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Research Update:

Austria-Based KA Finanz Upgraded To 'AA+/A-1+' On Almost Certain Likelihood Of Government Support; Outlook Stable

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Overview

- On Sept. 6, 2017, Austria's Financial Market Authority approved KA Finanz's transformation into a run-off company based on its 10-year accelerated wind-down plan, and KA Finanz's banking license expired.
- One of the main pillars of this plan is a €8.2 billion refinancing framework agreement KA Finanz signed in June 2017 with government-owned Abbaumanagementgesellschaft des Bundes.
- As a result, we now see an almost certain likelihood of KA Finanz receiving extraordinary government support, which allows us to equalize our ratings on KA Finanz with those on Austria.
- We are therefore raising our ratings on KA Finanz to 'AA+/A-1+' from 'A-/A-2' and removing them from CreditWatch with positive implications.
- The stable outlook on KA Finanz reflects that on Austria.

Rating Action

On Sept. 11, 2017, S&P Global Ratings raised its long- and short-term counterparty credit ratings on Austrian state-owned KA Finanz AG to 'AA+/A-1+' from 'A-/A-2'. The outlook is stable.

We also raised our ratings on KA Finanz's nonguaranteed commercial paper to 'A-1+' from 'A-2'.

We removed the ratings from CreditWatch, where we first placed them, with positive implications, on April 27, 2017.

Our 'AA+' ratings on the company's government-guaranteed €1 billion debt and our 'A-1+' rating on its government-guaranteed commercial paper are unaffected.

Rationale

The upgrade reflects what we now view as KA Finanz's integral link with and critical role for the Austrian government. This, we believe, indicates an almost certain likelihood of extraordinary government support for the company that allows us to equalize our ratings on KA Finanz with the sovereign ratings. In our view, KA Finanz is a key government policy tool to stabilize the banking system and minimize losses to taxpayers through the orderly wind-down of noncore assets of the former Kommunalkredit Austria AG. We believe this role could not easily be undertaken by a private entity, and the government would have to manage the run-off itself if KA Finanz did not exist. We also consider that the government not only fully owns KA Finanz but also supports the company's management, which should enable effective governance, monitoring, and control during the envisaged 10-year wind-down period.

Moreover, in June this year, Austrian government-owned Abbaumanagementgesellschaft des Bundes signed an €8.2 billion refinancing agreement with KA Finanz. The structure of the overall agreement will enable KA Finanz to gradually repay and replace its current funding structure, and facilitate an accelerated wind-down. The refinancing agreement also reduces KA Finanz's cost base, due to the gradual elimination of liquidity and guarantee fees paid to the government. The expiration of KA Finanz's banking license also frees the company from the requirements and costs related to banking regulations.

Another factor backing our view that the government is almost certain to support KA Finanz if needed is that a default of KA Finanz could have a critical impact on Austria, as shown by the market turbulence relating to wind-down entity, Heta Asset Resolution in the past. Moreover, about 35% of KA Finanz's current portfolio consists of lending facilities to Austrian entities, mainly local governments.

We no longer determine a stand-alone credit profile for KA Finanz because we now equalize our ratings on the company with those on Austria. We believe KA Finanz's role for and link with Austria are unlikely to weaken, given that KA Finanz has a clear wind-down plan, few staff, and no banking license. We also consider that the comprehensive refinancing facility should enable KA Finanz to eventually redeem all its market financing.

Outlook

The 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 currently do not anticipate any adverse changes. We believe that the almost certain likelihood of government support and KA Finanz's status as a government-related entity will remain unchanged over the next two years.

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017

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

Related Research

- Banking Industry Country Risk Assessment: Austria, May 29, 2017
- Austria-Based KA Finanz 'A-/A-2' Ratings Remain On CreditWatch Positive, May 19, 2017
- Ratings On KA Finanz's Public Sector Covered Bonds Placed On CreditWatch Positive After Similar Rating Action On Bank, May 5, 2017
- Austria-Based KA Finanz 'A-/A-2' Ratings Put On Watch Positive On Expected Strengthening Of Government Support, April 27, 2017
- Republic of Austria 'AA+/A-1+' Ratings Affirmed; Outlook Stable, March 17, 2017
- KA Finanz AG, June 28, 2016

Ratings List

Ratings Raised And Removed From CreditWatch

	To	From
KA Finanz AG		
Counterparty Credit Rating	AA+/Stable/A-1+	A-/Watch Pos/A-2
Commercial Paper	A-1+	A-2/Watch Pos

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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. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the 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; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.