Rating Report
Kommunalkredit Austria AG

DBRS Morningstar
24 October 2022

Contents

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Ratings

Debt	Rating	Rating Action	Trend
Long-Term Issuer Rating	BBB	Confirmed Oct. '22	Stable
Short-Term Issuer Rating	R-2 (high)	Confirmed Oct. '22	Stable
Intrinsic Assessment	BBB	Maintained Oct. '22	--

Rating Drivers

Factors with Positive Rating Implications

- Longer-term sustainable improvement in recurring profitability while maintaining solid asset quality, liquidity and capital ratios would lead to a rating upgrade.
- A well-executed expansion of the Bank's franchise supporting earnings diversification would also support positive rating momentum.

Factors with Negative Rating Implications

- A marked deterioration in asset quality, especially in relation to larger exposures, resulting in a weakening of capital ratios would lead to a downgrade.
- Evidence of the Bank facing significant challenges in syndicating risk or weakness in executing its ambitious growth plans would also lead to a downgrade.

Rating Considerations

Franchise Strength (Weak)

- "Originate and collaborate" model for infrastructure and energy (I&E) finance assets, based on sourcing, underwriting and syndicating I&E finance assets. The Bank is also a lender in the public finance space. KA is growing fee businesses closely related to its core franchise such as asset management, advisory, and development equity.

Earnings Power (Good)

- Profitability continues to improve as the proportion of higher margin business rises. Revenues have grown despite the global economic downturn. The Bank has been increasingly able to capitalise on market opportunities, supporting the bottom line.

Risk Profile (Strong / Good)

- The Bank's main risk stems from credit and syndication risks related to the infrastructure and energy lending, including concentration risk. Asset quality continues to be strong with zero impaired loans. Given the Bank's growth plans, execution risk exists.

Funding and Liquidity (Strong / Good)

- KA has a robust liquidity profile, including a significant deposit base, supporting the diversified funding base consisting of covered bonds, senior and subordinated debt issues, AT1 capital and central bank funding.

Capitalisation (Strong / Good)

- Capital ratios remain well above regulatory minimum levels despite the increase in RWAs and the recent decline in capital ratios. The Bank is expected to increasingly retain earnings and raise external capital in order to support growth.

2022H1	Scorecard Building Block (BB) Assessment	Grids BB Assessment	Combined BB Assessment
Franchise	W/VW	M/W	W
Earnings	S/G	M	G
Risk	VS/S	M	S/G
Funding & Liquidity	S	G/M	S/G
Capitalisation	VS/S	M	S/G

Overall Assessment	Intrinsic Assessment Range (IAR)	Assigned IA
G/M	[BBBH-A]	BBB

Financial Information

			For the Year Ended December 31 (IFRS)				
(In EUR Millions unless otherwise stated)	H1 2022	H1 2021	2021	2020	2019	2018	2017
Total Assets	4,534	4,826	4,428	4,423	4,305	3,942	3,663
Gross Loans to Customers	1,908	1,837	1,314	1,206	1,140	1,334	1,642
Income Before Provisions and Taxes (IBPT)	52	26	64	46	33	36	10
Net Attributable Income	39	19	49	36	30	14	18
Net Interest Margin	3.1%	2.1%	2.3%	2.3%	1.9%	1.6%	1.1%
Cost / Income ratio	41.0%	53.1%	51.9%	56.9%	62.7%	60.8%	85.9%
LLP / IBPT	-0.9%	-0.4%	0.2%	0.3%	7.6%	1.9%	3.1%
Cost of Risk	-0.06%	-0.01%	0.01%	0.01%	0.17%	0.04%	0.02%
CET1 Ratio	14.70%	18.01%	17.30%	20.30%	18.70%	19.90%	23.50%

Source: Morningstar Inc., Company Documents

Issuer Description

Kommunalkredit Austria AG (KA or the Bank) was demerged on 26 September 2015 as part of the partial sale process of the former Kommunalkredit which was formed in 2009. KA focuses on infrastructure and energy finance across Europe in sectors such as energy & environment, social infrastructure, transport, natural resources, communication & digitalisation. The Bank also benefits from earnings from its public sector business portfolio.

Rating Rationale

The BBB IA reflects KA's franchise in Infrastructure and Energy (I&E), utility and corporate finance as well as a solid business in public finance. KA operates the I&E business as an "originate and collaborate" model, whereby the Bank originates assets, which are then retained on balance sheet, syndicated to institutional investors or channelled to KA's infrastructure fund. The IA also takes into consideration that management has consistently executed targets laid out in its strategic initiatives and that profitability has improved. The Bank continues to have zero non-performing loans reflecting the high quality of the public sector portfolio, and the well managed risk of the private sector lending book. DBRS Morningstar generally considers infrastructure assets as more resilient during times of crisis, but we will continue to monitor credit performance closely given the lumpy nature of some of the I&E lending before syndication, the increasing weight of I&E assets in KA's overall portfolio, and the deteriorating economic environment. Funding sources are well diversified between a solid deposit base and various wholesale market instruments, while liquidity and capital ratios remain robust. We expect the Bank to strengthen its capital base in order to facilitate further growth plans.

The Stable trend takes into consideration DBRS Morningstar's view that the deteriorating economic outlook should not be detrimental to the Bank's revenues. New business volumes were strong in 2021 and in H1 2022, and are expected to support revenues going forward. Demand for ESG assets and the need to replace Russian energy supplies should also be supportive of the I&E market.

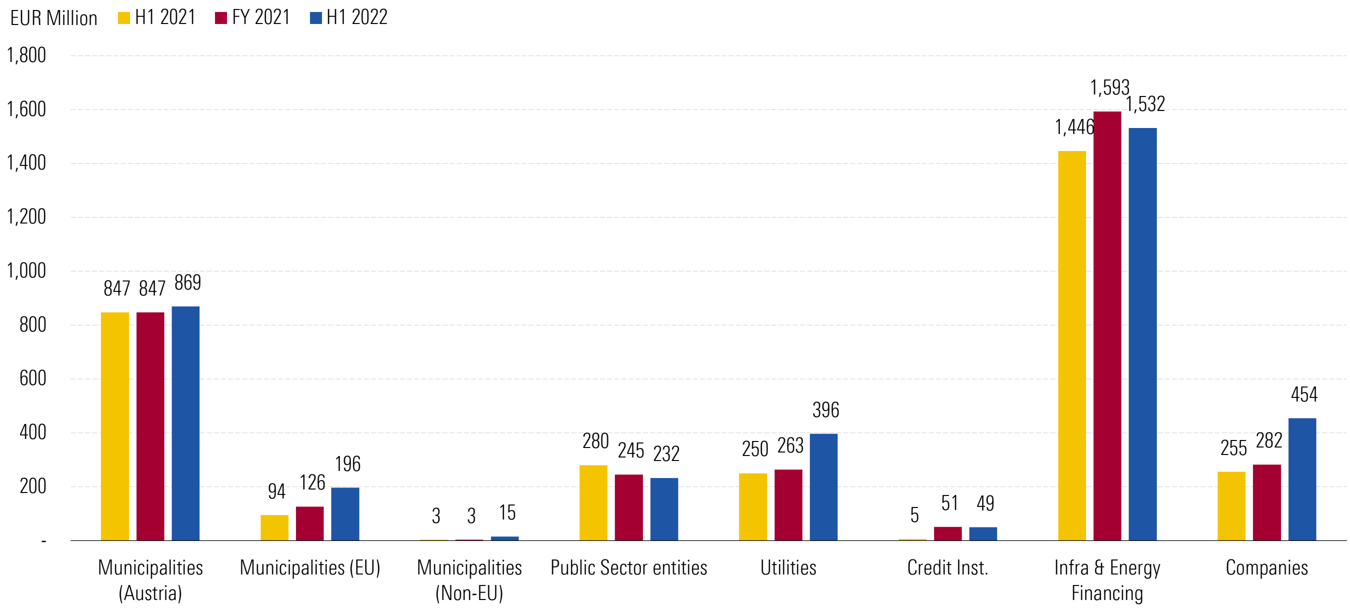
The current IA is positioned below the DBRS Morningstar Intrinsic Assessment range (IAR). The IAR incorporates the strong 2021 and H1 2022 results, which have been partly affected by a number of factors that may not be recurring, such as gains from debt repurchases and valuation gains as a result of the increase in interest rates. Also, KA is a small, specialised Bank with a relatively short operating track record with limited revenue diversification, and these factors are not fully reflected in the Scorecard and Grids. In order to take advantage of the current market opportunities, the Bank plans further growth, which is likely to lead to more diversified earnings streams and reduced balance sheet risk in the future, but entail some execution risk in the interim. We will be monitoring the progress made, especially with regards to the Bank's recurring revenue growth and the strengthening of the Bank's capital base.

Franchise Strength

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Weak / Very Weak	Moderate / Weak	Weak

KA is indirectly owned by management firms Interritus Limited (54.89%) and Trinity Investments DAC (44.91%), with the remainder (0.20%) being held by the Austrian Association of Municipalities. The Bank was established in September 2015 with total assets of EUR 4.5 billion under Austrian UGB (local GAAP). KA's expertise is centred around infrastructure and energy finance, especially in the energy & environment, social infrastructure, transport, natural resources, and communication & digitalisation sectors. In addition to net interest income from assets held on balance sheet, the Bank derives fee income from its subsidiary KPC and from loan syndication, gradually supplemented by ancillary business such as a growing asset management platform, advisory, development equity and other. KA also has a presence in public finance, which remains a key part of the Bank's business. The portfolio is of high quality, comprising mainly municipal and public sector related exposures. In H1 2022, the I&E business contributed 80% to gross income (H1 2021: 70%).

Exhibit 1 Loan Portfolio*, H1 2021



Source: Company Documents. *Including loan commitments.

The Bank has established an "originate and collaborate" model for I&E finance assets, whereby the Bank underwrites I&E assets that are held on balance sheet, syndicated or placed with its infrastructure investment platform Fidelio. The Bank places strong emphasis on its distribution capabilities and works closely with project sponsors and institutional investors in order to structure longer term investments. Generally, KA is targeting projects that offer lower duration and higher margins, which will enable the Bank to better benefit from originate to collaborate fee business at the same time as containing maturity risk. The Bank has established itself among the top 20 originators in the European I&E finance market. On the one hand, its relatively small size allows the Bank to remain nimble and less dependent on movements in the overall market. On the other hand, DBRS Morningstar also notes certain challenges from its small size and the high concentration in only two main business lines, as well as the Bank's relatively short operating track record.

In 2018 KA announced a growth strategy "50 | 50 | 10", which laid out its 2022 financial targets, including an operating result of EUR 50 million, reducing the cost-to-income ratio to 50% and generating a return on equity of 10%. These targets are all set under local GAAP, and KA exceeded these targets at year-end 2021.

As part of its medium-term strategy, the Bank aims to grow its capital base in order to capture a larger share of the market. Higher capital levels will also allow KA to gradually raise its large lending limit which currently stands at EUR 90 million. Both measures are designed to help KA capture economies of scale, increase its negotiation power and allow for higher syndication volumes, while at the same time furthering accelerating the growth of its Fidelio fund platform. In addition to its asset management platform, KA plans to expand in ESG advisory, M&A advisory and structured export finance, mainly within the perimeter of its existing clients and expertise. As a result, we expect the contribution of fee income to gradually increase over time. In terms of financial ambitions KA targets a medium-term ROE in excess of 10% and a CET1 ratio of ca. 15%.

DBRS Morningstar understands that the market for European Infrastructure & Energy assets continues to be strong. Various government programmes across Europe promoting digital and social infrastructure as well as clean energy and an increasing interest by investors in ESG assets is supportive of KA's franchise and is reflected in the composition of KA's newly originated business. The need for European countries to replace Russian energy supplies offers additional opportunities.

Kommunalkredit Public Consulting (KPC), KA's most important subsidiary (90% ownership) is a consulting company which manages national and EU subsidy programmes to promote environmental protection, water management and energy projects, as well as offering consultancy services. KPC contributed EUR 17.7 million to 2021 fee revenues.

In September 2018, KA launched its first infrastructure debt fund 'Fidelio' which grew to EUR 354 million and currently has a duration of 10 years. KA is in the process of launching an additional fund with more funds planned in the future. The funds help KA reduce its syndication risk, increase underwriting capacity and transaction size, and generate additional income streams without taking on credit risk or using the Bank's balance sheet. In 2021, KA established Florestan KA GmbH with the purpose of equity investments in the I&E sector. Via Florestan KA is a co-investor (50%) in Austria's largest electrolysis plant along with OMV. Florestan also holds a 40% stake in Peaksun (with the Upper Austrian energy provider eww owning the remaining stake), a company specialising in the assembly of rooftop photovoltaic systems. DBRS Morningstar expects the equity investments to pave the way for equity funds and that direct exposure as a proportion on KA's balance sheet will remain modest.

Earnings Power

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Strong / Good	Moderate	Good

DBRS Morningstar views KA's earnings power as solid. 2021 and H1 2022 results were strong , but partly driven by individual situations such as gains from debt repurchases and gains on a small number of transactions. DBRS Morningstar notes that KA has consistently grown revenues since 2017 while maintaining strict cost discipline. We expect KA's positive revenue momentum to continue to benefit from factors such as balance sheet growth, margin improvement, increasing underwriting volumes, one-off restructuring opportunities as well as new business initiatives especially in advisory, structured export finance and development equity. At the same time we expect management to keep its focus on costs in order to achieve its medium-term ROE target in excess of 10%. We do not view the current business climate and the war in Ukraine as detrimental to KA's business.

The Bank reported a 2021 net profit[1] of EUR 48.9 million, up 34.1% YoY, mostly driven by a EUR 14.9 million gain from debt repurchases, resulting in an ROE of 14.2%, up from 11.6% in 2020. The lending portfolio grew by 7.2% YoY, however, net interest income (NII) growth of 2.3% was more moderate due to a high level of refinancing activity during 2021 and most of the balance sheet growth occurring towards the end of the year. Fee income increased by 3.2% YoY to EUR 29.4 million, with KPC's contribution increasing from EUR 15.6 million in 2020 to EUR 17.7 million in 2021, while the Bank reported somewhat lower fee income of EUR 11.7 million from EUR 12.9 million in 2022, driven by a decline in lending fees by EUR 3.6 million. Despite new I&E loan origination growth of 67% YoY to EUR 1.9 billion driven by the Energy & Environment and Digitalisation sectors, lending fees were more moderate, as fees accrue over time. Also, a significant part of the originated loans have been kept on balance sheet or directed towards Fidelio. Operating expenses increased by 12.9% YoY to EUR 68.8 million driven by higher performance

[1] The earnings section is based on the IFRS results of the Bank.

compensation, investments in growth areas, as well as higher regulatory expenses. The adjusted cost/income ratio (CIR) as calculated by DBRS Morningstar was 54.2%.

In H1 2022 KA reported a net profit of EUR 39.1 million, up from EUR 18.6 million in H1 2021, driven mostly by an increase in net interest income and a restructuring gain and supported by fee income growth. The ROE was 22.3%. Net interest income increased to EUR 53.8 million from EUR 36.4 million a year earlier as the credit portfolio increased by 16% YoY to EUR 3.7 billion at end-H1 2022 and KA acquired loans at a steep discount. In addition, a EUR 8.7 million restructuring gain from another transaction supported the bottom line. Finally, the net results of asset valuation and realised gains and losses line increased by EUR 7.9 million YoY due to the increase in long-term rates. Fee income increased by 9% YoY to EUR 12.2 million. Operating expenses increased by 22% to EUR 35.8 million due to the reasons mentioned above, resulting in positive operating leverage and a CIR of 47.5%. Given a 22% YoY increase in I&E loan origination to H1 2022 to EUR 752 million we expect further support for NII and fee income going forward.

Exhibit 2 Core Revenues Evolution

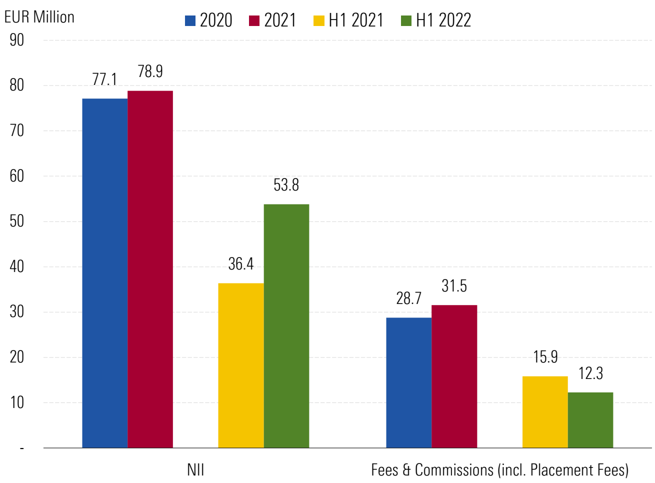
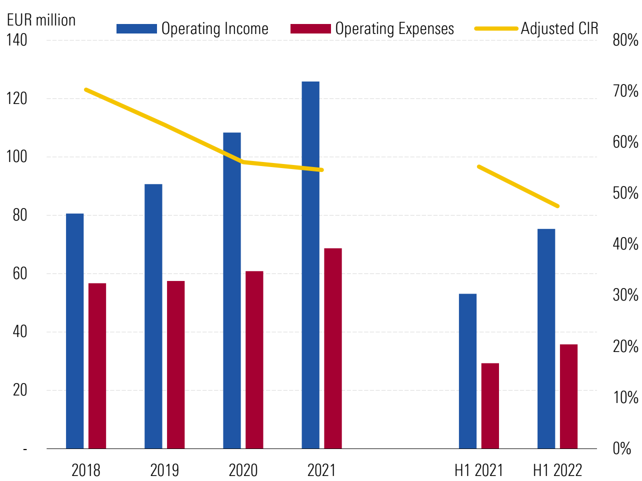


Exhibit 3 KA's Performance



Source: DBRS Morningstar, Company Documents.

Risk Profile

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Very Strong / Strong	Moderate	Strong / Good

KA's asset quality remained strong with zero impaired loans as of H1 2022, reflecting the high quality of KA's public sector portfolio and the strong asset quality metrics of the private sector portfolio (I&E lending, utilities and corporates), supported by the general resilience of infrastructure assets, prudent underwriting, and proactive risk management. The private sector loan portfolio accounted for 65% of the total EUR 3.7 billion loan portfolio from 45% at end-2018. In DBRS Morningstar's view the high credit concentrations in the private sector lending portfolio along with syndication risk represent the main risks for KA, although the latter is partly mitigated by the Bank's growing asset management platform Fidelio, which has absorbed an increasing part of assets originated. DBRS Morningstar notes that the management team has been growing, but still sees key man risk as a challenge for the Bank. We also note that KA has ambitious growth plans for the future, which are likely to lead to more diversified earnings streams and reduced balance sheet risk, but entail execution and operational risks in the interim.

Exhibit 4 Risk Exposure by Region, June 2022

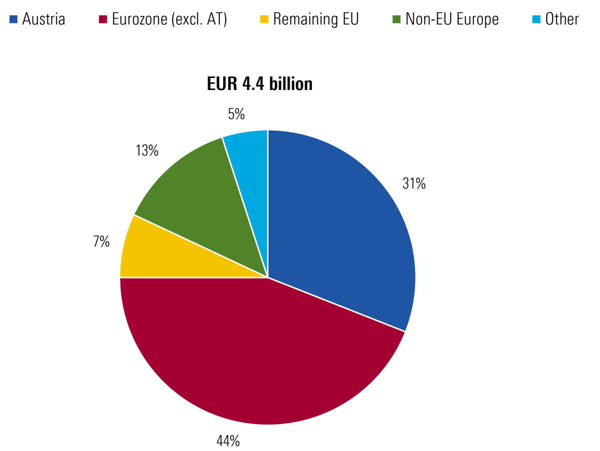
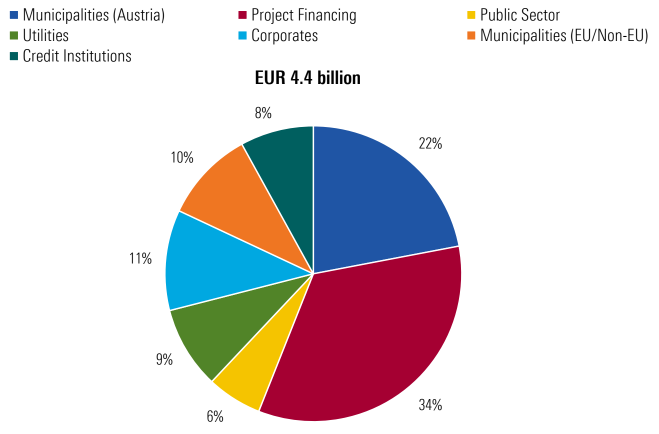


Exhibit 5 Risk Exposure by Type of Borrower, June 2022



Source: Company Documents.

In order to manage the syndication of risk in a conservative manner and to ensure it is appropriately positioned at times of market stress, origination and placement teams work closely together. New business deals are required to have syndication targets in terms of volume and time (typically below 90 days). KA's syndication partners include large global insurers & asset managers, medium to large European insurers and pension funds, and larger international banks. In 2021 the Bank generated EUR 1.89 billion in new I&E business volume, and syndicated EUR 711 million (or 38%), while in H1 2022 KA originated new I&E business volume of EUR 752 million with EUR 260 million syndicated at end-June (or 35%). One reason for the decline in syndication rates is that a higher proportion of assets are directed towards KA's debt fund Fidelio.

As described earlier, the asset management platform Fidelio allows KA to reduce syndication risk and diversify earnings streams. While early stage negotiations also take place with third parties, Fidelio provides the Bank with greater visibility and faster execution. Currently, asset management fees do not make a significant contribution to KA's revenues. However, we expect fees to gradually increase, as KA is currently working on its second fund Fidelio II, and is planning further funds.

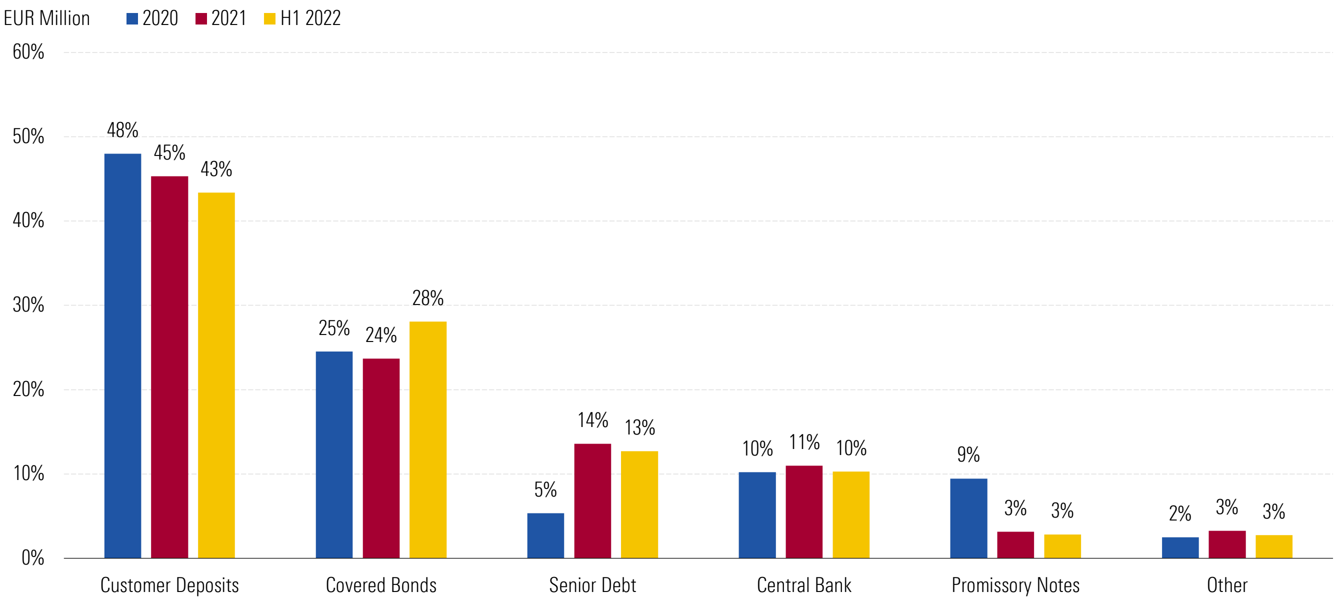
In 2021, KA established Florestan KA GmbH with the purpose of equity investments in the I&E sector. Florestan is a co-investor in Austria's largest electrolysis plant and owns a 40% stake in Peaksun (with the Upper Austrian energy provider eww owning the remaining stake), a company specialising in the assembly of rooftop photovoltaic systems. We note that equity investing poses significantly higher risk and contribute to an increase in risk weighted assets. It is our understanding that the equity investments pave the way for equity funds and that direct exposure as a proportion on KA's balance sheet will remain modest. We also expect that growing business areas such as advisory or structured credit finance will increase and diversify earnings streams without KA taking on much additional balance sheet risk.

Funding and Liquidity

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Strong	Good /Moderate	Strong / Good

In DBRS Morningstar's view KA has an increasingly diversified funding profile comprising a significant deposit base, covered bonds, unsecured debt, AT1 capital and central bank funding. Public sector covered bonds remain a significant funding source for KA, funding the public finance portfolio. The Bank also participated in TLTRO III, which was EUR 412 million at end-June 2022. Customer deposits continue to represent a significant part (43%) of the Bank's total funding, and funded 73% of private sector loans (I&E projects, utilities and corporates) in H1 2022. DBRS Morningstar notes that the bulk of these are term deposits. KA has a robust liquidity profile with a liquidity position of EUR 773 million at end-H1 2022, including EUR 128 million of high quality liquid assets (HQLA), and EUR 644 million of cash, cash equivalents and balances with central banks, well in excess of total debt maturities till end 2023. At H1 2022, the Bank's Liquidity Coverage Ratio (LCR) was 276% and the Net Stable Funding Ratio (NSFR) was also solid at 120%.

Exhibit 6 Funding Mix Evolution



Source: Company Documents.

Covered bond funding has proven to be a very stable source of funding. In February 2022, the Bank was able to issue a EUR 250 million covered bond despite the uncertain economic environment at the outbreak of the war in Ukraine. This issuance was subsequently increased in March and June, reaching a nominal EUR 400 million. The Bank also privately placed EUR 62.5 million of senior preferred debt in H2 2021 and H1 2022 combined.

The deposit base reflects KA's ability to raise deposits through Kommunalkredit Invest (an online retail platform) and Kommunalkredit Direkt, the Bank's deposit platform for local authorities and public-sector-related enterprises where KA raises online deposits from municipalities, and from small and medium sized corporates. Customer deposits decreased by 4.6% YoY to EUR 1,736 million in H1 2022, driven by both a decrease in retail and wholesale deposits, with the latter being the most affected. However, when compared to end-2021, customer deposits increased by 2.1% in H1 2022.

Individual capital market instruments represent a large proportion of the Bank's funding. Thus, at the time an instrument is maturing or issued, the total level of liquidity and composition can fluctuate significantly. However, we note KA's prudent approach of carrying an ample liquidity cushion. As a result, over a five-year period the LCR has fluctuated at a high level in the range of ca 250% to 750%.

Capitalisation

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Very Strong / Strong	Moderate	Strong / Good

At the Bank level, KA reported a CET1 ratio[2] of 14.7% at end-H1 2022, down from 17.3% at year-end and 20.3% at end-2020 due to a significant increase in risk-weighted assets (RWA) to EUR 2.4 billion at end-H1 2022 from EUR 2.0 billion at end-2021 and EUR 1.7 billion at end-2020 and lower earnings retention in 2021, while H1 2022 retained earnings are not yet reflected in capital. DBRS Morningstar notes that KA's capital ratios can fluctuate due to its origination and syndication activities. KA also reported a Tier 1 capital ratio of 17.3%, a total capital ratio of 19.2% and a leverage ratio of 8.1% at end-H1 2022. All ratios are well above regulatory minimum requirements. KA is targeting to maintain a Tier 1 ratio exceeding 15% over the long-term and a CET 1 ratio of ~15%. In DBRS Morningstar's view, maintaining solid capital ratios will be important to balance the credit risk concentrations and syndication risk as well as the relative illiquidity of the financed assets.

Exhibit 7 Capital Ratios at Bank Level

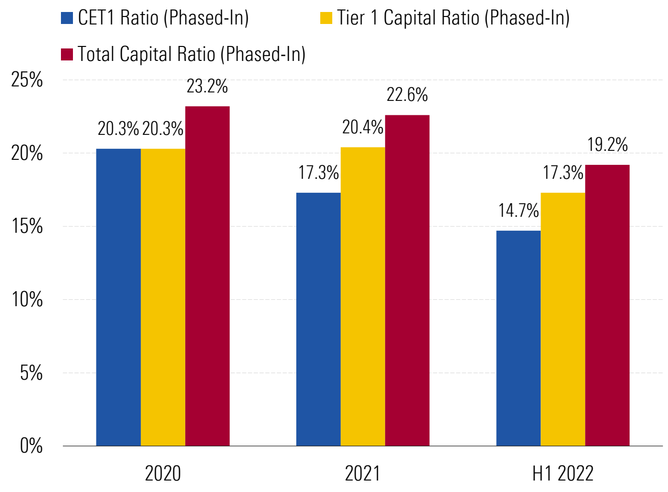
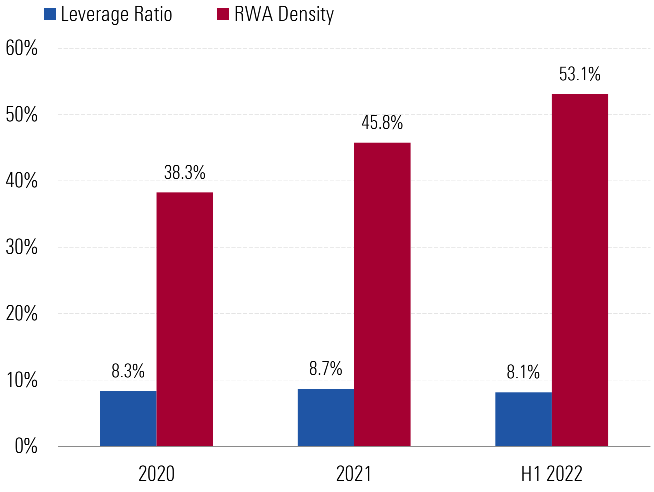


Exhibit 8 Leverage Ratio and RWA density



Source: Company Documents.

RWA density continued to rise as the proportion of new business with higher risk weights increased, and in H1 2022 RWAs to total IFRS balance sheet assets increased to 53.1% from 39.1% in H1 2021. The increase in RWA density as well as balance sheet growth have led to a decline in capital ratios. With regulatory minimum capital ratios of 8.9% for CET1, 11.1% for Tier 1 and 13.9% for total capital, the Bank still carries healthy capital cushions, but capital is a constraining factor for growth.

[2] Kommunalkredit's capital ratios are based on the non-consolidated financial statements of Kommunalkredit pursuant to Austrian GAAP. Kommunalkredit is part of a Bank of credit institutions whose ultimate parent is Satere Beteiligungsverwaltungs GmbH (Satere). As of end-2021, the consolidated CET 1 ratio was 17.0% and the consolidated total capital ratio was 20.4%.

DBRS Morningstar views the Bank's internal capital generation ability as improving, but notes that only EUR 9 million of the EUR 49 million net attributable income was retained, while in 2020 the entire EUR 36.4 million profit was retained. Given the business opportunities, we expect a higher earnings retention going forward. In addition, EUR 86 million in capital has been authorised and could be made available if needed subject to approval by the Bank's Supervisory Board. DBRS Morningstar views KA's owners as supportive, however, access to capital markets, of which the AT1 issuance in H1 2021 represented an important step, would further improve the Bank's capital flexibility.

Kommunalkredit Austria AG

ESG Checklist

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis:	Y/N	Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental	**Overall:**	**N**	**N**
Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuer's financial, operational, and/or reputational standing?	N	N
Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long-term credit profile?	N	N
Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N
	In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2°C rise in temperature?	N	N
Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N
Social	**Overall:**	**N**	**N**
Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer?	N	N
Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or operational impact?	N	N
	Do violations of rights create a potential liability that could negatively affect the issuer's financial wellbeing or reputation?	N	N
	Human Capital and Human Rights:	N	N
Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N
Data Privacy and Security	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	N	N
Community Relations	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N
Access to Basic Services	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	N	N
Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N
Governance	**Overall:**	**N**	**N**
Bribery, Corruption, and Political Risks	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N
	Are there any political risks that could impact the issuer's financial position or its reputation?	N	N
	Bribery, Corruption, and Political Risks:	N	N
Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N
Corporate / Transaction Governance	Does the issuer's corporate structure limit appropriate board and audit independence?	N	N
	Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	N	N
	Does the board and/or management have a formal framework to assess climate-related financial risks to the issuer?	N	N
	Corporate / Transaction Governance:	N	N
Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	N	N
	Consolidated ESG Criteria Output:	**N**	**N**

* A **Relevant Effect** means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A **Significant Effect** means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Environmental

This factor does not affect the rating or trend assigned to KA. The Bank incorporates UN principles in its deal selection process and has been gradually refining its ESG commitments. Physical and transition risks in KA's portfolio are limited given the Bank's business focus with a strong emphasis on green energy, social infrastructure and digitalisation as well as the relatively short maturities of its assets.

Social

This factor does not affect the rating or trend assigned to KA. Through its Social Infrastructure portfolio, the Bank has financed nursing and medical facilities, universities, schools and administrative buildings. In 2017 the Bank was the first Austrian issuer of a social covered bond. The Bank has not reported any violation of privacy and personal data to date. However, since the invasion of Ukraine, there is a heightened risk of cyber-attacks targeted towards banks, and any significant data breach or cybersecurity attack could have significant reputational and financial consequences.

Governance

This factor does not affect the rating or trend assigned to KA. The Bank aims for in excess of 30% of its managers to be female by 2025. The Executive Committee is KA's central management body and comprises 8 members. The Bank is fully privately owned and its Supervisory Board is comprised of 7 members as of end-2021, of which two are independent, in accordance with Austrian law for capital market oriented institutions. However, in our view there is some key man risk.

Kommunalkredit Austria AG

2022H1	1 Scorecard Indicator	1 Scorecard Indicator Data	2 Scorecard Indicator Assessment	3 Scorecard Building Block (BB) Assessment	4 Grids BB Assessment	5 Combined BB Assessment
Franchise	Adjusted Assets	5	W/VW	W/VW	M/W	W
	Sovereign Rating	20	VS			
Earnings	Return on Equity	13.64%	S	S/G	M	G
	Return on Assets	1.25%	S			
	IBPT/Avg.Assets	1.66%	S/G			
Risk	Net NPLs/Net Loans	-0.28%	VS/S	VS/S	M	S/G
	Provisions/IBPT	-1.38%	VS			
Funding & Liquidity	Sovereign-Adjusted Funding Ratio	80.9%	S	S	G/M	S/G
Capitalisation	Sovereign-Adjusted Capital Ratio	17.06%	VS/S	VS/S	M	S/G
	NPL/(Equity + Loan Loss Reserves)	0.00%	VS			
	5-Year Accumulated Net Income/Total Assets	4.79%	VS			

6 Overall Assessment	7 Intrinsic Assessment Range (IAR)			8 Assigned IA
G/M	A	A (low)	BBB (high)	BBB

Notes: (1) based on financial data as of H1 2022. (2) For more information see Global Methodology for Rating Banks and Banking Organisations published on 23 June 2022.

Annual Financial Information

	H1 2022	H1 2021	For the Year Ended December 31 (IFRS) 2021	2020	2019	2018	2017
Balance Sheet (EUR Millions)							
Cash & Cash Equivalents*	993	1,429	601	869	485	342	371
Investments in Financial Assets	1,588	1,528	1,286	1,199	1,221	954	1,403
Gross Loans to Customers	1,908	1,837	1,314	1,206	1,140	1,334	1,642
Loan Loss Reserves	4	4	4	4	4	2	0
Net Lending to Customers	1,904	1,833	1,309	1,201	1,136	1,332	1,641
Total Assets	4,534	4,826	4,428	4,423	4,305	3,942	3,663
Deposits from Customers	1,865	2,142	1,861	2,116	1,872	1,456	1,038
Debt & Capital Lease Obligations	1,519	1,459	1,432	1,168	1,343	1,465	1,538
Total Liabilities	4,101	4,395	3,990	4,064	3,962	3,647	3,380
Total Equity	433	432	438	359	343	295	283
Income Statement (EUR Millions)							
Net Interest Income	54	36	79	77	59	49	36
Non Interest Income	34	19	55	30	29	43	32
Equity Method Results	NA	NA	NA	-	NA	NA	NA
Total Operating Income	87	55	134	107	87	93	68
Total Operating Expenses	36	29	70	61	55	56	59
Income Before Provisions and Taxes (IBPT)	52	26	64	46	33	36	10
Loan Loss Provisions	(0)	(0)	0	0	2	1	0
Irregular Income/Expenses	NA	NA	(3)	(2)	3	3	2
Net Attributable Income	39	19	49	36	30	14	18
Growth (%) - YoY Change							
Net Interest Income	47.87%	8.16%	2.17%	31.62%	19.04%	36.20%	-1.05%
Total Operating Income	58.35%	20.60%	25.04%	22.69%	-5.61%	35.58%	-30.96%
Total Operating Expenses	22.15%	3.26%	14.08%	11.30%	-2.55%	-4.08%	-7.02%
IBPT	99.40%	48.95%	39.68%	41.86%	-10.35%	277.03%	-73.11%
Net Attributable Income	109.85%	55.86%	34.26%	23.15%	106.75%	-20.71%	-63.17%
Gross Loans & Advances	4.12%	-1.73%	8.98%	5.80%	-14.57%	-18.75%	-30.83%
Deposits from Customers	-12.92%	-0.37%	-12.04%	13.01%	28.55%	40.31%	88.02%
Earnings (%)							
Net Interest Margin	3.06%	2.08%	2.32%	2.32%	1.88%	1.60%	1.08%
Non-Interest Income / Total Revenue	38.46%	34.10%	41.18%	28.01%	32.90%	46.79%	47.03%
Cost / Income ratio	40.99%	53.14%	51.92%	56.91%	62.73%	60.77%	85.89%
LLP / IBPT	-0.91%	-0.39%	0.25%	0.34%	7.59%	1.93%	3.12%
Return on Avg Assets (ROAA)	1.74%	0.81%	1.07%	0.82%	0.71%	0.37%	0.50%
Return on Avg Equity (ROAE)	17.96%	9.42%	11.92%	10.37%	9.20%	4.95%	6.30%
IBPT over Avg RWAs	4.65%	1.44%	3.47%	2.73%	2.10%	3.19%	1.15%
Internal Capital Generation	7.39%	7.71%	11.92%	10.37%	9.20%	0.96%	-4.89%
Risk Profile (%)							
Cost of Risk	-0.06%	-0.01%	0.01%	0.01%	0.17%	0.04%	0.02%
Gross NPLs over Gross Loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
NPL Coverage Ratio	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net NPLs over Net Loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
NPLs to Equity and Loan Loss Reserves Ratio	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Funding & Liquidity (%)							
Net Loan to Deposit Ratio	102.32%	85.57%	70.55%	56.91%	60.77%	91.51%	158.12%
Liquidity Coverage Ratio	276%	524%	735%	421%	766%	NA	NA
Net Stable Funding Ratio	120%	128%	122%	117%	112%	NA	NA
Capitalization (%)							
CET1 Ratio	14.70%	18.01%	17.30%	20.30%	18.70%	19.90%	23.50%
Tier1 Ratio	17.30%	19.74%	20.40%	20.30%	NA	NA	NA
Total Capital Ratio	19.20%	21.42%	22.60%	23.20%	21.90%	24.30%	29.90%
Leverage Ratio	8.11%	7.98%	8.65%	8.30%	NA	NA	NA
Dividend Payout Ratio	58.8%	18.2%	0.0%	0.0%	0.0%	80.5%	177.7%

Source: Morningstar Inc., Company Documents

*Includes Loans to Banks

Rating Methodology

The applicable methodologies are the *Global Methodology for Rating Banks and Banking Organisations* (23 June 2022), and *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* (17 May 2022) which can be found on our website under Methodologies.

Ratings

Issuer	Obligation	Rating Action	Rating	Trend
Kommunalkredit Austria AG	Long-Term Issuer Rating	Confirmed	BBB	Stable
Kommunalkredit Austria AG	Short-Term Issuer Rating	Confirmed	R-2 (high)	Stable
Kommunalkredit Austria AG	Long-Term Senior Debt	Confirmed	BBB	Stable
Kommunalkredit Austria AG	Short-Term Debt	Confirmed	R-2 (high)	Stable
Kommunalkredit Austria AG	Long-Term Deposits	Confirmed	BBB	Stable
Kommunalkredit Austria AG	Short-Term Deposits	Confirmed	R-2 (high)	Stable

Ratings History

Issuer	Obligation	Current	2021	2020
Kommunalkredit Austria AG	Long-Term Issuer Rating	BBB	BBB	BBB
Kommunalkredit Austria AG	Short-Term Issuer Rating	R-2 (high)	R-2 (high)	R-2 (high)
Kommunalkredit Austria AG	Long-Term Senior Debt	BBB	BBB	BBB
Kommunalkredit Austria AG	Short-Term Debt	R-2 (high)	R-2 (high)	R-2 (high)
Kommunalkredit Austria AG	Short-Term Deposits	BBB	BBB	BBB
Kommunalkredit Austria AG	Long-Term Deposits	R-2 (high)	R-2 (high)	R-2 (high)

Previous Actions

- DBRS Morningstar Confirms Kommunalkredit Austria AG at BBB, Stable Trend, 30 September 2022.
- DBRS Morningstar Confirms Kommunalkredit Austria AG at BBB, Stable Trend, 4 October 2021.
- DBRS Morningstar Upgrades Kommunalkredit Austria AG to BBB, Trend Stable, 2 October 2020.

Related Research

- Gender Diversity on European Bank Boards: More Work Still to be Done, September 20, 2022.
- European Banks' Cost of Risk Continues To Show No Major Signs of Deterioration in H1 2022, September 14, 2022.
- ECB Climate Risk Stress-Test: A Learning Exercise, July 18, 2022.
- ESG Factors for Banks, Part Three: Social Factors, April 11, 2022.
- EU Banks: ESG Red Flags - Heightened Operational Risks Due to Invasion of Ukraine, March 30, 2022.
- Climate Change: Regulatory Expectations for Financial Institutions in 2022, March 9, 2022.

Previous Reports

- Kommunalkredit Austria AG: Rating Report, 15 November 2021.
- Kommunalkredit Austria AG: Rating Report, 28 October 2020.
- Kommunalkredit Austria AG: Rating Report, 18 October 2019.

European Bank Ratios & Definitions

- Bank Ratio Definitions, 14 March 2022.

About DBRS Morningstar

DBRS Morningstar is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

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