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Research Update:

Austria-Based KA Finanz Ratings Affirmed At 'A/A-1' On Recapitalization; Outlook Stable

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Overview

- The Austrian government has recapitalized Austria-based KA Finanz.
- We are affirming our 'A/A-1' ratings KA Finanz.
- The ratings reflect our view of the bank's adequate business position, moderate capital and earnings, moderate risk position, average funding, and adequate liquidity.
- We classify KA Finanz as a government-related entity (GRE) under our criteria and consider there is a very high likelihood for timely and sufficient extraordinary government support from the Austrian government to KA Finanz in case of need.
- The ratings on KA Finanz benefit from four notches of uplift above its SACP of 'bbb-' for potential extraordinary government support in a crisis.
- The stable outlook reflects our view that KA's GRE status and Austria's ability and willingness to support KA Finanz will remain unchanged.

Rating Action

On May 3, 2012, Standard & Poor's Ratings Services affirmed its 'A' long-term and 'A-1' short-term counterparty credit ratings on Austria-based KA Finanz AG. The outlook is stable.

Rationale

Our ratings on KA Finanz reflect its anchor of 'bbb+', which represents our view of the economic environment in countries where the bank operates and the banking industry risk in Austria.

We consider the bank's business position to be "adequate" and to be a neutral factor. This is because following its legal separation from Kommunalkredit Austria AG (not rated), KA Finanz works out legacy loans and does not conduct new business. We assess the bank's capital and earnings as "moderate". The score benefits from the state support that restored the bank's depleted capital base after the sizable losses from the restructuring of Greek government debt as well as from our assumption of the state's commitment to keep the bank's Tier 1 capital ratio above 7%. Our assessment of KA Finanz's risk position is "moderate", mainly due to exposure to tail risk and reflecting concentration in the securities portfolio. We view funding as "average" and liquidity as "adequate", but our assessment is based on the close ties to and expected ongoing support from the bank's sole owner, the Austrian government. We assess KA Finanz's stand-alone credit profile (SACP)

at 'bbb-'.

We regard KA Finanz as a government-related entity (GRE) under our criteria, with a "very high" likelihood of timely and sufficient extraordinary government support in a case of need. We expect support to come from its 100% owner, the Republic of Austria (AA+/Negative/A-1+). In accordance with our criteria for GREs, our support assessment is based on KA Finanz's:

- "Very important" role for the Austrian government. KA Finanz's default could destabilize the Austrian banking system and tarnish Austria's reputation and the bank is meeting a key political objective; and
- "Very strong" link with the government. The bank plays an important public policy role as the workout entity of the former Kommunalkredit Austria. The government has displayed a track record of support for KA Finanz and has stated its commitment to support the bank in the future.

We expect KA Finanz's role for the government and its link to the government to remain unchanged at least in the medium term, whereas Kommunalkredit Austria AG may be reprivatized in the future.

Outlook

Standard & Poor's Ratings Services' outlook on KA Finanz is stable because we don't expect the ownership structure or its parent's strong commitment to the bank to change in the foreseeable future. We think that Austria's ability and willingness to support KA Finanz in terms of funding, liquidity, and capital will remain unchanged in the medium term. However, we note that Austria has no legal obligation to support KA Finanz.

The negative outlook on the Republic of Austria does not have a direct impact on the outlook on KA Finanz because a possible sovereign downgrade by one notch would not affect the ratings on the bank. An impact on the ratings on KA Finanz from the potential deterioration of the sovereign ratings would only become effective if the long-term rating on Austria moved below 'AA-' from the current 'AA+' assessment.

We expect that KA Finanz will maintain its current financial profile. Deterioration would likely trigger a negative rating action on the bank unless the government provided timely support.

We would lower the ratings if the government did not deliver on its commitment to sustain the bank's Tier 1 capital ratio at 7%. That would trigger deterioration in both the bank's SACP and GRE status. We would also lower the ratings if the bank proved unable to sustain its current funding and liquidity profile.

We consider positive rating actions unlikely. We could raise the ratings in case of a strengthening of the legal support framework for all outstanding unsecured debt.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Ratings List

Ratings Affirmed

KA Finanz AG

Counterparty Credit Rating	A/Stable/A-1
Certificate Of Deposit	A/A-1
Commercial Paper	A-1

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