

Kommunalkredit Austria AG

Update

Key Rating Drivers

Kommunalkredit Austria AG's (KA) Long-Term Issuer Default Rating (IDR) is driven by its Viability Rating (VR). Its Short-Term IDR is the only option mapping to its 'BBB-' Long-Term IDR.

KA's VR reflects its established niche franchise in infrastructure and energy (I&E) finance, strong record of asset quality, experienced management team and adequate risk management structure. The ratings also reflect the bank's small capital base (in absolute terms), which leads to concentration risks and increases its sensitivity to individual credit events or outsized operational losses, as well as its reliance on a diversified base of syndication partners.

Niche I&E Franchise: KA has a solid record in operating its niche franchise focusing on European I&E financing. Its balance-sheet-light business model relies on a recurring and diversified base of syndication partners, both pre-and post-commitment, including the bank's own infrastructure debt fund targeted at institutional investors. Fitch Ratings also believes KA's highly experienced management team and risk management infrastructure are adequate to control the inherent risk from the bank's business model, strategy and growth ambitions.

Satisfactory Risk Controls: KA's main source of risk is the inherent project risk in the infrastructure assets that represent an increasing proportion of its loan book. Its underwriting standards and risk controls appear satisfactory. The bank's targeting of rapid new-business growth, planned small equity investments, and selected higher-risk project financing in recent years indicate some appetite for higher-risk, opportunistic transactions. But we expect the bank's exposure to these transactions to remain moderate and well-controlled.

Strong Asset Quality Metrics: Asset quality benefits from the bank's low-risk public sector portfolio (largely loans to Austrian municipalities), which accounts for about half of the loan book. To date, the bank has not reported any impaired loans, but impairments may arise as its infrastructure loan book seasons. Given the bulky nature of the bank's loan book, single impaired loans could significantly inflate its impaired loan ratio.

Improved Profitability: KA's operating profit has steadily improved over the last five years due to increasing revenue from higher-margin I&E business, lower funding spreads and a lean cost structure. The I&E business also enhances revenue diversification by generating advisory, commitment and placement fees. However, the earnings and profitability score will remain constrained within the 'bbb' range in the medium term, because KA's small revenue base (in absolute terms) provides limited headroom to absorb asset quality swings.

Small Capital Base: KA's small capital base results in a significant number of large single loan exposures in relation to its capital. This limits the benefits arising from the loan portfolio's sound diversification by geography, asset class and industrial sector. This is unlikely to change in the foreseeable future as we believe that capital injections by KA's owners to support its growth would only moderately improve concentration risk relative to its equity.

Improving Funding, Sound Liquidity: KA's funding profile benefits from a sizeable and growing stock of (mostly online) term deposits. Funding diversification is adequate and likely to increase as KA plans to make more substantial use of capital market funding.

No Support Assumed: The Government Support Rating (GSR) of "no support" (ns) reflects KA's lack of systemic importance and Fitch's view that the EU's resolution framework is likely to require senior creditors participating in losses. Nor do the IDRs factor in any support from KA's owners because we generally consider that support from financial investors cannot be relied on.

Ratings

Foreign Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

Viability Rating	bbb-
Government Support Rating	ns

Sovereign Risk (Austria)

Long-Term Foreign-Currency IDR	AA+
Long-Term Local-Currency IDR	AA+
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(November 2021\)](#)

Related Research

[Fitch Affirms Kommunalkredit Austria at 'BBB-'; Outlook Stable \(March 2022\)](#)
[Kommunalkredit Austria AG \(March 2022\)](#)

Analysts

Roger Schneider
+49 69 768076 242
roger.schneider@fitchratings.com

Marco Diamantini
+49 69 768076 114
marco.diamantini@fitchratings.com

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade

We could downgrade the ratings if the bank incurs multiple defaults in its project finance portfolio or if it loosens its limits and underwriting standards to enable further opportunistic lending to higher-risk types of projects, more aggressive project-financing structures or junior financing.

We could also downgrade the ratings if aggressive risk-weighted assets (RWAs) growth without matching capital increases results in increasing use of KA's large exposure limit. A downgrade could also result from a significant deterioration in the bank's ability to syndicate its lending commitments to a sizeable pool of external investors.

Factors that could, individually or collectively, lead to positive rating action/upgrade

An upgrade of the IDR and the VR is highly unlikely in the medium term and would require a major reduction in single-name concentration. This would necessitate a very substantial growth of KA's capital base, for instance through a large capital injection from the owners.

Other Debt and Issuer Ratings

Rating Level	Rating
Senior preferred: Long-Term	BBB-

Source: Fitch Ratings

KA's long-term senior preferred (SP) debt rating is aligned with its Long-Term IDR. This reflects Fitch's expectation that KA will not be subject to a minimum requirement for own funds and eligible liabilities, and that the bank will not build and maintain buffers of junior and senior non-preferred debt sustainably in excess of 10% of its RWAs.

Factors that could, individually or collectively, lead to negative rating action/downgrade

The SP notes' rating would be downgraded if KA's Long-Term IDR was downgraded.

Factors that could, individually or collectively, lead to positive rating action/upgrade

The SP notes' rating would be upgraded if KA's Long-Term IDR was upgraded.

Significant Changes

Issuer Level

Solid 2021 Results Enabled by Clearly Defined Niche Strategy and Agile Business Approach

KA benefited in 2021 from unabated demand for digital infrastructure and renewable energy financing projects despite the pandemic. New business increased by 77% to EUR2.1 billion, of which EUR1.9 billion in I&E, mainly in Spain, France and the UK, and EURO.2 billion in Austrian public finance. Total assets remained practically unchanged at EUR4.4 billion owing to repayments, in particular in the bank's legacy public finance portfolio, and placements. The volume of transactions syndicated to insurance companies, asset managers and banks increased by 18% to EURO.7 billion. In addition, KA continued to place assets with its EUR354 million debt fund platform.

KA's strong business growth lays a solid foundation for its future net interest income (NII) and fee income. In 2021, its NII improved by 2% to EUR79 million and its fee income by 3% to EUR29 million. New business margins increased significantly owing to KA's ability to structure complex I&E transactions. The bank also benefited from EUR15 million valuation gains and income from debt repurchase as part of its interest rate and liquidity management.

The 15% rise in personnel expenses in 2021 reflects hires to address KA's growth ambitions and staff turnover. Non-staff expenses remained broadly stable despite continued IT infrastructure investments. We expect KA to maintain its lean cost structure that adequately mitigates the limited economies of scale inherent in its small size.

Owing to a 40% rise in its operating profit, KA's operating profit/RWAs ratio in 2021 compared well with those of its peers. We expect the bank to maintain robust profitability owing to its focused and specialist business model.

2021 Financial Metrics Support KA's Ratings

Similar to previous years, KA did not incur any losses on its loan book in 2021. About two-thirds of its exposure was investment-grade at end-2021 and its direct exposure to Russia is immaterial. As a high share of the loan book is fairly new, we believe impairments are more likely to materialise once loans season. However, we expect KA's disciplined underwriting to maintain its impaired loans ratio at a very low level.

KA's common equity Tier 1 (CET1) ratio declined moderately as RWAs growth of almost 20% outpaced capital generation due to the gradual substitution of the bank's legacy public finance with higher risk-weighted I&E loans. The bank raised EUR63 million in AT1 notes in 2021 to support future loan growth. Its capital base is small in absolute terms, but its capital ratios exceed management's targets and are comfortably above regulatory requirements.

In 2021, KA diversified its funding structure by issuing a EUR300 million SP bond and a EUR250 million public-sector covered bond to European investors. The latter replaced a EUR300 million social covered bond repaid in 2021. It also issued EUR100 million senior preferred and covered bonds as private placement. The bank increased its online retail deposits by only 6.5%, a significantly lower growth rate compared to previous years, to EUR901 million and reduced wholesale deposits by 17% to EUR799 million owing to its large liquidity surplus.


Sector Level

War in Ukraine Dents Europe's Economic Recovery, but I&E Sector is Resilient

Fitch expects most European economies to remain exposed to high energy prices and supply-chain disruptions in 2022. Several corporate sectors are particularly exposed to second-round effects from slowing economic growth. This could result in a deterioration of banks' asset quality, particularly in Central and Eastern Europe.

Nevertheless, we believe investment activities in the European I&E sector, especially in renewable energies, will be largely immune to potential recessionary developments and could even be boosted by the need to rapidly lower some European countries' reliance on energy imports from Russia.

Rating Navigator

Kommunalkredit Austria AG							ESG Relevance: 	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support Rating	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%	aaa	aaa	aaa	AAA
							aa+	aa+	aa+	AA+
							aa	aa	aa	AA
							aa-	aa-	aa-	AA-
a+							a+	a+	a+	A+
a							a	a	a	A
a-							a-	a-	a-	A-
bbb+							bbb+	bbb+	bbb+	BBB+
bbb							bbb	bbb	bbb	BBB
bbb-							bbb-	bbb-	bbb-	BBB- Sta
bb+							bb+	bb+	bb+	BB+
bb							bb	bb	bb	BB
bb-							bb-	bb-	bb-	BB-
b+							b+	b+	b+	B+
b							b	b	b	B
b-							b-	b-	b-	B-
ccc+							ccc+	ccc+	ccc+	CCC+
ccc							ccc	ccc	ccc	CCC
ccc-							ccc-	ccc-	ccc-	CCC-
cc							cc	cc	cc	CC
c							c	c	c	C
f							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Key Rating Drivers Adjustments

The Operating Environment score of 'a+' has been assigned below the 'aa' category implied score due to the following adjustment reason: international operations (negative).

The Business Profile score of 'bbb-' has been assigned above the 'bb' category implied score due to the following adjustment reason: strategy and execution (positive).

The Asset Quality score of 'bbb' has been assigned below the 'aa' category implied score due to the following adjustment reason: concentrations (negative).

The Capitalisation and Leverage score of 'bb+' has been assigned below the 'aa' category implied score due to the following adjustment reason: size (negative).

The Funding and Liquidity score of 'bbb-' has been assigned above the 'b' category implied score due to the following adjustment reason: historical and future metrics (positive).

Financials

Summary Financials and Key Ratios

	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	
Year End	Year End	Year End	Year End	Year End	
USDm	EURm	EURm	EURm	EURm	
Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	
Summary Income Statement					
Net interest and dividend income	89	79.0	77.1	58.6	52.7
Net fees and commissions	33	29.4	28.5	24.9	18.5
Other operating income	27	24.3	1.8	2.6	21.3
Total operating income	150	132.7	107.4	86.1	92.5
Operating costs	74	65.4	59.2	56.3	56.7
Pre-impairment operating profit	76	67.3	48.2	29.8	35.8
Loan and other impairment charges	0	0.2	0.2	2.5	0.7
Operating profit	76	67.1	48.0	27.3	35.1
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	-2.5
Tax	21	18.2	11.6	-2.3	18.3
Net income	55	48.9	36.4	29.6	14.3
Other comprehensive income	-11	-10.0	-20.2	-1.1	-4.5
Fitch comprehensive income	44	38.9	16.2	28.5	9.8
Summary Balance Sheet					
Assets					
Gross loans	2,944	2,602.9	2,427.7	2,689.4	2,448.3
- of which impaired	0	0.0	0.0	0.0	0.0
Loan loss allowances	5	4.4	4.3	4.6	1.0
Net loans	2,939	2,598.5	2,423.4	2,684.8	2,447.3
Interbank	146	129.3	152.7	105.5	28.8
Derivatives	147	129.6	140.3	188.3	221.7
Other securities and earning assets	1,126	995.9	863.0	817.2	891.0
Total earning assets	4,358	3,853.3	3,579.4	3,795.8	3,588.8
Cash and due from banks	615	543.4	808.6	462.6	314.4
Other assets	35	31.2	35.2	46.9	38.6
Total assets	5,008	4,427.9	4,423.2	4,305.3	3,941.8
Liabilities					
Customer deposits	1,934	1,710.2	1,772.7	1,393.0	1,002.5
Interbank and other short-term funding	544	480.8	520.3	487.2	495.6
Other long-term funding	1,789	1,581.8	1,509.1	1,824.6	1,919.2
Trading liabilities and derivatives	191	168.9	223.0	219.5	201.0
Total funding and derivatives	4,458	3,941.7	4,025.1	3,924.3	3,618.3
Other liabilities	55	48.5	38.7	37.8	28.7
Preference shares and hybrid capital	70	62.2	n.a.	n.a.	n.a.
Total equity	425	375.5	359.4	343.2	294.8
Total liabilities and equity	5,008	4,427.9	4,423.2	4,305.3	3,941.8
Exchange rate	USD1 = EUR0.884173		USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, KA

Summary Financials and Key Ratios

	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.3	2.8	1.6	2.6
Net interest income/average earning assets	2.1	2.1	1.6	1.6
Non-interest expense/gross revenue	50.0	55.1	65.4	61.3
Net income/average equity	13.3	10.4	9.2	5.0
Asset quality				
Impaired loans ratio	0.0	0.0	0.0	0.0
Growth in gross loans	7.2	-9.7	9.9	10.0
Loan impairment charges/average gross loans	0.0	0.0	0.1	0.0
Capitalisation				
Common equity Tier 1 ratio	17.0	20.0	18.4	19.9
Tangible common equity/tangible assets	8.5	8.0	7.6	7.1
Net impaired loans/common equity Tier 1	-1.3	-1.3	-1.5	-0.4
Funding and liquidity				
Gross loans/customer deposits	152.2	137.0	193.1	244.2
Liquidity coverage ratio	735.0	420.6	765.5	453.7
Customer deposits / total non-equity funding	44.6	46.6	37.6	29.3
Net stable funding ratio	122.0	117.5	111.9	104.7

Source: Fitch Ratings, Fitch Solutions, KA

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A+ to A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AA+/ Stable
Size of banking system	Neutral
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Negative
Ownership	Negative

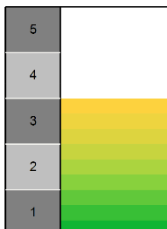
The colours indicate the weighting of each KRD in the assessment.

■ Higher influence ■ Moderate influence ■ Lower influence

The Government Support Rating reflects KA's lack of systemic importance and our view that the EU's resolution framework is likely to require senior creditors participating in losses, if necessary, instead or ahead of a bank receiving sovereign support. The IDRs do not factor in any support from KA's owners either, because Fitch generally considers that support from financial investors, while possible, cannot be relied on.

Environmental, Social and Governance Considerations

Overall ESG

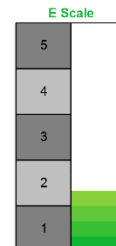


How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

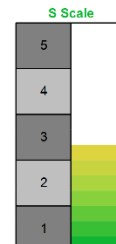
Environmental (E)

General Issues	Score	Impact	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1		n.a.	n.a.
Energy Management	1		n.a.	n.a.
Water & Wastewater Management	1		n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1		n.a.	n.a.
Exposure to Environmental Impacts	2		Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality



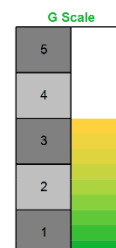
Social (S)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2		Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile
Customer Welfare - Fair Messaging, Privacy & Data Security	3		Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
Employee Wellbeing	1		n.a.	n.a.
Exposure to Social Impacts	2		Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile



Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)
Governance Structure	3		Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics, ownership	Business Profile (incl. Management & governance)
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)



Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com.

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