

Research Update:

KA Finanz Outlook Revised To Stable From Positive After Outlook Revision On Austria; 'AA+/A-1+' Ratings

August 30, 2022

Overview

- We revised our outlook on Austria to stable from positive on Aug. 26, 2022.
- The ratings and outlook on wind-down entity KA Finanz reflect the expectation of extraordinary government support from its sole owner Austria, if needed.
- As such, we revised our outlook on KA Finanz AG to stable from positive, following the sovereign rating action.
- We affirmed our long- and short-term ratings on KA Finanz at 'AA+/A-1+'.
- The stable outlook on KA Finanz reflects that on Austria.

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Rating Action

On Aug. 30, 2022, S&P Global Ratings revised its outlook on KA Finanz AG to stable from positive. At the same time, we affirmed the 'AA+/A-1+' long- and short-term issuer credit ratings on the company.

Rationale

The outlook revision on KA Finanz follows our rating action on Austria. We revised the outlook on the sovereign to stable from positive to reflect our view of rising risks to economic performance emanating from further potential stress in energy supply, in particular in relation to gas supply (see "Austria Outlook Revised To Stable From Positive On Rising Economic Risks; 'AA+/A-1+' Ratings Affirmed," published Aug. 26, 2022, on RatingsDirect). Austria's efforts to reduce gas exposure to Russia will continue, but it will take time to shield the economy fully from disruptions in gas supply. In our view, Austria's high, albeit declining dependency on Russian gas is an important economic vulnerability in the current geopolitical environment. A further significant

disruption of gas flows to Austria or its eurozone trading partners could significantly weigh on Austria's domestic economy.

KA Finanz's critical public policy role and integral link with the Austrian government is unchanged. We believe that KA Finanz will be supported by its owner in the event of financial difficulties and will continue to provide funding including a loss-absorbing tranche to the entity. 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 case of financial distress. The entity's public policy role as a wind-down entity will continue until this task is complete.

The wind-down of the company is on track to be completed by 2023. KA Finanz's status as non-bank entity since September 2017 allows for an accelerated 10-year wind-down plan, which the owner recently preponed to 2023, because it is not subject to regulatory capital requirements and only has to comply with a reduced scope of the banking regulatory framework. We project KA Finanz will continue to post structural losses, which we expect will be covered by the loss-absorbing tranche from the government through state-owned company, ABBAG. We understand that this support mechanism will remain in place over the accelerated wind-down plan and deem the tranche sufficient to cover further losses until the end of the runoff term.

Outlook

The stable outlook on KA Finanz reflects that on Austria. Any rating action on Austria would 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 Stable From Positive On Rising Economic Risks; 'AA+/A-1+' Ratings Affirmed, Aug. 26, 2022
- KA Finanz Outlook Revised To Positive After Same Action On Austria; 'AA+/A-1+' Ratings Affirmed, March 1, 2022

- KA Finanz AG: Full Analysis, Nov. 19, 2021

Ratings List

Ratings Affirmed; Outlook Action

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

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; or Stockholm (46) 8-440-5914

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