

KA Finanz AG (/gws/en/esp/issr/80361294)



Fitch Upgrades KA Finanz's Subordinated Debt to 'A'; off Rating Watch

Fitch Ratings-London-11 October 2017: Fitch Ratings has upgraded KA Finanz AG's (KF) subordinated Tier 2 notes to 'A' from 'B' and removed them from Rating Watch Positive (RWP). The rating action applies to the following notes: XS0257275098, AT0000441209, XS0185015541, XS0144772927 and XS0255270380.

KEY RATING DRIVERS

SUBORDINATED TIER 2 DEBT

The upgrade reflects the implementation of KF's new funding mix, which considerably reduces the probability of default of the subordinated Tier 2 notes. This follows the final approval by the Austrian banking regulator of the change, effective on 6 September 2017, of KF's legal status to a partially regulated run-off company pursuant to section 162 of the Austrian Bank Recovery and Resolution Act. Following this regulatory approval, KF's banking licence lapsed and most of its assets refinanced with long-term funds indirectly provided by the Austrian state (AA+/Stable/F1+), which is also KF's sole owner.

This long-term state funding scheme was agreed in June 2017 and is expected to cover the vast majority of KF's funding needs until the completion of the company's accelerated wind-down plan. Consequently, we believe that, in a stress scenario, a bail-in of the subordinated Tier 2 notes would be highly ineffective and, thus, highly unlikely. This is because of the low outstanding volume of the notes and the small remaining stock of senior unsecured debt held by non-state creditors. In our view, this creates a strong financial incentive for the state to prevent a default of the subordinated Tier 2 notes.

Therefore, the ratings of the notes are now notched down once from KF's Long-Term Issuer Default Rating (IDR) of 'A+', which is driven by state support. This reflects our view that the notes will also strongly benefit from state support. The one notch differential reflects the notes' contractual

subordination to senior unsecured obligations.

KF's other ratings are unaffected (see 'Fitch Upgrades KA Finanz to 'A+' on Refinancing Plans' published on 20 June 2017 on www.fitchratings.com).

RATING SENSITIVITIES

SUBORDINATED TIER 2 DEBT

The ratings of the subordinated Tier 2 notes are primarily sensitive to changes to KF's Long-Term IDR. A downgrade could arise from unexpectedly large wind-down losses necessitating additional state aid beyond the agreed framework as this could increase bail-in risk for the subordinated Tier 2 investors.

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Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016)

(<https://www.fitchratings.com/site/re/891051>)

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