

RatingsDirect®

Research Update:

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

Primary Credit Analyst:

Michal Selbka, Frankfurt +49 (0) 69-33999-300; michal.selbka@spglobal.com

Secondary Contacts:

Alois Strasser, Frankfurt (49) 69-33-999-240; alois.strasser@spglobal.com

Anna Lozmann, Frankfurt (49) 69-33-999-166; anna.lozmann@spglobal.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria

Related Research

Ratings List

Research Update:

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

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

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@spglobal.com

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'

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

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.

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.