatory liquidity coverage ratio (LCR) (%)	220.8	231.7	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	6.3	9.6	14.6	14.2	12.2
Narrow liquid assets/3-month wholesale funding (x)	7.3	3.2	2.8	10.6	18.1

N/A--Not applicable.

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

Related Research

- Austrian Bausparkasse Wüstenrot Outlook Revised To Positive On Strengthening Capitalization; 'BBB+' Rating Affirmed, June 19, 2024

- Banking Industry Country Risk Assessment: Austria, Aug. 27, 2024

Ratings Detail (As Of August 28, 2024)*

Bausparkasse Wüstenrot AG

Issuer Credit Rating	BBB+/Positive/A-2
Senior Secured	AAA/Stable
Senior Unsecured	BBB+

Issuer Credit Ratings History

19-Jun-2024	BBB+/Positive/A-2
24-Feb-2023	BBB+/Stable/A-2
26-Nov-2021	BBB/Stable/A-2
08-Dec-2020	BBB+/Negative/A-2

Sovereign Rating

Austria	AA+/Positive/A-1+
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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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