

Research Update:

# Austria-Based Bausparkasse Wuestenrot AG Upgraded To 'BBB+' On Improved Capitalization; Outlook Stable

February 24, 2023

## Overview

- Bausparkasse Wuestenrot's (Bausparkasse) banking subgroup's capitalization has continuously improved over the past years, and we now expect the bank's risk-adjusted capital (RAC) ratio to comfortably exceed 10% through 2024.
- This is mainly driven by Bausparkasse's divestment of its stakes in Oberbank AG and Bank für Tirol und Vorarlberg (BTV) and the available excess capital in the group's insurance operations, which bolster Bausparkasse's risk-adjusted capitalization.
- Consequently, we raised the group credit profile (GCP) of the wider bancassurance group Wuestenrot Wohnungswirtschaft, which consolidates the bank and insurance operations, to 'bbb+' from 'bbb'.
- We therefore raised our long-term rating on Bausparkasse to 'BBB+' from 'BBB', as it is a core subsidiary of the bancassurance group, and affirmed the 'A-2' short-term rating.
- The stable outlook reflects our view that the group's core "Bauspar" (building savings and loans) operations and profitability will benefit from the changing interest rate environment and that cost of risk will remain contained.

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## Rating Action

On Feb. 24, 2023, S&P Global Ratings raised its long-term issuer credit rating on Bausparkasse Wuestenrot AG to 'BBB+' from 'BBB'. At the same time, we affirmed the 'A-2' short-term issuer credit rating. The outlook is stable.

## Rationale

**We expect Bausparkasse's risk-adjusted capitalization will remain a key rating strength.** Over the past two years Bausparkasse's capitalization has increased. This is thanks to its full earnings retention and the improved capital position of its insurance subsidiary, which is available to absorb losses within the banking subgroup if needed.

We expect Bausparkasse's RAC ratio will further strengthen to an estimated 15%-16% in 2022, from 11.4% in 2021. This is mainly driven by Bausparkasse's divestment of its equity stakes in Austrian Oberbank and BTV in 2022. We understand Bausparkasse intends to keep the sales proceeds, thus bolstering its capital base by an estimated €110 million and reducing market risk in the banking book.

At the same time, we note that Bausparkasse's capital calculation remains very sensitive to the insurance subsidiary's capitalization, which we capture in our capital and earnings assessment. The increased RAC ratio in 2021 was mainly driven by the group's insurance subsidiary's substantial overcapitalization as capital market developments supported the value of its investment portfolio. While we believe capital to remain a clear strength to the insurance subsidiary, we expect unrealized gains on investments will decline over 2023-2024 in light of rising interest rates. At the same time, we believe the insurance subsidiary will benefit from rising interest rates in its reinvestment yields in the next years.

**We revised up our assessment of the GCP to reflect the banking subgroup's improved capital level.** We derive the GCP from the combination of our assessment of the banking operations' and insurance operations' creditworthiness, which have roughly even weight. The GCP is now 'bbb+', higher than 'bbb' previously. It continues to incorporate benefits of the bancassurance model that are not reflected in our stand-alone credit assessment of the banking operations, as well as the solid position of the insurance business. These benefits are mainly synergies, thanks to cross-selling products to shared customers, revenue diversification, and efficiencies due to the joint use of operational infrastructure and sales force.

**While the launch of Bausparkasse's universal bank Wuestenrot Bank AG will somewhat support diversification efforts, a material change to the group's overall business profile is unlikely over the medium term.** The bancassurance group will launch its new universal bank by mid-2023, it will not be restricted by the Bauspar Act and will broaden the scope of its services. We view the increased retail banking products product offering as beneficial from a diversification perspective, although we expect the overall benefits to the group will remain limited in the medium term. We positively acknowledge that increasing interest rates and the renewed attractiveness of Bauspar products should support the banking subgroup's bottom-line result. At the same time, we expect competition in the Austrian mortgage market to remain stiff due to falling demand against the slowing real estate market. While we consider Bausparkasse less vulnerable to risks from current geopolitical tensions compared with corporate lenders, we nonetheless expect a slight increase in nonperforming loans (NPLs) given economic fragility and the cost-of-living crisis. That said, we expect Bausparkasse to hold sound asset quality; we expect its ratio of NPLs to remain relatively stable at 1.2%-1.4% over 2022 (compared with 1.24% on Dec. 31, 2021), thanks to restrictive underwriting standards and strong collateralization.

## Outlook

The stable outlook reflects our expectation of the wider bancassurance group Wuestenrot Wohnungswirtschaft's stable performance in the next two years. We expect the banking subgroup's risk-adjusted capitalization will remain solidly above 10% and note that, at the current

rating level, some headroom exists for a deterioration in financial performance and capitalization. We further expect the changing interest rate environment in the Austrian banking sector will be beneficial for the group over time and think that the bank will maintain its prudent risk appetite and contain cost of risk.

## Downside scenario

We could lower our ratings over the next 12-24 months if we expect Bausparkasse's RAC ratio to fall substantially leading us to lower the GCP. This could be the case if the bank's profitability does not improve as we expect or if the deteriorated economic environment in Austria is less supportive for Bausparkasse's business generation and weakens its asset quality.

## Upside scenario

We consider a positive rating action on Bausparkasse remote at this stage. An upgrade would depend on an above average performance of the wider bancassurance group.

That said, we could raise the banking subgroup's stand-alone assessment if a successful launch of its new universal bank leads to a significantly more diversified business model and if the banking subgroup's profitability and operating efficiency are sustainably improved.

## Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB+/Stable/A-2	BBB/Stable/A-2
<b>Wuestenrot Wohnungswirtschaft Banking Subgroup*</b>		
SACP	bbb	bbb-
Anchor	a-	a-
Business position	Constrained (-3)	Constrained (-3)
Capital and earnings	Strong (+1)	Adequate (0)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	0	0
Support*	+1	+1
ALAC support	0	0
GRE support	0	0
Group support	+1	+1
Sovereign support	0	0
Additional factors	0	0
<b>Wuestenrot Wohnungswirtschaft</b>		
Group SACP§	bbb+	bbb

\*Refers to our assessment of Wuestenrot Wohnungswirtschaft. §Reflecting benefits (+1 notch) of the bancassurance model that are not incorporated in the stand-alone credit assessments of the subgroups. SACP--Stand-alone credit profile.

## ESG credit indicators: E-2, S-2, G-2

### Related Criteria

- 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

- Various Rating Actions Taken On Austrian Banks On Stabilization Of Operating Performance, Feb. 24, 2023
- Announced Plans To Simplify The Wuestenrot Group Structure Likely To Support Bausparkasse Wuestenrot's Efficiency, Sept. 20, 2022
- Bausparkasse Wuestenrot AG, April 13, 2022

### Ratings List

#### Upgraded

	To	From
<b>Bausparkasse Wuestenrot AG</b>		
Senior Unsecured	BBB+	BBB

#### Upgraded; Ratings Affirmed

	To	From
<b>Bausparkasse Wuestenrot AG</b>		
Issuer Credit Rating	BBB+/Stable/A-2	BBB/Stable/A-2

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