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KA Finanz AG

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KA Finanz AG

Credit Highlights

Issuer Credit Rating

AA+/Stable/A-1+

Key strengths	Key risks
Almost-certain likelihood of extraordinary government support from Austria, KA Finanz AG's sole owner.	New business limits as a nonbank wind-down entity.
A direct €8.2 billion refinancing agreement with government-owned Abbaumanagementgesellschaft des Bundes (ABBAG), with €3.9 billion provided as of June 30, 2021.	No internal capital generation capacity and reliance on government support to offset negative equity from accelerated portfolio runoff measures.
Critical public policy role for the wind-down of the former Kommunalkredit Austria AG's nonstrategic assets.	Reliance on the government to close funding and liquidity gaps in case of need.

We expect KA Finanz's wind-down will proceed according to plan. Over the past 12 years, KA Finanz has capably managed the orderly wind-down of much of the non-core assets of former Kommunalkredit Austria AG. Total assets stood at €4.4 billion at June 30, 2021, compared with €21.4 billion at year-end 2009. Since then, KA Finanz has also reduced the complexity of its asset base, with most remaining exposures being in the European public sector.

Our 'AA+' rating reflects the expectation of support from Austria (AA+/Stable/A-1+) if needed. S&P Global Ratings believes 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.

Outlook

S&P Global Ratings' stable 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.

Rationale

We equalize our ratings on KA Finanz with the ratings on its sole owner and support provider, Austria. 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. KA Finanz's business model is based entirely on Austria's interest in an orderly wind-down of its contingent liabilities from the troubled former Kommunalkredit Austria.

We base our view on the entity's:

- Critical role as a key government policy tool to stabilize the banking system and minimize potential long-term losses to taxpayers through the orderly wind-down of the noncore assets of the former Kommunalkredit Austria; and
- Integral link with the Austrian government because of full ownership by the government and the credible government-support mechanism.

We have no doubts regarding the Austrian government's propensity to support KA Finanz. We believe the government has sufficient financial resources to do so, and do not consider government support subject to transition risk.

We do not expect KA Finanz's ownership status or the state-support mechanism will weaken. We expect the entity's public policy role as a wind-down entity will continue until this task is complete, because we believe an accelerated wind-down could not be easily nor more efficiently undertaken by a private entity, given its advanced stage.

We expect Austria will remain supportive of KA Finanz and that the implemented EU Bank Recovery and Resolution Directive does not affect its willingness or ability to support the entity as a wind-down entity, in our opinion.

KA Finanz was established in 2009 with the aim of avoiding disturbance in the financial markets. As part of its restructuring, the former Kommunalkredit Austria was separated into two independent entities: Kommunalkredit Austria and KA Finanz. The new Kommunalkredit Austria was reprivatized in September 2015.

KA Finanz operates as a nonbank wind-down unit according to section 162 of the Austrian Bank Recovery and Resolution Act since the lapse of its banking license in 2017, and is supervised by the Austrian Financial Market Authority. The entity's nonbank status allows for an accelerated 10-year wind-down plan, which KA Finanz 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.

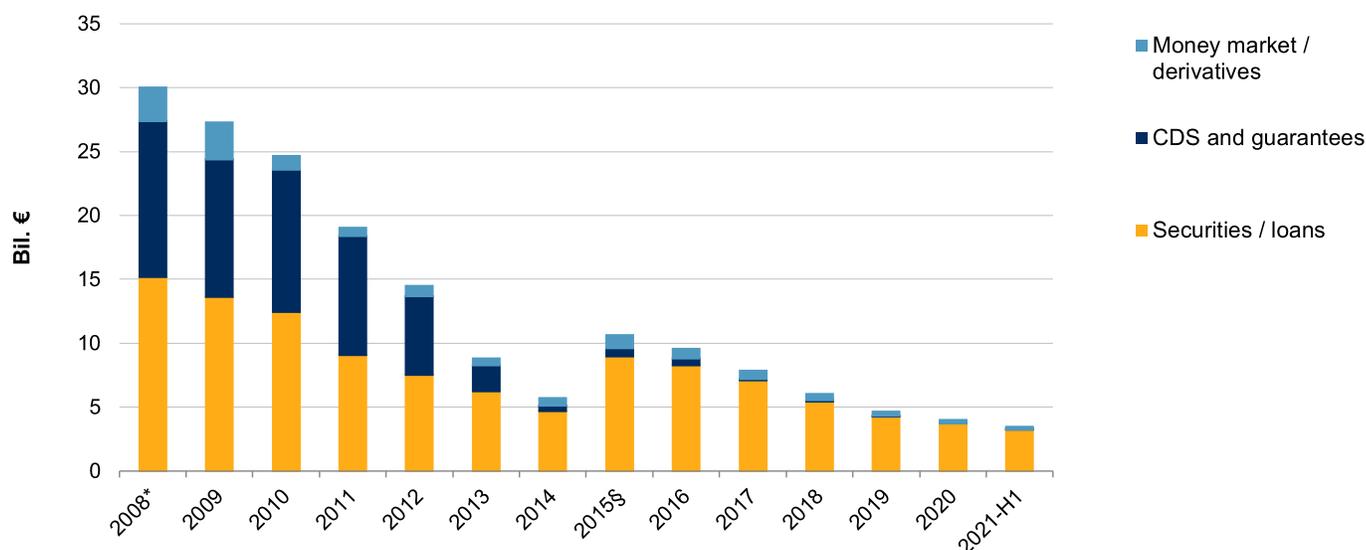
We expect KA Finanz will continue to receive government support over the accelerated runoff term. In its relations with KA Finanz, the Austrian government acts through a state-owned company, ABBAG, which provides a funding framework of up to €8.2 billion. This framework includes a loss-absorbing tranche of €988 million, which covers operating and wind-down losses exceeding KA Finanz's equity base. This loss-absorption mechanism was triggered for the first time in 2018, when KA Finanz's equity was depleted. Since then, repayment obligations have fallen by €374 million. We expect the remaining capacity of the loss-absorbing tranche to be sufficient to cover further losses until the end of the runoff term.

The wind-down is on track to be completed by 2023, with a fraction of KA Finanz's original exposures remaining. As of June 2021, KA Finanz had assets of €4.4 billion, reflecting material progress in the wind-down of assets. Overall, exposures have fallen by 88% since the restructuring process started in 2008 (see chart 1). The main measure of the balance-sheet runoff remains asset sales, with €21.6 billion in positions sold in total since 2008, followed by accelerated redemptions of €9.5 billion.

Chart 1

KA Finanz Has Materially Reduced Its Exposures Since 2008

Development of KA Finanz's exposures



*As of Nov. 28, 2008. §Merger with the non-privatised part of Kommunalkredit Austria AG in Sept. 2015.

Source: S&P Global Ratings.

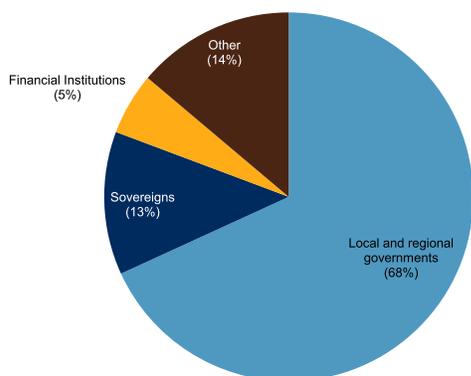
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We expect KA Finanz's asset quality will remain strong. As of June 2021, there were no nonperforming loans (NPLs) on the entity's book thanks to the previous reduction of exposure to higher-risk geographies and the ongoing decrease of complexity.

As of end-2020, KA Finanz's asset base included predominantly exposures to the public sector (81% of total exposure) and the eurozone (76%), which translates into generally high portfolio quality (see charts 2 and 3). In June 2021, 97% of exposures were investment-grade, roughly 86% of which were rated 'AA' or higher. Although KA Finanz's portfolio is highly concentrated, with the top 20 exposures accounting for 88% of the total in June 2021, the low-risk nature of the assets mitigates this risk in our view.

Chart 2

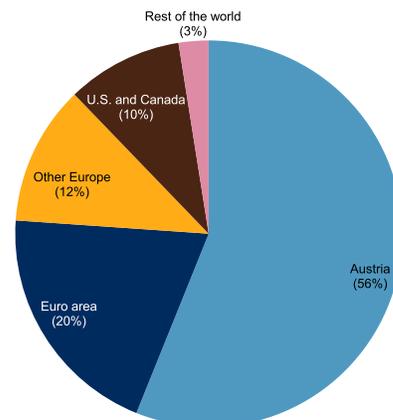
KA Finanz's Portfolio Is Tilted Toward Local And Regional Governments.
Breakdown of exposures by sector



Data as of December 2020. Other includes public-sector entities, quasi-public enterprises, and securitizations. Source: S&P Global Ratings. Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 3

Particularly In Austria And The Eurozone
Breakdown of exposures by geography



Data as of December 2020. Source: S&P Global Ratings. Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

We expect KA Finanz will post structural losses for 2021 and beyond. The entity has posted negative net operating profit of about €70 million in 2020, which resulted predominantly from the net valuation adjustments and realizations from the market values of receivables or securities being wound down. We expect the entity will post structural losses for 2021 and beyond, which we expect will be covered by reductions in the repayment obligations toward ABBAG.

Since 2017, KA Finanz's capital market funding has been gradually replaced by funding provided by ABBAG. As of June 30, 2021, funding by ABBAG amounted to €3.9 billion while KA Finanz's capital markets legacy funding was only €0.2 billion following the maturity of a €500 million covered bond in February 2021.

We expect KA Finanz's remaining covered bond, loans, and private placements will continue to be honored and redeemed at their full nominal value on the relevant due dates, while we assume that remaining subordinated debt and private placements maturing after the 10-year wind-down period will eventually be redeemed.

Environmental, Social, And Governance

Environmental, social, and governance factors have a neutral impact on our assessment of KA Finanz's creditworthiness. Social and environmental credit factors are in line with those of peers in the financial industry, while the entity's governance standards are comparable.

Key Statistics

Table 1

KA Finanz AG--Key Figures					
Reporting Period	YTD Jun-2021	Annual Dec-2020	Annual Dec-2019	Annual Dec-2018	Annual Dec-2017
Display currency	€	€	€	€	€

Table 1

KA Finanz AG--Key Figures (cont.)					
Reporting Period	YTD Jun-2021	Annual Dec-2020	Annual Dec-2019	Annual Dec-2018	Annual Dec-2017
Adjusted assets	4,364.1	5,288.2	6,565.3	7,222.0	9,843.8
Customer loans (gross)	3,102.6	3,366.3	3,868.0	4,802.1	5,894.3
Adjusted common equity	31.5	0.0	0.0	0.0	29.1
Operating revenues	66.9	116.0	3.8	(1.0)	(22.4)
Noninterest expenses	71.3	131.3	23.8	23.7	34.9
Core earnings	31.5	(69.9)	(49.9)	(245.3)	(423.9)

Table 2

KA Finanz AG--Business Position					
Reporting Period	YTD Jun-2021	Annual Dec-2020	Annual Dec-2019	Annual Dec-2018	Annual Dec-2017
Display currency	€	€	€	€	€
Total revenues from business line	66.9	195.6	81.6	215.1	100.1
Other revenues/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	400.0	N.M.	N.M.	(200.0)	(125.0)

N.M.--Not meaningful.

Table 3

KA Finanz AG--Capital And Earnings					
Reporting Period	YTD Jun-2021	Annual Dec-2020	Annual Dec-2019	Annual Dec-2018	Annual Dec-2017
Display currency	€	€	€	€	€
Fee income/operating revenues	(0.6)	(8.1)	(398.1)	1,769.9	109.5
Market-sensitive income/operating revenues	1.1	(2.6)	(1.0)	(1.5)	0.2
Cost to income ratio	106.6	113.2	625.2	(2,342.8)	(155.7)
Preprovision operating income/average assets	(0.2)	(0.3)	(0.3)	(0.3)	(0.5)
Core earnings/average managed assets	1.3	(1.2)	(0.7)	(2.9)	(3.9)

Table 4

KA Finanz AG--Risk Position					
Reporting Period	YTD Jun-2021	Annual Dec-2020	Annual Dec-2019	Annual Dec-2018	Annual Dec-2017
Display currency	€	€	€	€	€
Growth in customer loans	(15.7)	(13.0)	(19.5)	(18.5)	(13.1)
Total managed assets/adjusted common equity (x)	138.5	N.M.	N.M.	N.M.	337.8
New loan loss provisions/average customer loans	(2.2)	1.5	0.7	4.1	5.7
Gross nonperforming assets/customer loans + other real estate owned	0.0	0.0	0.0	0.0	0.1
Loan loss reserves/gross nonperforming assets	N/A	N.M.	N.M.	N.M.	62.9

N/A--Not applicable. N.M.--Not meaningful.

Table 5

KA Finanz AG--Funding And Liquidity					
Reporting Period	YTD Jun-2021	Annual Dec-2020	Annual Dec-2019	Annual Dec-2018	Annual Dec-2017
Display currency	€	€	€	€	€
Customer loans (net)/customer deposits	78.1	77.0	85.8	93.4	92.8
Long-term funding ratio	97.5	95.7	90.1	91.5	86.0
Stable funding ratio	118.4	128.8	130.1	115.2	117.1
Short-term wholesale funding/funding base	2.5	4.3	9.9	8.5	14.0
Broad liquid assets/short-term wholesale funding (x)	8.1	6.4	3.4	2.8	2.0
Net broad liquid assets/short-term customer deposits	532.5	760.3	709.5	1,808.9	254.3
Short-term wholesale funding/total wholesale funding	50.7	29.9	34.0	32.5	42.8

Related Criteria

- 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
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, Mar. 23, 2004

Related Research

- Austria 'AA+/A-1+' Ratings Affirmed; Outlook Stable, Sep. 10, 2021

Ratings Detail (As Of November 19, 2021)*	
KA Finanz AG	
Issuer Credit Rating	AA+/Stable/A-1+
Issuer Credit Ratings History	
11-Sep-2017	AA+/Stable/A-1+
27-Apr-2017	A-/Watch Pos/A-2
13-Mar-2015	A-/Stable/A-2
Sovereign Rating	
Austria	AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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