

Kommunalkredit Austria AG Public Sector Covered Bonds Ratings Raised To 'A+'; Outlook Stable

March 4, 2021

Overview

- On Feb. 24, 2021, we assigned 'BBB-/A-3' ratings to Kommunalkredit Austria AG.
- As a result, following the application of our criteria, we have raised to 'A+' our ratings on Kommunalkredit Austria AG's public sector covered bond program and related issuances.
- Our outlook on the ratings on the covered bonds is stable, reflecting the stable outlook on Kommunalkredit Austria AG's issuer credit rating.

PRIMARY CREDIT ANALYST

Natalie Swiderek
Madrid
+ 34 91 788 7223
natalie.swiderek
@spglobal.com

MADRID (S&P Global Ratings) March 4, 2021--S&P Global Ratings today raised its ratings to 'A+' on Kommunalkredit Austria AG's public sector covered bond program and related issuances.

Today's upgrade follows the Feb. 24, 2021, assignment of 'BBB-/A-3' long- and short-term issuer credit ratings to Kommunalkredit Austria AG (see "Kommunalkredit Austria AG Assigned 'BBB-/A-3' Ratings; Outlook Stable," published Feb. 24, 2021).

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and our "Covered Bonds Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

Under our resolution regime analysis, we determined a reference rating level (RRL) of 'bbb+'. This is based on the fact that (i) Kommunalkredit Austria is domiciled in Austria, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD) and (ii) our very strong assessment of the systemic importance of public sector bonds in Austria (see "Assessments For Jurisdictional Support According To Our Covered Bonds Criteria," published on Nov. 27, 2020). These factors increase the likelihood that Kommunalkredit Austria would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of its senior unsecured obligations.

Our jurisdictional support analysis determined the jurisdiction-supported rating level (JRL) of the covered bonds as 'a+'. We considered the likelihood for the provision of jurisdictional support of Austrian public sector bonds, which we assess as very strong, resulting in three notches of assigned jurisdictional support uplift from the RRL.

The overcollateralization needed for the 'A+' rating is 2%. It is the minimum required credit enhancement to achieve the current 'A+' rating, on the sole basis of the JRL. We have not assigned any notches of collateral-based uplift above the JRL, because the available credit enhancement is below the level that we would consider to be commensurate with the first notch of

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collateral-based uplift.

In addition, counterparty risk constrains the rating on the covered bond program at 'A+'. There are three interest rate derivatives registered in the cover pool. The replacement framework is not aligned with our counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019), and the swap termination costs are not subordinated (swap termination costs rank pari passu with the covered bonds under the law).

The ratings on the program and related issuances are not constrained by legal, operational, or sovereign risks.

The outlook on our 'A+' ratings on the covered bonds is stable and reflects the stable outlook on Kommunalkredit Austria AG's ICR.

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- 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 | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Kommunalkredit Austria AG Assigned 'BBB-/A-3' Ratings; Outlook Stable, Feb. 24, 2021
- Transaction Update: Kommunalkredit Austria AG (Public Sector Covered Bonds), Jan. 21, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021

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- Global Covered Bond Insights Q4 2020, Dec. 17, 2020
- Global Covered Bond Characteristics And Rating Summary Q4 2020, Dec. 17, 2020
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Nov. 27, 2020
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Nov. 27, 2020
- Global Outlook Report Says Policy Intervention Will Reshape The Role Of Covered Bonds In 2021, Nov. 25, 2020
- ESG Industry Report Card: Covered Bonds, Nov. 9, 2020
- Institutional Framework Assessment: Austrian States, Oct. 13, 2020
- Covered Bond Monitor: Technical Note, Sept. 6, 2019
- Glossary Of Covered Bond Terms, April 27, 2018

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