Research Update:

KA Finanz Outlook Revised To Positive After Same Action On Austria; 'AA+/A-1+' Ratings Affirmed

March 1, 2022

Overview

- We revised our outlook on Austria to positive from stable on Feb. 25, 2022.
- The ratings and outlook on Austrian wind-down entity KA Finanz reflect our expectation that the entity will receive extraordinary government support from its sole owner, the Austrian government, in all circumstances, if needed.
- We consequently revised our outlook on KA Finanz to positive from stable and affirmed our 'AA+/A-1+' long- and short-term ratings.
- The positive outlook on KA Finanz reflects that on Austria, indicating that an upgrade of Austria will prompt a similar rating action on KA Finanz, unless the company's role and link to the Austrian government change materially over the next 12-24 months.

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Rating Action

On March 1, 2022, S&P Global Ratings revised its outlook on Austria-based KA Finanz AG to positive from stable. At the same time, we affirmed our 'AA+/A-1+' long- and short-term issuer credit ratings on the company.

Rationale

The outlook revision follows a similar rating action on Austria. We believe Austria's economic growth trajectory should remain broadly resilient over 2022-2025, benefitting the country's budgetary performance. That said, the main risks to Austria's economic prospects in the near term include the evolution of the pandemic. Moreover, we note that currently heightened geopolitical risks could lead to higher energy prices and inflation than we currently expect (see "Austria Outlook Revised To Positive On Budgetary Consolidation Prospects; 'AA+/A-1+' Ratings Affirmed," published Feb. 25, 2022, on RatingsDirect).

KA Finanz's critical public policy role and integral link with the Austrian government is unchanged. We believe that it will be supported by its owner in the event of financial difficulties and continue to receive funding. This reflects our opinion that there is an almost certain likelihood that the Austrian government would provide timely and sufficient extraordinary support to KA Finanz in all circumstances. The entity's public policy role as a wind-down entity will continue until this task is complete.

KA Finanz has a non bank-status since September 2017. Its wind-down horizon has recently been accelerated, with completion targeted by the end of 2023 versus the end of 2026 previously. We project that KA Finanz will continue to incur structural losses from its wind-down, which we expect will continue to be covered on an annual basis by the relevant government support framework through state-owned company ABBAG. The €8.2 billion funding framework established to support the wind-down process includes a loss-absorbing tranche of €988 million. We understand that this support mechanism will remain in place during the accelerated wind-down plan and regard the tranche as sufficient to cover further losses until the end of the runoff term.

Outlook

The positive outlook on KA Finanz reflects that on Austria. As a result, any rating action on Austria will prompt a similar rating action on KA Finanz.

Any weakening of KA Finanz's role for and link to Austria could cause us to take a negative rating action on the company. However, we do not anticipate any adverse changes. We believe that the almost certain likelihood of government support will not change over at least the next two years.

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Austria Outlook Revised To Positive On Budgetary Consolidation Prospects; 'AA+/A-1+' Ratings Affirmed, Feb. 25, 2022
- KA Finanz AG, Nov. 19, 2021

Ratings List

Ratings Affirmed; Outlook Action

	To	From
KA Finanz AG		
Issuer Credit Rating	AA+/Positive/A-1+	AA+/Stable/A-1+