

Wuestenrot & Wuerttembergische's Junior Subordinated Callable Fixed-To-Floating Notes Rated 'BBB-'

August 30, 2021

FRANKFURT (S&P Global Ratings) Aug. 30, 2021--S&P Global Ratings today assigned its 'BBB-' rating to the proposed junior subordinated notes to be issued by Germany-based insurer Wuestenrot & Wuerttembergische AG (W&W AG; BBB+/Stable/A-2), which is the operating holding company of W&W Group (core subsidiaries rated A-/Stable/--). The rating is subject to our review of the notes' final terms and conditions.

The rating on these notes is two notches below our long-term issuer credit rating (ICR) on W&W AG:

- One notch to reflect the notes' subordination to the company's senior obligations; and
- One notch to reflect the payment risk created by the mandatory and optional coupon cancellation features. We believe this is sufficient, because the mandatory coupon deferral trigger of these notes refers to W&W AG's and W&W Group's solvency capital requirement (SCR) coverage (399% and 239% as of June 30, 2021, respectively).

We will monitor all of the relevant SCR coverage ratios within the W&W Group to assess if the ICR on W&W AG adequately incorporates the payment-risk associated with the hybrid instruments. An unexpected deterioration in any of the group's regulatory solvency positions not accompanied by an ICR change, or increased sensitivity to stress, could lead us to lower the ratings on the notes by widening the notching between them and the ICR.

We understand that the notes will have a tenor of 20 years, but W&W can call the notes between 9.5-10 years from issuance and at each interest payment date thereafter, subject to the conditions for redemption, including approval from the insurance regulator.

Following certain events, such as an accounting, tax, rating, clean-up events, or a regulatory event linked to Solvency II, we understand that W&W AG has the option to redeem the notes.

The coupon is fixed until the first reset date, which we expect will be 10 years after the issuance date. Thereafter, the coupon resets to the three-month Euribor (Euro Interbank Offered Rate), plus the initial margin and a step-up of 100 basis points.

We expect to classify the proposed notes as having intermediate equity content under our hybrid capital criteria. We include securities of this nature, up to a maximum of 25%, in our calculation of total-adjusted capital, which forms the basis of our consolidated risk-based capital analysis of insurance companies. Such inclusion is subject to the proposed notes being considered eligible for regulatory solvency treatment and the aggregate amount of included hybrid capital not

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exceeding the total eligible for regulatory solvency treatment.

We understand that W&W Group plans to issue these notes to take advantage of current financial conditions and use proceeds for general corporate purposes. Including this transaction, we estimate W&W Group's financial leverage will remain conservative, at below 15%. The fixed-charge coverage is likely to remain above 20x in 2021 and above 15x in 2022-2023.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, 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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating 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

- W&W Group, Sept. 11, 2020

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. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on 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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