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Research Update:

Austria-Based KA Finanz 'A-/A-2' Ratings Put On Watch Positive On Expected Strengthening Of Government Support

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Overview

- On April 26, 2017, KA Finanz AG announced that it is going to apply to surrender its banking license, which we expect will likely be approved toward the end of 2017.
- The pre-condition of KA Finanz's transformation into a run-off company is the replacement of the bulk of its current guaranteed and nonguaranteed outstanding debt with direct loans from the government agency ABBAG.
- The Austrian government owns KA Finanz, and we expect that the currently high likelihood of KA Finanz receiving government support could strengthen once the state becomes the provider of most of the company's liabilities.
- We are therefore placing our 'A-/A-2' ratings on KA Finanz on CreditWatch with positive implications.
- We expect to resolve the CreditWatch within the next three months once we have more clarity on KA Finanz's transformation.

Rating Action

On April 27, 2017, S&P Global Ratings placed its 'A-' long-term and 'A-2' short-term counterparty credit ratings on Austria-based KA Finanz AG on CreditWatch with positive implications.

We also placed our 'A-' ratings on KA Finanz's senior unsecured issues and our 'A-2' ratings on its nonguaranteed commercial paper on CreditWatch positive.

At the same time, we affirmed our 'AA+' rating on the company's government-guaranteed €1 billion debt issue and our 'A-1+' rating on its government-guaranteed commercial paper.

Rationale

The CreditWatch placement follows KA Finanz's announcement on April 26, 2017, that it intends to apply for a change in its regulatory status to officially become a run-off company, thereby surrendering its banking licence. In conjunction with the transformation, the bulk of KA Finanz's currently outstanding debt will be replaced by direct lending from the government via ABBAG. The Republic of Austria (AA+/Stable/A-1+) is the sole owner of KA Finanz and currently guarantees about 40% of its liabilities. Following the

transformation, we expect that the share of KA Finanz's nongovernment funding will materially decrease.

The implications of the CreditWatch are positive because of the potential significant increase of government funding for KA Finanz. In our view, this could enhance what we consider to be a strong track record of government support, and indicate a material strengthening of the government's commitment to the company. We understand, however, that following KA Finanz's transformation, there is no binding legal commitment for the government to provide further support to the entity in the future. Once we have more clarity on the transaction details and the likelihood of the transformation going ahead, we would reassess KA Finanz's role for and link to the Austrian government, which may potentially trigger a multi-notch upgrade of KA Finanz.

Currently, we consider KA Finanz to be a government-related entity (GRE) with a high likelihood of receiving timely and sufficient extraordinary government support if needed. We base this opinion on KA Finanz's important role for, and very important link with the Austrian government. As such, we apply a three-notch uplift to our 'bbb-' assessment of KA Finanz's stand-alone credit profile, resulting in the 'A-' long-term rating.

CreditWatch

We intend to resolve the CreditWatch within the next three months, after receiving greater clarity on KA Finanz's planned transformation into a run-off company, as well as the potential increase of government support and the likelihood of its approval by the regulator. In particular, if the transformation is likely to go ahead, we would consider whether the inflow of government funding implies that KA Finanz has a stronger link to and role for the Austrian government. If that is the case, we could raise the ratings by several notches, or possibly even equalize them with those on the sovereign.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And

Assumptions, Nov. 9, 2011

- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Republic of Austria 'AA+/A-1+' Ratings Affirmed; Outlook Stable, March 17, 2017
- KA Finanz AG, June 28, 2016

Ratings List

Ratings Affirmed; Outlook Action

	To	From
KA Finanz AG		
Counterparty Credit Rating	A-/Watch Pos/A-2	A-/Stable/A-2
Senior Unsecured*	AA+	AA+
Commercial Paper*	A-1+	A-1+
Commercial Paper	A-2/Watch Pos	A-2
Certificate Of Deposit	A-/Watch Pos/A-2	A-/A-2

*Guarantor: Republic of Austria.

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