# Rating Report
# Kommunalkredit Austria AG

**DBRS Morningstar**
15 November 2023

**Contents**


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## Ratings

| Debt | Rating | Rating Action | Trend |
|---|---|---|---|
| Long-Term Issuer Rating | BBB | Trend Changed September '23 | Positive |
| Short-Term Issuer Rating | R-2 (high) | Trend Changed September '23 | Positive |
| Intrinsic Assessment | BBB | Maintained | -- |

## Rating Drivers

**Factors with Positive Rating Implications**
- A ratings upgrade is contingent on a successful ownership change along with the planned capital increase.
- In addition, a further well-executed expansion of the franchise, together with continuous track record of sustainable profitability, solid asset quality, and sound liquidity and capital management is required for a ratings upgrade.

**Factors with Negative Rating Implications**
- Should the change in KA's ownership and the related capital increase not materialise, the trend would be changed back to Stable.
- A marked deterioration in asset quality, challenges in syndicating risk or other risks that could adversely affect the Bank's reputation or financial wellbeing could also result in a negative rating action.

## 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 regardless of the underlying economic performance. 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 minimal impaired loans. Given the Bank's growth plans and new ownership, execution risk exists.

**Funding and Liquidity (Good / Moderate)**
- 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.

| 2023H1 | Scorecard Building Block (BB) Assessment | Grids BB Assessment | Combined BB Assessment |
|---|---|---|---|
| Franchise | W/VW | M/W | W |
| Earnings | S | M | G |
| Risk | VS/S | M | S/G |
| Funding & Liquidity | G | M | G/M |
| Capitalisation | VS/S | M | S/G |

| Overall Assessment | Intrinsic Assessment Range (IAR) | Assigned IA |
|---|---|---|
| G/M | ['A', 'A (low)', 'BBB (high)'] | BBB |

## Financial Information

| | | | For the Year Ended December 31 (IFRS) | | | | |
|---|---|---|---|---|---|---|---|
| (In EUR Millions unless otherwise stated) | H1 2023 | H1 2022 | 2022 | 2021 | 2020 | 2019 | 2018 |
| Total Assets | 4,935 | 4,534 | 4,628 | 4,428 | 4,423 | 4,305 | 3,942 |
| Gross Loans to Customers | 3,218 | 3,073 | 2,750 | 2,350 | 2,450 | 2,365 | 2,118 |
| Income Before Provisions and Taxes (IBPT) | 56 | 52 | 101 | 64 | 46 | 33 | 36 |
| Net Attributable Income | 42 | 39 | 78 | 49 | 36 | 30 | 14 |
| Net Interest Margin | 3.6% | 2.7% | 3.0% | 1.9% | 1.9% | 1.5% | 1.4% |
| Cost / Income ratio | 44.9% | 41.0% | 44.8% | 51.9% | 56.9% | 62.7% | 60.8% |
| LLP / IBPT | 0.6% | -0.9% | 1.5% | 0.2% | 0.3% | 7.6% | 1.9% |
| Cost of Risk | 0.03% | -0.04% | 0.07% | 0.01% | 0.01% | 0.11% | 0.03% |
| CET1 Ratio | 14.33% | 14.41% | 15.85% | 16.99% | 20.02% | 18.70% | 19.90% |

Source: Morningstar Inc., Company Documents

Note: Figures as calculated by DBRS Morningstar may differ from reported ones.

## Issuer Description

Kommunalkredit Austria AG (KA or the Bank) focuses on infrastructure and energy finance mainly in Europe in sectors such as energy & environment, social infrastructure, transport, natural resources, communication & digitalisation. The Bank is also active in public sector finance.

## Rating Rationale

The trend change to Positive in September 2023 reflects KA's improving profitability while maintaining strong asset quality metrics, high liquidity buffers and solid capital ratios. Management has consistently executed and outperformed its strategic targets in the past and DBRS Morningstar believes that KA's positive revenue momentum continues to benefit from factors such as balance sheet growth, margin improvement and one-off opportunities. In addition, new business initiatives should help further growth and also diversify revenue streams to some extent. The Positive trend also takes into account that Altor Funds signed an agreement to acquire an 80% stake in KA along with a capital increase. The deal is expected to close in H1 2024. DBRS Morningstar does not expect a change in strategy from the ownership change and is of the opinion that it will support the Bank's strategy.

The BBB IA continues to incorporate KA's growing franchise in Infrastructure and Energy (I&E) finance as well as the Bank's public finance business. The I&E business (including exposure to utilities and corporates) now represents 60% of total assets. In DBRS Morningstar's opinion the Bank's credit risk management is sound and non-performing loans are negligible. Also, we generally consider infrastructure assets as more resilient during time of crises. However, given the concentration risk and the significant proportion of sub-investment grade assets, and assets in the construction and development phase, we will continue to closely monitor credit performance. Syndication risk remains a key risk for the Bank but continues to be well managed. Funding sources are balanced between the growing deposit base and other wholesale sources, and the Bank has consistently maintained high liquidity buffers. However, we also note the increased inflow of short-term deposits. Capital ratios remained robust and in order to take advantage of the current market opportunities, the Bank has announced new and ambitious growth plans, which entail some execution risk.

The current IA is positioned below the DBRS Morningstar Intrinsic Assessment range (IAR). The IAR incorporates the strong 2021 and 2022 results, which have partly benefitted from 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 still short, albeit growing, operating track record and with limited revenue diversification. 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, with regards to recurring revenue growth, the strengthening of the Bank's capital base, and the Bank's funding activities in order to maintain a sound funding profile.

## Franchise Strength

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

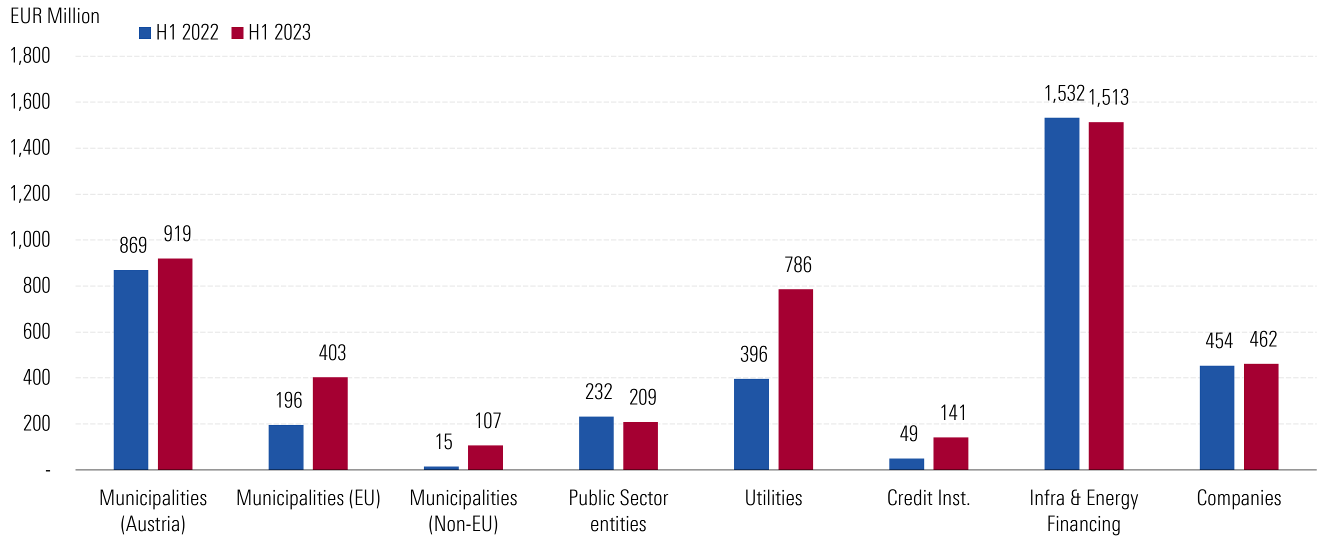
Kommunalkredit is a small bank with total assets of EUR 4.9 billion at H1 2023. The Bank is specialised in infrastructure and energy (I&E) finance, especially in the energy & environment, social infrastructure, transport, natural resources, and communication & digitalisation sectors. The Bank is well established, ranking among the top 20 originators in the European I&E finance market. Its relatively small size makes the Bank less dependent on movements in the overall market and leaves ample room for growth. However, DBRS Morningstar also notes the high concentration in the I&E finance segment and the Bank's still limited operating track record.

KA also has a presence in public finance serving mainly Austrian and EU based municipalities. In addition to net interest income from assets held on balance sheet, the Bank derives fee income from its subsidiary Kommunalkredit Public Consulting (KPC) and from loan syndication, gradually supplemented by ancillary business such as a growing asset management platform, advisory, development equity and other.

In February 2023, Altor Funds agreed to take a majority stake in the Bank and to inject EUR 100 million in capital to support KA's growth plans. This will allow KA to gradually increase its market share and participate in larger deals. KA also plans to expand in advisory, asset management, and structured export finance, largely capitalising on existing relationships. This should lead to a higher revenue diversification over time. KA targets a medium-term ROE in excess of 14% and a CET1 ratio of ca. 15%.

As part of its I&E finance business the Bank underwrites I&E assets, which 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 enable the Bank to maximise fees and better manage its maturity profile. The Bank has established itself among the top 20 originators in the European I&E finance market. For deal sizes smaller than EUR 500 million the Bank ranked 6th in H1 2023. A market share of less than 1% makes the Bank less dependent on movements in the overall market and leaves significant room for growth. However, 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 albeit growing operating track record. As of end-H1 2023, the loan portfolio is largely concentrated in the Eurozone (excluding Austria) with an exposure of 47%, followed by Austria (26%), non-EU countries (11%), other EU countries (9%), and others (6%).

**Exhibit 1 Loan Portfolio*, H1 2023**




Source: Company Documents. *Including loan commitments.

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 110 million. Both measures are designed to help KA capture economies of scale, increase its negotiation power and allow for higher syndication volumes. In addition, KA plans to expand is fee business through M&A advisory, structured export finance, and ESG advisory mainly within the perimeter of its existing clients and expertise. As a result, we expect the contribution of fee income to increase in coming years. Finally, KA has also started to invest as a co-sponsor in select cash-flow based projects. In terms of financial ambitions KA targets a medium-term ROE of 14% and a CET1 ratio of ca. 15% (bank stand-alone). We note that KA has consistently outperformed its targets in the past.

In February 2023, Altor Equity Partners, a private equity firm based in Sweden, agreed to acquire a stake of 80% in KA, and the sale is expected to close in H1 2024. The current owners, Interritus Limited and Trinity Investments, will remain as minority shareholders (each indirectly holding 9.9%), and the Austrian Association of Municipalities will hold the remaining 0.2% share. The new majority shareholder has committed to inject an additional EUR 100 million capital at the time of the deal closing, with the possibility of further increases as required to support KA's business growth in the medium term. We do not expect any material shift in KA's medium-term strategy as a result of new ownership structure.

DBRS Morningstar understands that the market for European I&E assets is largely independent from economic cycles given the need for European countries to replace Russian energy supplies and enhance renewable energy. 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. However, high interest rates could cause at least a temporary dampening effect on demand.

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 20.3 million to 2022 fee revenues.

In September 2018, KA launched its first infrastructure debt fund 'Fidelio'. KA is in the process of launching an additional fund, subject to market conditions. 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 and in Peaksun (a 40% stake), a company specialising in the assembly of rooftop photovoltaic systems. DBRS Morningstar expects equity investments as a proportion on KA's balance sheet to remain modest and limited to investments with low technology risk.

## Earnings Power

| Scorecard BB Assessment | Grids BB Assessment | Combined BB Assessment |
|---|---|---|
| Strong | Moderate | Good |

In DBRS Morningstar's opinion KA's earnings capacity is sound and has continuously improved as the Bank has expanded its I&E platform and revenue growth outpaced expense growth. 2021, 2022 and H1 2023 results were particularly strong, benefitting mostly from balance sheet growth and margin expansion. While some of the revenue improvement was also due to developments that are less recurring in nature, it afforded KA the flexibility to invest in growth. We expect KA's positive revenue momentum to continue to benefit from factors such as balance sheet growth, strong new business margins, increasing underwriting volumes, one-off opportunities as well as new business initiatives, especially in advisory. At the same time we expect management to keep its focus on costs in order to achieve its medium-term return on equity (ROE) target in excess of 14% (as calculated by the Bank).

The Bank reported a 2022 net profit of EUR 78.2 million, up 59.9% YOY, mostly driven by higher interest income, resulting in an ROE of 17.5% as calculated by DBRS Morningstar, up from 11.2% in 2021. Net interest income rose significantly, up 59% YOY to EUR 126 million at end-2022, driven by strong portfolio growth of 20%, a special financing opportunity and the high interest rate environment. Net fee and commission income remained largely stable, increasing slightly to EUR 29.9 million in 2022 from EUR 29.4 in 2021 million. KPC's contribution increased to EUR 20.3 million in 2022 from EUR 17.7 million in 2021, while the Bank reported somewhat lower fee income of EUR 9.6 million from EUR 11.7 million in 2021. Administrative expenses increased by 19.2% YOY to EUR 75.8 million mainly driven by higher business investment. The positive operating leverage resulted in a cost/income ratio (as reported) of 48% down from 53% a year earlier.

In H1 2023 net profit was EUR 41.7 million, up from EUR 39.1 million in H1 2022, driven also by a strong increase in net interest income, but largely offset by the significantly lower valuation gains and higher expenses to facilitate growth. Due to a higher equity base the ROE (DBRS Morningstar calculation) slipped somewhat from 18.0% in H1 2022, but was still high at 16.8%. H1 2023 net interest income increased to EUR 81.8 million from EUR 53.8 million a year earlier as the credit portfolio expanded by 22% YOY to EUR 4.5 billion at end-H1 2023. Fee income increased by 19% YOY to EUR 14.5 million. Operating expenses increased by 28% to EUR 41.9 million due to investments in growth, and the cost/income ratio was 47% flat YOY. Given the growth of the loan portfolio we expect further support for NII.

**Exhibit 2** Core Revenue Evolution

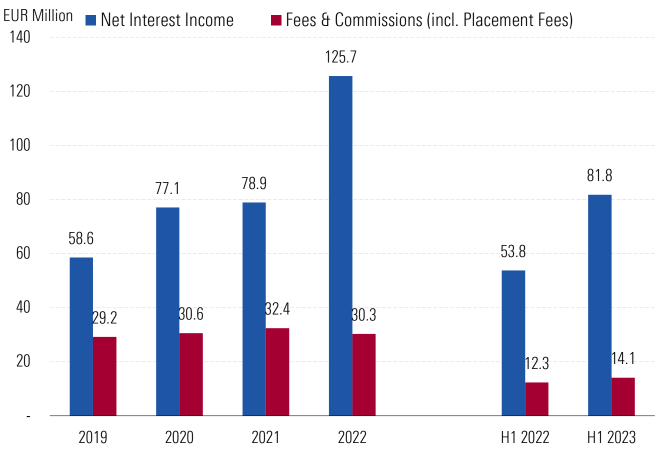
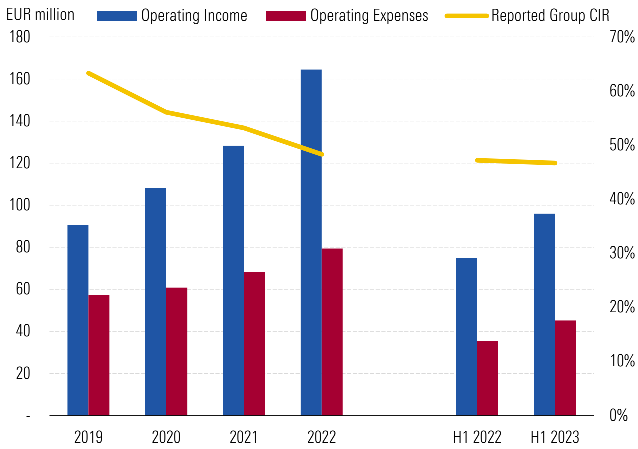



**Exhibit 3** KA's Performance




Source: DBRS Morningstar, Company Documents.
Note: Data as reported

## Risk Profile

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

Despite a slight increase in nonperforming loans, DBRS Morningstar considers KA's asset quality as strong, reflecting the sound underwriting standards and the general resilience of I&E lending. However, sector concentration risk has been increasing with the growth of the I&E portfolio and a significant proportion of these assets are sub-investment grade. In addition, single name concentration in the private sector lending portfolio is on the high side as well. In our view, syndication risk is relatively contained supported by the Bank's asset management platform, which absorbs a part of the assets originated, and high capital buffers. DBRS Morningstar notes that the management team has been growing, but still sees key man risk as a challenge for the Bank. The Bank has ambitious growth plans for the future and will be under new ownership, which could pose a variety of operational risks, as systems and management processes are likely to be subject to significant change and management attention could be diverted. However, we positively view a higher degree of revenue diversification without incurring incremental credit risk resulting from the Bank's strategic initiative.

The Bank has very strong asset quality indicators mainly reflecting the combination of a very low risk public sector portfolio and the prudent underwriting, proactive risk management, and the general resilience of infrastructure assets in the private sector portfolio. We note that the proportion of the E&I portfolio has been increasing over time and stood at 61% of the total EUR 4.5 billion loan portfolio at end-H1 2023. I&E project finance alone accounted for 33.3%. The sub-investment grade exposure is also substantial at 32% of the total portfolio and 53% of the E&I portfolio as of end-2022. In H1 2023, KA reported a nonperforming loan for the first time since 2015. The loan is in the structured export finance portfolio and benefits from government guarantees. This resulted in a reported NPL ratio of 0.4%, but only 0.03% after considering the ECA guarantees.

**Exhibit 4** Risk Exposure by Region, June 2023

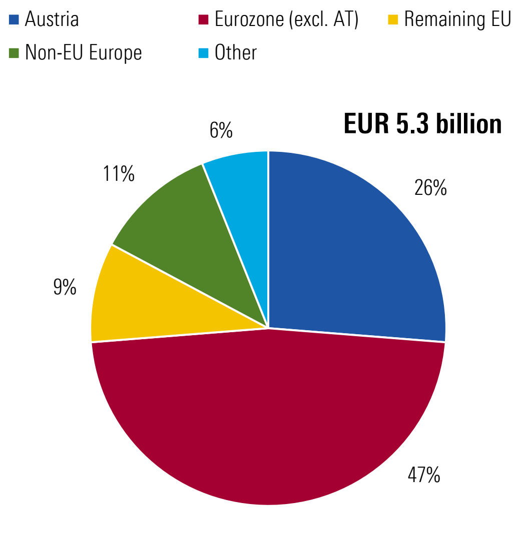
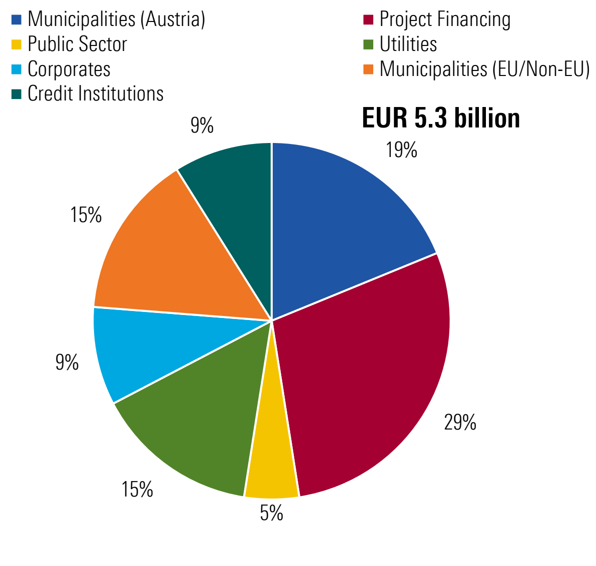



**Exhibit 5** Risk Exposure by Type of Borrower, June 2023




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. KA's syndication partners include large global insurers & asset managers, medium to large European insurers and pension funds, and large international banks. KA's asset management platform Fidelio is another recipient of assets originated by the Bank thereby reducing syndication risk. In 2022 the Bank generated EUR 1.8 billion in new I&E business volume, and syndicated EUR 564 million. KA is increasingly generating repeat business on the origination as well as on the syndication side, thereby becoming an established name in the industry.

In 2021, KA established Florestan KA GmbH with the purpose of equity investments in the I&E sector. We note that equity investing poses significantly higher risk and contribute to an increase in risk weighted assets. It is our understanding that direct exposure as a proportion on KA's balance sheet will remain modest.

In our view KA's plan to grow its fee business, and the advisory business in particular, serves to increase and diversify earnings stream without taking additional credit risk or requiring significant amounts of capital. However, growth and diversification also require frequent changes in IT systems, the management structure and processes, which entails operational risks in addition to diverting management focus.

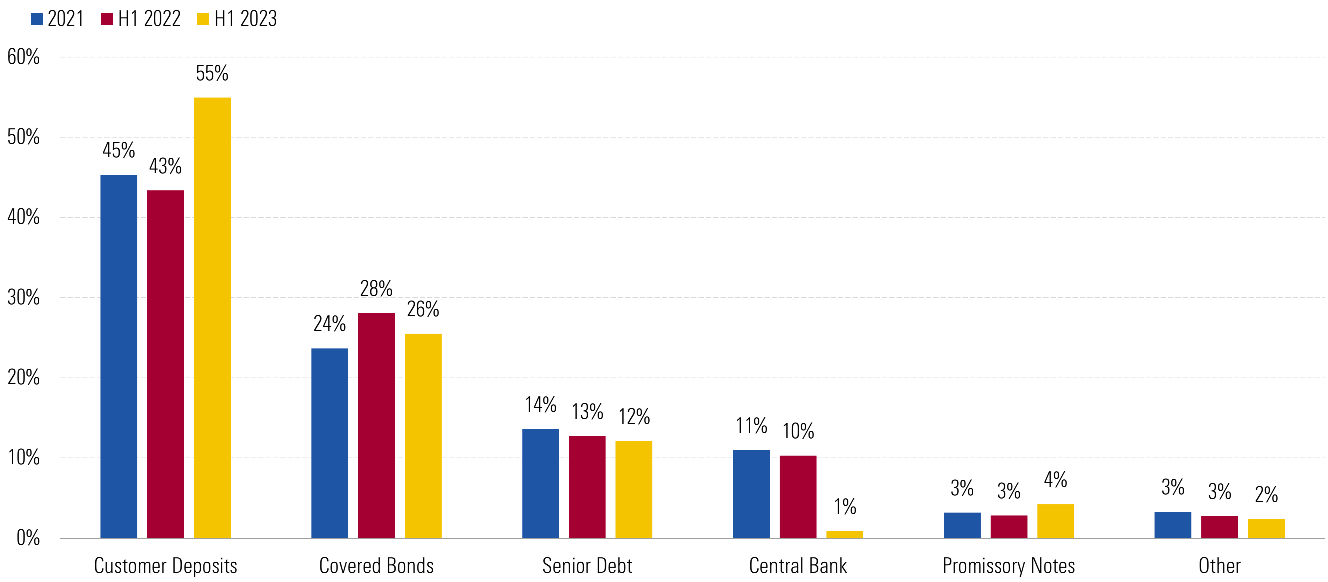
## Funding and Liquidity

| Scorecard BB Assessment | Grids BB Assessment | Combined BB Assessment |
|---|---|---|
| Good | Moderate | Good/Moderate |

In DBRS Morningstar's view KA's funding profile is diverse and comprises a significant deposit base, covered bonds, unsecured debt, AT1 capital and central bank funding. KA has demonstrated access to unsecured wholesale markets, however, given its small size and infrequent issuance needs, wholesale funding conditions may not always be favorable and this option is likely to be used on a more opportunistic basis. Customer deposits have become the Bank's most important source of funding, representing 55% of the Bank's total non-equity funding compared to 43% a year earlier, and funded 85% of private sector loans (I&E projects, utilities and corporates). With the growth of retail deposits, the depositor base has become more granular over time. However, we note that retail deposits are gathered online, which tends to make them less sticky. We also note an increased inflow of short-term deposits, but understand that the Bank is looking to lengthen the term structure.

KA has a robust liquidity profile with a liquidity position of EUR 908 million at end-H1 2023 (19% of total assets), including EUR 507 million of high quality liquid assets (HQLA), and EUR 401 million of cash, cash equivalents and balances with central banks, well in excess of total debt maturities till end 2023. At end-H1 2023, the Bank's Liquidity Coverage Ratio (LCR) was high, at 387%, and the Net Stable Funding Ratio (NSFR) was somewhat on the lower side at 115% but should increase again going forward.

**Exhibit 6** Funding Mix Evolution



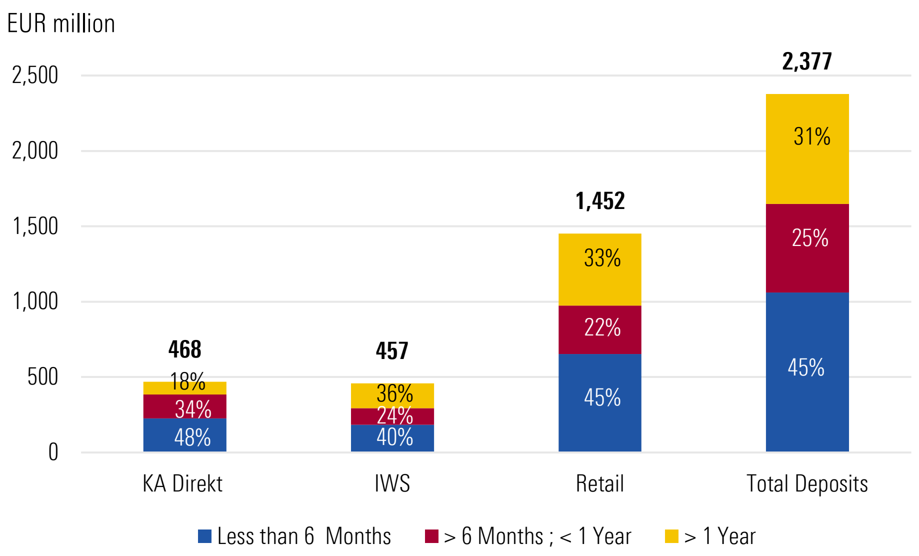

Source: Company Documents.

As of end-June 2023, the Bank had EUR 1.1 billion of covered bond outstanding and a cover pool with a value of EUR 1.2 billion. Around 75% of total cover pool assets had a rating of AAA or AA, with remaining part mostly rated at A.

KA raises deposits through Kommunalkredit Invest (an online retail platform), Kommunalkredit Direkt, the Bank's deposit platform for local authorities and public-sector-related enterprises where KA raises online deposits from municipalities, and IWS for small and medium sized corporate and institutional clients. Customer deposits significantly increased by 37% YOY to EUR 2,377 million in H1 2023, mainly driven by an increase in retail term deposits.

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 very high level in the range of ca 250% to 750%.

**Exhibit 7** Deposits' Structure at end H1 2023




Source: DBRS Morningstar, Company Documents.

### Capitalisation

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

At the Bank level, KA reported a CET1[1] ratio of 15.2% at end-H1 2023, down from 16.9% at year-end due to an increase in risk-weighted assets (RWA) to EUR 2.8 billion at end-H1 2023 from EUR 2.6 billion at end-2022, while H1 2023 retained earnings are not yet reflected in capital. The regulatory minimum requirement for the Bank's CET1 ratio is 9.3% and the Bank aims to maintain a ratio of 15%. DBRS Morningstar notes that KA's capital ratios can fluctuate due to its origination and syndication activities. In our view, it is essential for the Bank to maintain high cushions over minimum capital requirements, as a safeguard against the credit risk concentration and syndication risk as well as the relative illiquidity of the financed assets.

**Exhibit 8** Capital Ratios at Bank Level

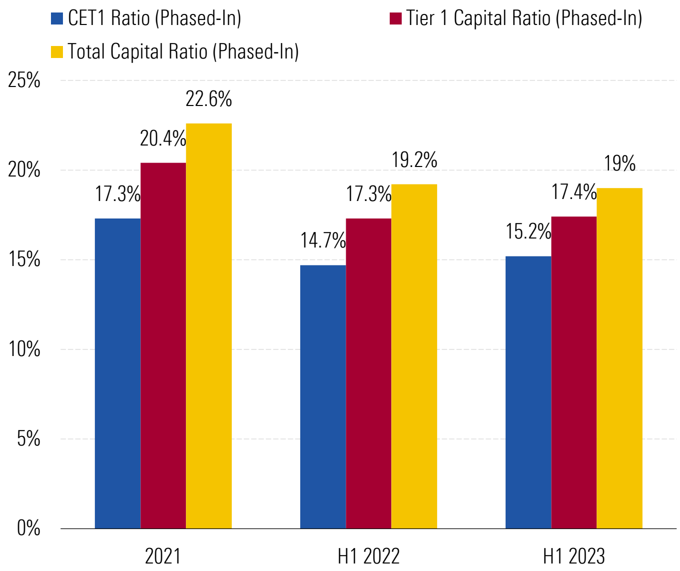
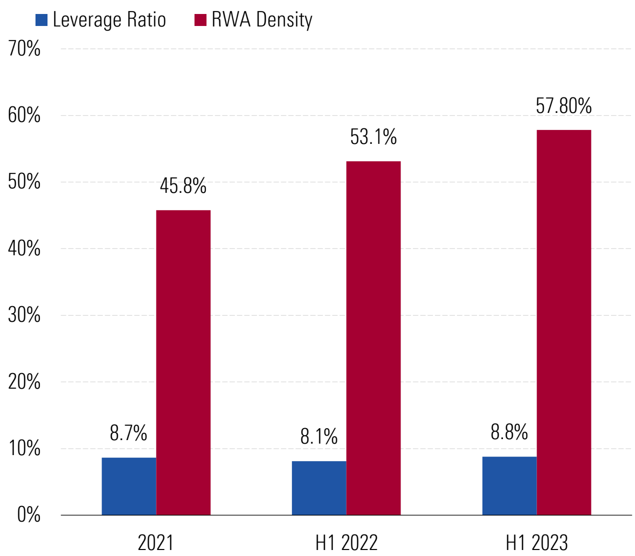



**Exhibit 9** Leverage Ratio (at group level) and RWA density




Source: Company Documents.

RWA density continued to rise as the proportion of new business with higher risk weights increased, and in H1 2023 RWAs to total IFRS balance sheet assets increased to 57.8% from 53.1% in H1 2022. 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 9.1% for CET1, 11.3% for Tier 1 and 14.1% for total capital, the Bank still has healthy capital cushions, but capital has been a constraining factor for growth. The EUR 100 million capital injection from the Bank's new owners along with an increasing internal capital generation will therefore lend support for further growth.

[1] 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-2022, the consolidated CET 1 ratio was 15.9% and the consolidated total capital ratio was 18.7%.

## 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 has signed the UN Principles for Responsible Banking and has been gradually refining its ESG commitments. In June 2023, Kommunalkredit joined the Partnership for Carbon Accounting Financials (PCF). 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 digitalization.

**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, KA, like other banks could be a target of cyber-attacks. A 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 at least 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. In our view there is some key man risk. In addition, as typical for a smaller companies, management board positions are limited, requiring individuals to wear multiple hats.

# Kommunalkredit Austria AG

| | 1 | | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| Financial Data as of 2023H1 | Scorecard Indicator | Scorecard Indicator Data | Scorecard Indicator Assessment | Scorecard Building Block (BB) Assessment | Grids BB Assessment | Combined BB Assessment |
| **Franchise** | Adjusted Assets | 5 | W/VW | **W/VW** | **M/W** | **W** |
| | Sovereign Rating Category | 20 | VS | | | |
| **Earnings** | Return on Equity | 15.31% | VS/S | **S** | **M** | **G** |
| | Return on Assets | 1.51% | VS | | | |
| | IBPT/Avg.Assets | 1.98% | S/G | | | |
| **Risk** | Net NPLs/Net Loans | 0.06% | VS/S | **VS/S** | **M** | **S/G** |
| | Provisions/IBPT | 1.14% | VS/S | | | |
| **Funding & Liquidity** | Sovereign-Adjusted Funding Ratio | 123.5% | G | **G** | **M** | **G/M** |
| **Capitalisation** | Sovereign-Adjusted Capital Ratio | 15.82% | VS/S | **VS/S** | **M** | **S/G** |
| | NPL/[Equity + Loan Loss Reserves] | 1.59% | VS/S | | | |
| | 5-Year Accumulated Net Income/Total Assets | 6.08% | VS | | | |

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

Notes: (1) based on financial data as of H1 2023. (2) For more information see Global Methodology for Rating Banks and Banking Organisations published on 22 June 2023. (3) IAR and IA refer to bank level rating.

## Annual Financial Information

| | | | For the Year Ended December 31 (IFRS) | | | | |
|---|---|---|---|---|---|---|---|
| | H1 2023 | H1 2022 | 2022 | 2021 | 2020 | 2019 | 2018 |
| **Balance Sheet (EUR Millions)** | | | | | | | |
| Cash & Cash Equivalents* | 471 | 993 | 568 | 601 | 869 | 485 | 342 |
| Gross Loans to Customers | 3,218 | 3,073 | 2,750 | 2,350 | 2,450 | 2,365 | 2,118 |
| Loan Loss Reserves | (6) | (4) | (6) | (4) | (4) | (5) | (2) |
| Net Lending to Customers | 3,212 | 3,069 | 2,744 | 2,346 | 2,445 | 2,360 | 2,116 |
| Total Assets | 4,935 | 4,534 | 4,628 | 4,428 | 4,423 | 4,305 | 3,942 |
| Deposits from Customers | 2,519 | 1,865 | 2,289 | 1,861 | 2,116 | 1,872 | 1,456 |
| Debt & Capital Lease Obligations | 1,451 | 1,519 | 1,430 | 1,432 | 1,168 | 1,343 | 1,465 |
| Total Liabilities | 4,416 | 4,101 | 4,156 | 3,990 | 4,064 | 3,962 | 3,647 |
| Total Equity | 518 | 433 | 472 | 438 | 359 | 343 | 295 |
| | | | | | | | |
| **Income Statement (EUR Millions)** | | | | | | | |
| Net Interest Income | 82 | 54 | 126 | 79 | 77 | 59 | 49 |
| Non Interest Income | 19 | 34 | 56 | 55 | 30 | 29 | 43 |
| Total Operating Income | 101 | 87 | 182 | 134 | 107 | 87 | 93 |
| Total Operating Expenses | 45 | 36 | 82 | 70 | 61 | 55 | 56 |
| Income Before Provisions and Taxes (IBPT) | 56 | 52 | 101 | 64 | 46 | 33 | 36 |
| Loan Loss Provisions | 0 | (0) | 2 | 0 | 0 | 2 | 1 |
| Net Attributable Income | 42 | 39 | 78 | 49 | 36 | 30 | 14 |
| | | | | | | | |
| **Growth (%) - YoY Change** | | | | | | | |
| Net Interest Income | 52.02% | 47.87% | 59.39% | 2.26% | 31.62% | 19.04% | 36.20% |
| Total Operating Income | 15.40% | 58.35% | 35.90% | 25.11% | 22.69% | -5.61% | 35.58% |
| Total Operating Expenses | 26.29% | 22.15% | 17.23% | 14.08% | 11.30% | -2.55% | -4.08% |
| IBPT | 7.83% | 99.40% | 56.04% | 39.68% | 41.86% | -10.35% | 277.03% |
| Net Attributable Income | 6.40% | 109.85% | 60.13% | 34.26% | 23.15% | 106.75% | -20.71% |
| | | | | | | | |
| **Earnings (%)** | | | | | | | |
| Net Interest Margin | 3.63% | 2.67% | 3.00% | 1.95% | 1.91% | 1.50% | 1.43% |
| Non-Interest Income / Total Revenue | 18.94% | 38.46% | 30.99% | 41.16% | 28.01% | 32.90% | 46.79% |
| Cost / Income ratio | 44.86% | 40.99% | 44.77% | 51.89% | 56.91% | 62.73% | 60.77% |
| LLP / IBPT | 0.58% | -0.91% | 1.54% | 0.25% | 0.34% | 7.59% | 1.93% |
| Return on Avg Assets (ROAA) | 1.74% | 1.74% | 1.73% | 1.07% | 0.82% | 0.71% | 0.37% |
| Return on Avg Equity (ROAE) | 16.81% | 17.96% | 17.48% | 11.92% | 10.37% | 9.20% | 4.95% |
| IBPT over Avg RWAs | 4.15% | 2.34% | 4.34% | 3.47% | 2.73% | 2.10% | 3.19% |
| Internal Capital Generation | 16.81% | 7.40% | 12.34% | 6.95% | 10.37% | 9.20% | 0.96% |
| | | | | | | | |
| **Risk Profile (%)** | | | | | | | |
| Cost of Risk | 0.03% | -0.04% | 0.07% | 0.01% | 0.01% | 0.11% | 0.03% |
| Gross NPLs over Gross Loans | 0.39% | 0.00% | 0.37% | 0.00% | 0.00% | 0.00% | 0.00% |
| Net NPLs over Net Loans | 0.19% | -0.13% | 0.15% | -0.19% | -0.17% | -0.19% | -0.10% |
| NPLs to Equity and Loan Loss Reserves Ratio | 2.41% | NA | 2.13% | 0.00% | 0.00% | 0.00% | NA |
| | | | | | | | |
| **Funding & Liquidity (%)** | | | | | | | |
| Net Loan to Deposit Ratio | 128% | 165% | 120% | 126% | 116% | 126% | 145% |
| Liquidity Coverage Ratio | 387% | 276% | 348% | 735% | 421% | 766% | NA |
| Net Stable Funding Ratio | 115% | 120% | 129% | 122% | 117% | 112% | NA |
| | | | | | | | |
| **Capitalization (%)** | | | | | | | |
| CET1 Ratio | 14.33% | 14.41% | 15.85% | 16.99% | 20.02% | 18.70% | 19.90% |
| Tier1 Ratio | 15.76% | 16.17% | 17.28% | 18.69% | 20.02% | NA | NA |
| Total Capital Ratio | 17.20% | 17.85% | 18.74% | 20.37% | 22.91% | 21.90% | 24.30% |
| Leverage Ratio | 8.76% | 8.11% | 8.68% | 8.65% | 8.30% | NA | NA |
| Dividend Payout Ratio | 0.0% | 58.8% | 29.4% | 41.7% | 0.0% | 0.0% | 80.5% |

Source: Morningstar Inc., Company Documents

*Includes Loans to Banks

Note: Figures as calculated by DBRS Morningstar may differ from reported ones.

**Rating Methodology**

The applicable methodologies are the *Global Methodology for Rating Banks and Banking Organisations* (22 June 2023), and *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* (4 July 2023) which can be found on our website under Methodologies.

**Ratings**

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

**Ratings History**

| Issuer | Obligation | Current | 2022 | 2021 | 2020 |
|---|---|---|---|---|---|
| Kommunalkredit Austria AG | Long-Term Issuer Rating | BBB | BBB | BBB | BBB |
| Kommunalkredit Austria AG | Long-Term Senior Debt | BBB | BBB | BBB | BBB |
| Kommunalkredit Austria AG | Long-Term Deposits | BBB | BBB | BBB | BBB |
| Kommunalkredit Austria AG | Short-Term Issuer Rating | R-2 (high) | R-2 (high) | R-2 (high) | R-2 (high) |
| Kommunalkredit Austria AG | Short-Term Debt | R-2 (high) | R-2 (high) | R-2 (high) | R-2 (high) |
| Kommunalkredit Austria AG | Short-Term Deposits | R-2 (high) | R-2 (high) | R-2 (high) | R-2 (high) |

**Previous Actions**

- DBRS Morningstar Confirms Kommunalkredit Austria AG's BBB Long-Term Issuer Rating, Trend Changed to Positive from Stable, 27 September 2023.
- 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.

**Previous Reports**

- Kommunalkredit Austria AG: Rating Report, 24 October 2022.
- Kommunalkredit Austria AG: Rating Report, 15 November 2021.
- Kommunalkredit Austria AG: Rating Report, 28 October 2020.

**European Bank Ratios & Definitions**

- Bank Ratio Definitions, 14 March 2022.

**About DBRS Morningstar**

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