

PRESS RELEASE

SEPTEMBER 30, 2022

DBRS Morningstar Confirms Kommunalkredit Austria AG at BBB, Stable Trend

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) has confirmed the ratings of Kommunalkredit Austria AG (KA or the Bank), including the Long-Term Issuer Rating at BBB and the Short-Term Issuer Rating at R-2 (high). The Stable trend for all ratings has been maintained. The Intrinsic Assessment (IA) for the Bank remains BBB, while the Support Assessment remains SA3.

KEY RATING CONSIDERATIONS

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 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 are 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.

RATING DRIVERS

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.

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 future growth plans would also lead to a downgrade.

RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Weak

KA mainly finances assets related to I&E along with a growing loan book in the utility and corporate segment in addition to a public finance business. 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 is well established, ranking among the top 20 originators in the European I&E finance market. Its relatively small size allows the Bank to remain nimble and less dependent on movements in the overall market. However, DBRS Morningstar also notes the high concentration in only two main business lines, and the Bank’s relatively short operating track record. 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 and allow KA to gradually participate in larger deals. In addition to its asset management platform, KA also 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 and become more diverse over time. In terms of financial ambitions KA targets a medium-term ROE in excess of 10% and a CET1 ratio of ca. 15%.

Earnings Combined Building Block (BB) Assessment: Good

DBRS Morningstar views KA’s earnings power as solid. With ROEs of 14.1% and 22.2% respectively 2021 and H1 2022 results were strong, but partly driven by individual situations such as gains from debt repurchases, valuation gains from rising rates as well as gains on a small number of transactions. In 2021, 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 volume growth occurring towards the end of the year. Fee income increased by 3.2%. 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, which benefitted from loans purchased at a steep discount and balance sheet growth, and a EUR 8.7 million restructuring gain, supported by fee income growth of 9%. DBRS Morningstar notes that KA has consistently grown revenues since 2017 while maintaining strict cost discipline, and expects positive underlying revenue momentum going forward supported by 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%.

Risk Combined Building Block (BB) Assessment: 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.

Funding and Liquidity Combined Building Block (BB) Assessment: 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 stood at EUR 412 million at end-June 2022. Customer deposits represent the largest 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 end-H1 2022, the Bank's Liquidity Coverage Ratio (LCR) was 276% and the Net Stable Funding Ratio (NSFR) was also solid at 120%.

Capitalisation Combined Building Block (BB) Assessment: Strong / Good

At the Bank level, KA reported a CET1 ratio (Austrian GAAP) 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. Nevertheless, this still represents a 580 basis point cushion over regulatory minimum requirements. DBRS Morningstar notes that KA's capital ratios can fluctuate due to its origination and syndication activities. KA also reported 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 ca.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.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/403282>.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

There were no Environmental/ Social/ Governance factors that had a significant or relevant effect on the credit analysis

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings> (17 May 2022).

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (23 June 2022) <https://www.dbrsmorningstar.com/research/398692/global-methodology-for-rating-banks-and-banking-organisations>. Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (17 May 2022) <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to->

The sources of information used for this rating include Morningstar Inc. and Company Documents, KA's Annual Reports 2017-2021, KA's Interim Report H1 2022. KA's Disclosure Report H1 2022. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/403286>.

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Initial Rating Date: September 30, 2015

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For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

Kommunalkredit Austria AG

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
30-Sep-22	Long-Term Issuer Rating	Confirmed	BBB	Stb	EU U
30-Sep-22	Short-Term Issuer Rating	Confirmed	R-2 (high)	Stb	EU U
30-Sep-22	Long-Term Senior Debt	Confirmed	BBB	Stb	EU U

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
30-Sep-22	Short-Term Debt	Confirmed	R-2 (high)	Stb	EU U
30-Sep-22	Short-Term Deposits	Confirmed	R-2 (high)	Stb	EU U
30-Sep-22	Long-Term Deposits	Confirmed	BBB	Stb	EU U

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