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## KA Finanz Public Sector Covered Bonds Assigned 'AA-' Ratings; Outlook Stable

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### OVERVIEW

- We have assigned our 'AA-' ratings to KA Finanz's public sector covered bonds.
- The ratings reflect our view of the jurisdictional support for public sector covered bonds in Austria.
- The stable outlook on our ratings reflects the outlook on the long-term issuer credit rating.

FRANKFURT (Standard & Poor's) March 4, 2016--Standard & Poor's Ratings Services today assigned its 'AA-' credit ratings to KA Finanz AG's public sector covered bond program and related issuances of "Fundierte Bankschuldverschreibungen". The outlook on the ratings is stable.

We have applied our criteria for rating covered bonds (see "Covered Bonds Criteria," published on Dec. 9, 2014).

Under these criteria, we organize the analytical process for rating covered bonds into four key stages:

- Performing an initial analysis of issuer-specific factors--legal and regulatory risks and operational and administrative risks--which mainly assess whether a rating on the covered bond may be higher than the rating on the issuer.
- Assessing the starting point for the rating analysis, based on the applicable resolution regimes, to determine the reference rating level

(RRL).

- Determining the maximum achievable covered bond rating from an analysis of jurisdictional and cover pool-specific factors.
- Combining the results of the above and incorporating any additional factors, such as counterparty risk and country risk, to assign the final covered bond rating.

We use the long-term issuer credit rating (ICR) on KA Finanz (A-/Stable/A-2) as the starting point for our analysis (see "KA Finanz AG," published on June 15, 2015).

After assessing the RRL, to determine a maximum achievable covered bond rating, we analyze jurisdictional and collateral support. Our assessment of the expected jurisdictional support for public sector covered bond programs in Austria is very strong (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Dec. 22, 2015). Under our covered bonds criteria, the uplift from the RRL can be three notches when we assess the jurisdictional support as very strong. Under our analysis of jurisdictional support, we determine a jurisdiction-supported rating level (JRL), which is our assessment of the creditworthiness of a covered bond program once we have considered the level of jurisdictional support, but before giving credit to the amount of collateral.

Following the assessment of the RRL and JRL, we analyze the credit quality of the cover pool and the availability of liquidity support and committed overcollateralization to determine the maximum collateral uplift.

The 'AA-' ratings reflect our RRL of 'a-' and JRL of 'aa-' for the program. As the covered bond program includes unhedged foreign exchange (FX) exposure and because the local legislation does not include provisions to address this additional risk (such as stress testing the exposure, or the ability to require increased minimum overcollateralization levels, for example) we also take the FX risk into account in our credit enhancement level for the 'AA-' rating. The available credit enhancement is sufficient to cover the FX risk.

The cover pool comprises mainly public sector assets in Austria (75.3%). We have not assigned any notches of collateral-based uplift above the JRL, because the available credit enhancement of 30.03% is below the level that we would consider to be commensurate with the first notch of collateral-based uplift, which is currently the result of our supplemental tests at 37.35%. The main rating driver is the largest industry test applied to Austrian local and regional governments (LRGs), which captures concentration risks in the cover pool.

The covered bond cover pool includes loans to obligors in multiple jurisdictions. When assigning covered bond ratings for multijurisdictional pools that exceed the ratings on sovereigns within the European Economic and Monetary Union (EMU), we apply our nonsovereign ratings criteria (see "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published on June 14, 2011). We consider that, based on the

geographic diversification of the cover pool and the high sovereign ratings on the largest exposures, our credit analysis appropriately captures sovereign default risk. Consequently, country risk does not constrain the ratings on the covered bonds.

Lastly, the ratings on the program and related issuances are not constrained by counterparty, legal, or operational risk. This excludes amounts channeled to dedicated accounts with Austrian National Bank, the account provider for the program. Instead, for these exposures, we cap our rating on the program to the long-term rating on Austrian National Bank. We consider Austrian National Bank's credit standing to be identical to that of the European Central Bank (unsolicited: AAA/Stable/A-1+).

The stable outlook on our ratings reflects the outlook on the long-term ICR. We would lower our ratings on the covered bonds if we were to lower our long-term rating on the issuer.

The ISINs for the issuances are XS1045121784, XS1045221063, XS1046170699, XS0973424152, XS1033673440, and XS0236776877.

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Covered Bonds Criteria, Dec. 9, 2014
- Methodology For Assessing Mortgage Insurance And Similar Guarantees And Supports In Structured And Public Sector Finance And Covered Bonds, Dec. 7, 2014
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

##### Related Research

- Still-High Refinancing To Fuel German, Swiss, And Austrian Local And Regional Government Borrowing In 2016, Feb. 10, 2016
- Global Covered Bond Characteristics And Rating Summary Q4 2015, Dec. 29, 2015
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Dec. 22, 2015
- Assessments For Target Asset Spreads According To Our Covered Bonds

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Criteria, Dec. 22, 2015

- Republic of Austria 'AA+/A-1+' Ratings Affirmed Despite HETA Resolution Law Proposal; Outlook Stable, Oct. 8, 2015
- A Review Of Austria's Covered Bond Framework And Its Implications For S&P Ratings, Sept. 9, 2015
- KA Finanz AG, June 15, 2015
- Supplementary Analysis: Austria (Republic of), April 24, 2015
- Assessing Credit Quality By The Weakest Link, Feb. 13, 2012

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