

Kommunalkredit Austria AG Public Sector Covered Bonds Ratings Raised To 'AA-'; Outlook Stable

March 13, 2025

Overview

- We have raised our ratings on Kommunalkredit Austria (KA) AG's public sector covered bond program and all related issuances to 'AA-' from 'A+'.
- The upgrade follows a decrease in the cover pool's exposure to swaps without an S&P Global Ratings replacement framework.
- Our outlook on the covered bond ratings is stable, reflecting the stable outlook on Kommunalkredit Austria AG's issuer credit rating.

FRANKFURT (S&P Global Ratings) March 13, 2025--S&P Global Ratings today raised its ratings to 'AA-' from 'A+' on Kommunalkredit Austria AG's public sector covered bond program and all related issuances.

One or more of the credit ratings referenced with this article was assigned by deviating from S&P Global Ratings' published Criteria, "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019.

We raised our ratings on Kommunalkredit Austria AG's (KA) covered bond program and all related issuances as the exposure to swap counterparties without an S&P Global Ratings' replacement framework has decreased and is expected to continue to decrease going forward. Since the exposure remains above our criteria materiality threshold, we have applied a criteria exception to our counterparty criteria.

Our counterparty criteria state that when a program includes interest rate swaps, where the replacement framework is not in line with our counterparty criteria, and the swap termination costs are not subordinated, we typically link the covered bonds rating to a combination of the issuer's reference rating level and the counterparty rating.

We previously capped our rating on KA's public sector covered bond program at 'A+', because an interest rate swap, which exceeded our 5% materiality threshold, did not meet minimum standards in our counterparty criteria.

The criteria exception considers that after a recent covered bond issuance out of the program, the share of this swap has since decreased to 6.4% of the outstanding covered bonds.

Our criteria exception considers:

- the share of this swap is close to our materiality threshold, and we expect it to further diminish

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with future issuances out of the program;

- the remaining derivative agreement is fairly short;
- our rating on the swap counterparty is relatively high; and
- based on swap documentation we do not expect an early termination of the derivative agreement.

Considering the above factors, we have removed the cap on the program rating. We continue to exclude the swap from any benefit when we calculate overcollateralization commensurate with the collateral based uplift.

Following the above criteria exception, our counterparty criteria no longer cap our ratings on KA's covered bonds. We therefore raised our rating to 'AA-' from 'A+'. Our 'AA-' ratings on KA's covered bonds reflect our reference rating level of 'a-' and the jurisdictional-supported rating level of 'aa-'. The available overcollateralization of 13.16% (as of Dec. 31, 2024) is below the level that we deem commensurate with any notches of collateral based uplift.

Legal, operational, and sovereign risks do not constrain the rating on the covered bonds.

The program rating does not benefit from any unused notches of uplift and the stable outlook on the covered bonds reflects the stable outlook on the issuer credit rating on KA.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

- Global Covered Bond Insights Q1 2025: Overall a Healthy Year, Dec. 18, 2024
- Covered Bonds Outlook 2025: Lower Rates, Higher Uncertainty, Dec. 6, 2024

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- S&P Global Ratings Definitions, Dec. 2, 2024
- Kommunalkredit Austria AG, April 22, 2024
- Glossary Of Covered Bond Terms, April 27, 2018

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