

Ratings On KA Finanz's Public Sector Covered Bonds Placed On CreditWatch Positive After Similar Rating Action On Bank

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OVERVIEW

- On April 27, 2017, we placed on CreditWatch positive our 'A-/A-2' ratings on KA Finanz.
- Under our criteria, any rating change on KA Finanz would directly affect the ratings on KA Finanz's public sector covered bonds, all else being equal.
- We have consequently placed on CreditWatch positive our ratings on KA Finanz's public sector covered bonds.

FRANKFURT (S&P Global Ratings) May 5, 2017--S&P Global Ratings today placed on CreditWatch positive its 'AA-' credit ratings on KA Finanz AG's public sector covered bond program and related issuances.

Today's CreditWatch positive placement follows our April 27, 2017 CreditWatch positive placement of our issuer credit ratings (ICR) on KA Finanz AG (A-/Watch Pos/A-2) (see "Austria-Based KA Finanz 'A-/A-2' Ratings Put On Watch Positive On Expected Strengthening Of Government Support").

Under our criteria for rating covered bonds, the ratings on KA Finanz's public sector covered bonds currently benefit from only reference rating level (RRL) and jurisdiction-supported rating level (JRL) uplift. Therefore, any rating change on the issuer would directly affect the ratings on the covered bonds,

all else being equal. Our 'AA-' ratings on KA Finanz's public sector covered bond program and related issuances reflect our RRL of 'a-', the JRL of 'aa-', and the coverage of foreign exchange risk at the JRL level.

Therefore, following our recent rating action on the issuer, KA Finanz, we have placed on CreditWatch positive our ratings on KA Finanz's public sector covered bonds.

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, we apply our structured finance ratings above the sovereign criteria (see "Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions," published on Aug. 8, 2016). Although the cover pool comprises assets from different jurisdictions, we do not assign any ratings uplift based on the collateral, therefore country risk does not constrain the ratings on the covered bonds.

Our 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+).

We intend to resolve these CreditWatch positive placements upon the resolution of the CreditWatch placement of our ICR on KA Finanz. We may raise the covered bond ratings by several notches if we raise the long-term ICR on the issuer by several notches and all else being equal.

POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

Our ratings are based on our applicable criteria, including our "Covered Bonds Criteria," published on Dec. 9, 2014. However, the resolution regime analysis section of these criteria is under review (see "Request For Comment: Methodology For Incorporating The Effect Of Resolution Regimes Into Covered Bond Ratings," and "Request for Comment: Methodology For Assigning Financial Institution Resolution Counterparty Ratings," both published on Jan. 31, 2017).

As a result of this review, our future criteria applicable to the covered bonds may differ from our current criteria. This change may affect the ratings on the outstanding covered bonds issued under this covered bond program. Until this time, we will continue to rate and surveil these covered bonds using our existing criteria (see "Related Criteria").

RELATED CRITERIA

- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
- Criteria - Structured Finance - Covered Bonds: Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015
- Criteria - Structured Finance - Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria - Structured Finance - Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Criteria - Structured Finance - Covered Bonds: Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

RELATED RESEARCH

- Austria-Based KA Finanz 'A-/A-2' Ratings Put On Watch Positive On Expected Strengthening Of Government Support, April 27, 2017
- Global Covered Bond Characteristics And Rating Summary Q1 2017, April 20, 2017
- Request For Comment: Methodology For Incorporating The Effect Of Resolution Regimes Into Covered Bond Ratings, Jan. 31, 2017
- Request for Comment: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, Jan. 31, 2017
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Aug. 15, 2016
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, July 20, 2016

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