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Ratings

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Kommunalkredit Austria AG

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Table Of Contents

Table Of Contents (cont.)

Kommunalkredit Austria AG

Rating Score Snapshot

Issuer Credit Rating
BBB-/Stable/A-3

SACP: bbb- → **Support: 0** → **Additional factors: 0**

SACP: bbb-		
Anchor	bbb+	
Business position	Constrained	-2
Capital and earnings	Strong	+1
Risk position	Adequate	0
Funding	Moderate	-1
Liquidity	Adequate	
CRA adjustment		0

Support: 0	
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BBB-/Stable/A-3

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Strong expertise and a niche franchise in infrastructure, energy, and sustainable finance projects, with well-established relationships with public-sector customers.	Business concentration on niche bespoke products and services, and a limited number of customers.
Robust asset quality, underpinned by low credit-risk costs and zero nonperforming loans (NPLs).	Tail risks from a small number of opportunistic transactions, high business growth rates, and a high share of syndication risks.
Solid risk-adjusted profitability, supporting a high capital buffer.	Small size, with high dependence on key personnel.

Kommunalkredit's high earnings and well managed niche business model balances its high concentrations amid difficult operating conditions from the COVID-19 pandemic and from the Russian-Ukraine conflict. Despite difficult markets we forecast Kommunalkredit will generate a favorable 10%-13% return on equity (ROE) between 2022 and 2024, after 13.3% in 2021, aided by strong business growth and robust asset quality. We think Kommunalkredit's robust niche business model rests on its strong expertise in infrastructure, energy, and sustainable finance projects, serving as an intermediary between institutional investors and the public sector. We believe this is balanced by the bank's small size and high revenue concentration, along with its high dependence on key personnel, that make it more sensitive to potential adverse economic scenarios than peers. However, Kommunalkredit has almost no exposure to Russia, Ukraine, or Belarus. We anticipate ongoing strong new business inflow at attractive margins in the sustainable finance-related growth areas of green energy and social infrastructure, such as hospitals. Similarly, we see the bank's focus as supported by climate change and political support for a green economy, and by renewed political interest in strengthening social and health care infrastructure in a post-pandemic environment.

We anticipate Kommunalkredit's internal and external capital generation headroom mitigates niche risks and high key personnel dependency. We expect that capitalization will remain Kommunalkredit's particular strength, as indicated by our forecast for the bank's risk-adjusted capital (RAC) ratio of 13.0%-14.5% over the next two years. We anticipate that Kommunalkredit's asset-light business model (whereby it syndicates about 50% of new business), above-average earnings buffer, and committed owners provide sufficient funds for significant planned business growth. This ties in with Kommunalkredit's announcement of ambitious targets to deliver ROE before tax of 15%. Accordingly, the solid risk-adjusted profitability and high capital buffers increase the prospects of remaining sufficiently resilient in the current difficult markets. This mitigates our concerns on the bank's small size, high concentration in transaction-driven revenue base that relies heavily on syndications, and its high dependence on key personnel. Despite large improvements in recent years, however, we remain mindful that Kommunalkredit remains more dependent on key personnel for business generation and organization than many of its similarly and higher-rated peers in Austria and elsewhere in Europe.

We anticipate Kommunalkredit will maintain its solid asset quality metrics over our forecast horizon over the next 24 months. Supported by its solid risk management and ongoing governance improvements, Kommunalkredit continues to post an excellent credit-risk record, with basically no credit-risk costs or NPLs in recent years. It has a more concentrated portfolio than we see at most other European banks, however.

Outlook

The stable outlook reflects our expectation that Kommunalkredit will continue to report strong profits and that its business will remain highly resilient to the adverse economic environment over the next 24 months. Moreover, we anticipate that Kommunalkredit will gradually build its franchise and originate-to-collaborate business model in the infrastructure and energy financing markets, while maintaining high capitalization. We also expect there will be enhancements in both Kommunalkredit's governance and the broader control environment as the bank grows.

Downside scenario

We could lower our rating on Kommunalkredit if the bank experienced a material deterioration in its risk-adjusted profitability or asset quality, or if a delayed economic recovery adversely affected Kommunalkredit's key markets. Similarly, we could lower the rating if Kommunalkredit failed to professionalize its organizational and business setup in line with strong business growth, if it shifted unexpectedly to an overly aggressive growth strategy beyond its core competencies, or if material risks arose from a high level of syndication.

Upside scenario

We consider a positive rating action on Kommunalkredit as a remote prospect over the next 18-24 months. This reflects some persistent downside risks from the economic environment. An upgrade would likely require a much broader franchise and a more diversified earnings profile, with concurrent improvements in controls to improve the bank's alignment with higher-rated peers.

Key Metrics

Kommunalkredit Austria AG--Key Ratios And Forecasts					
	--Fiscal year ended Dec. 31--				
(%)	**2020a**	**2021a**	**2022f**	**2023f**	**2024f**
Growth in operating revenue	25.2	30.4	7.8-8.7	9.6-10.6	6.0-6.6
Growth in customer loans	(8.7)	12.0	11.4-12.6	11.4-12.6	11.4-12.6
Growth in total assets	2.7	0.1	4.9-10.4	4.9-10.4	5.1-10.6
Net interest income/average earning assets (NIM)	2.2	2.2	2.4-2.6	2.4-2.6	2.4-2.6
Cost to income ratio	58.4	50.6	49.7-52.2	49.2-51.7	50.4-53.0
Return on average common equity	10.4	13.3	11.5-12.7	10.9-12.1	9.8-10.8
Return on assets	0.8	1.1	1.0-1.2	1.0-1.2	0.9-1.1
Risk-adjusted capital ratio	14.9	13.4	13.6-14.3	13.6-14.3	13.8-14.5

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

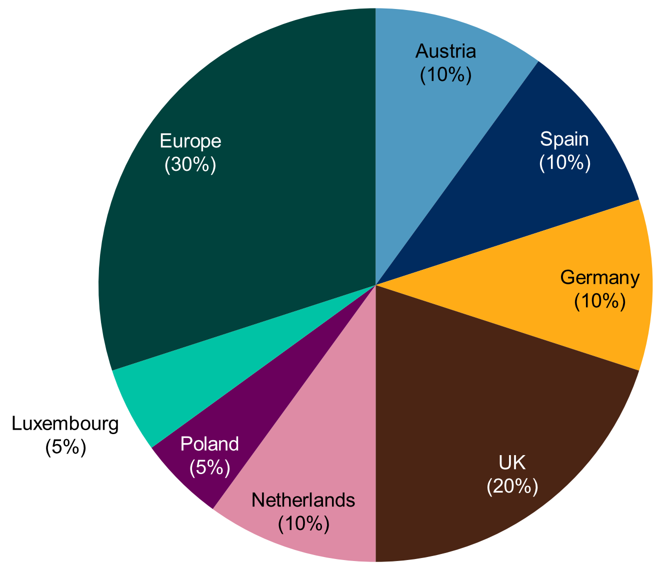
Anchor: The Economic And Industry Risk Scores Reflect Kommunalkredit's Geographically Diverse Exposures

The 'bbb+' anchor for Kommunalkredit is one notch lower than that of a purely Austrian group and draws on our view of the weighted-average economic risk in countries of the group's exposures. Kommunalkredit pursues lending in several countries (see chart 1), and we take the bank's international corporate exposures at year-end 2021 into account when analyzing its economic risks. Since more than 60% of the bank's exposures are in countries with weaker economic risk scores than Austria, our weighted economic risk score for Kommunalkredit is '3' on a scale of 1-10 ('1' is the lowest risk and '10' is the highest).

We base our assessment of Kommunalkredit's industry risk solely on that of Austria, which is the bank's domicile and the jurisdiction responsible for the regulation of the group. We consider that Austria's prudential regulatory standards are in line with the E.U.'s and that banks' funding conditions remain comfortable, reflecting a high share of customer deposits. However, moderate overcapacity and structural impediments in the banking sector result in ultra-low lending margins and cost inefficiencies, which remain the weakest spots in our assessment. These factors pose a risk to long-term stability, as reflected in the negative trend we see on banking industry risk.

Chart 1

A Well-Diversified Geographic Footprint
Weighted average economic risk



Rounded to nearest 5%. Source: S&P Global Ratings.

Business Position: Kommunalkredit Is A Specialized Niche Bank With Superior Resilience To Pandemic-Related Economic Shocks

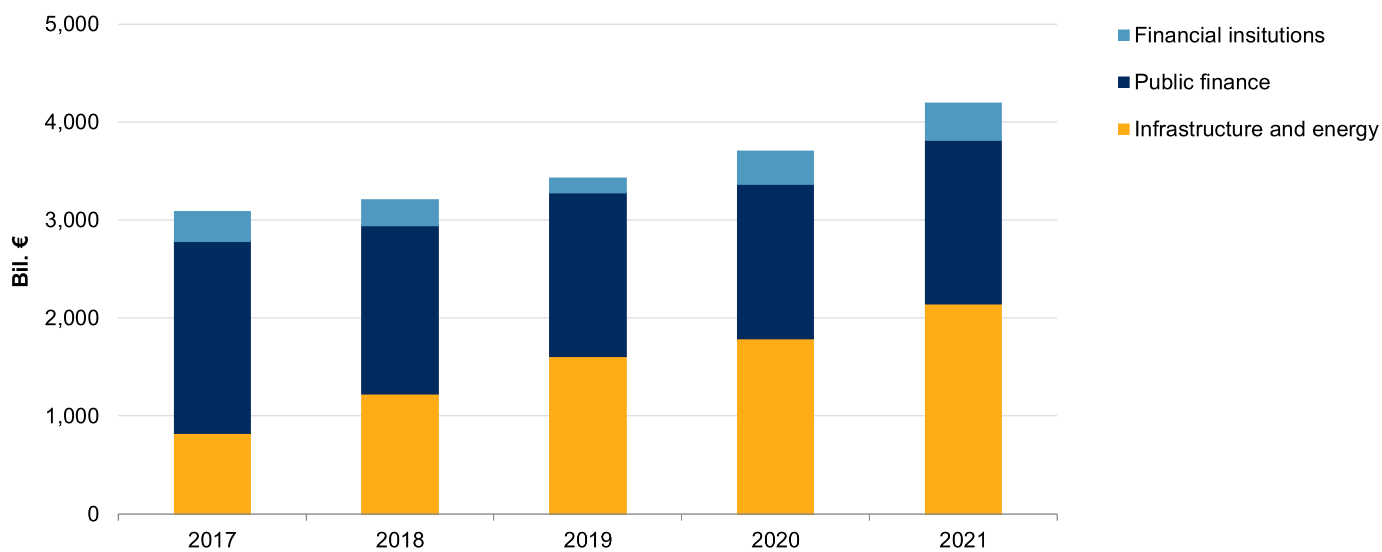
We think that Kommunalkredit's concentrated business model and small size, along with its high dependence on key personnel, make the bank more sensitive to adverse scenarios than peers. We balance this against Kommunalkredit's material strategic and operational progress following its reprivatization and restructuring in 2015. Kommunalkredit has already demonstrated high risk-adjusted profitability in difficult markets throughout the COVID-19 pandemic. We forecast that Kommunalkredit will continue to report high growth in new business and international business diversification in 2022-2024, despite the challenging economic environment in Europe caused by the Russia-Ukraine conflict.

Kommunalkredit's business stability was notable amid the pandemic in 2020 and 2021, benefiting from its expertise in environmental and social infrastructure financing. The bank's key focus is on sourcing, underwriting, and advisory services in the early stages of the project life cycle, complemented by an active syndication strategy for long-term investors.

We expect Kommunalkredit to outperform many of its peers and largely deliver on its ambitious targets for 2022-2024, such as ROE before tax of 15%. Kommunalkredit has strong inflows of new business at attractive margins in infrastructure and energy financing and social infrastructure. Given Kommunalkredit's balance sheet-light business model, with about 40% of new business syndicated, high earnings, and committed owner, we believe that it will find sufficient funds and capital to seize growth opportunities.

Chart 2

Business Model Pivot To Infrastructure Finance
Credit portfolio by borrower type



Source: Company Information, S&P Global Ratings.

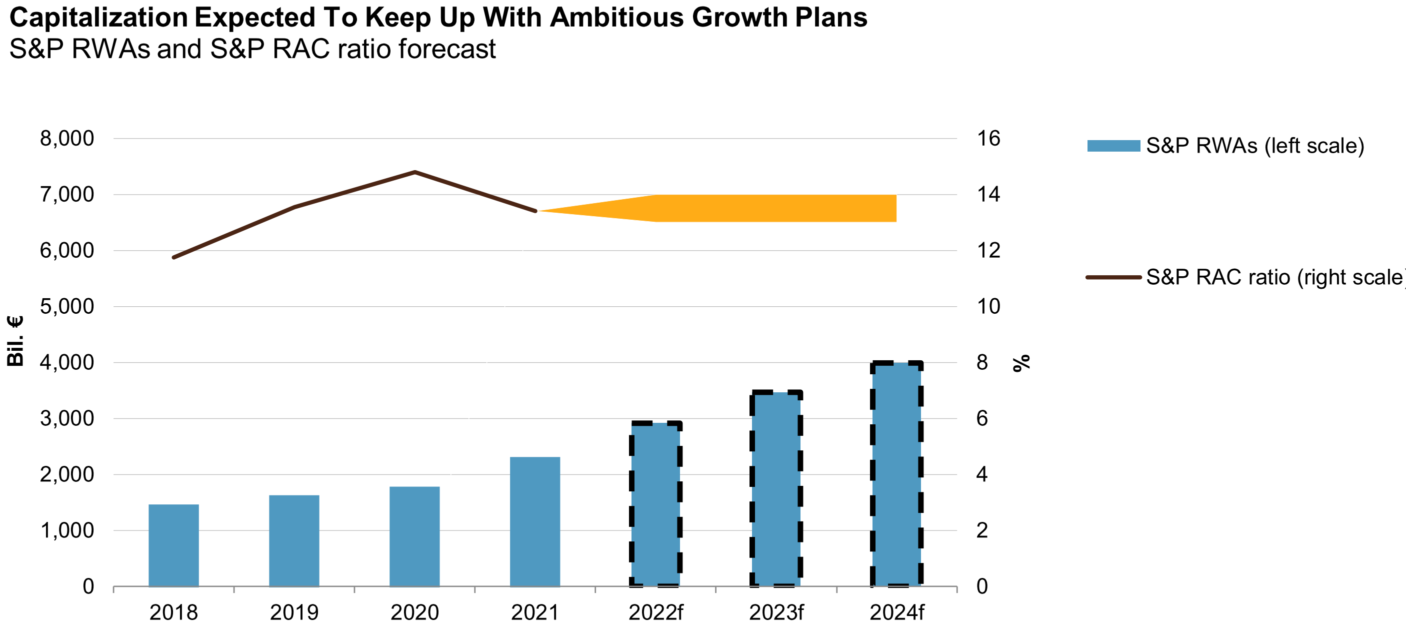
Capital And Earnings: We Expect That Capital Injections Will Accompany Kommunalkredit's Ambitious Growth Plans

We expect that Kommunalkredit's capitalization will remain a rating strength, as indicated by our forecast that the bank's RAC ratio will be 12%-14% over the next two years (see chart 3). We base our expectation for the next two years on the following assumptions:

- An increase in S&P Global Ratings' risk-weighted assets of around 25% in 2022 and around 20% in 2023, reflecting the bank's growth ambitions, as well as a structural shift in its portfolio as public-sector exposures expire. We expect total asset growth to understate the bank's growth trajectory due to its balance sheet-light syndication strategy. We expect the bank to continue to accompany its growth ambitions with significant capital increases from its existing shareholders.
- A positive net result from the core operations, reflecting increased underwriting activities and a contained cost base.
- About 50% dividend payments on net available income for distribution, after a payment suspension in 2020 in line

with the European Central Bank's recommendations.

Chart 3



S&P RWAs--S&P Risk-Weighted Assets. RAC--Risk-adjusted capital. f--Forecast. Source: S&P Global Ratings.

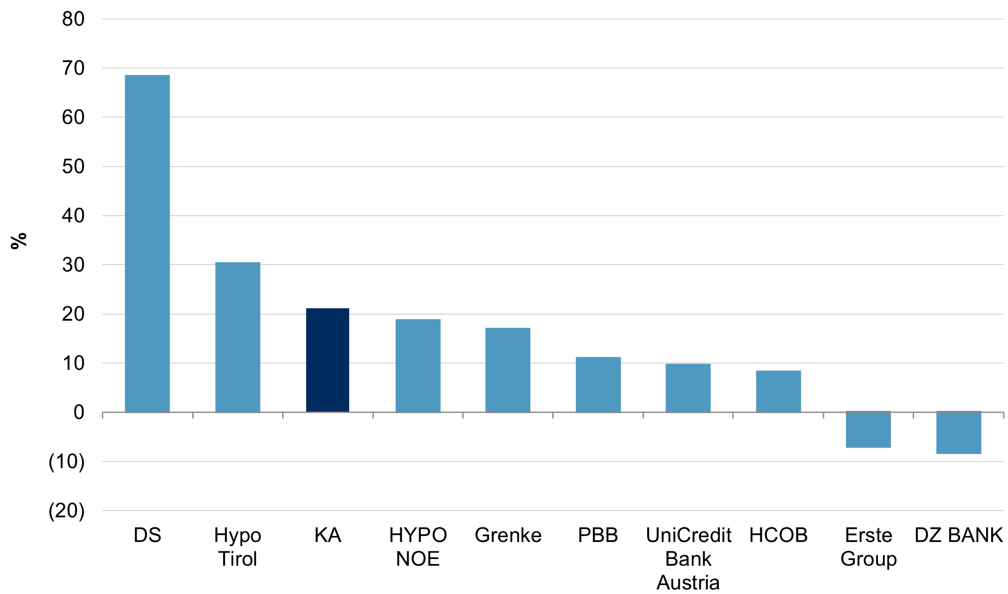
Risk Position: A Large Capital Buffer Mitigates Volatility Of Kommunalkredit's Revenue

Kommunalkredit's risk position is in line with that of other European niche banks or banks with a similar risk break down. Apart from complexity in some infrastructure and energy financing transactions, the bank does not have complex products on its balance sheet. Since its set-up at the end of 2015, the bank does not have any nonperforming assets (NPLs) either. Kommunalkredit's track record of loan losses has limited informational value due to the restructuring and asset transfer in 2015.

We see concentration risks due to Kommunalkredit's small size, focus on certain sectors (see chart 4), and high lending growth in recent years. We expect the cost of risk to increase but remain manageable in the next 12-24 months. However, we also expect that the bank's risk metrics will deteriorate to more normal levels in the next three years.

Chart 4

Relatively High Concentration Surcharge
Total S&P Global Ratings' RAC concentration adjustment/S&P RWAs before diversification



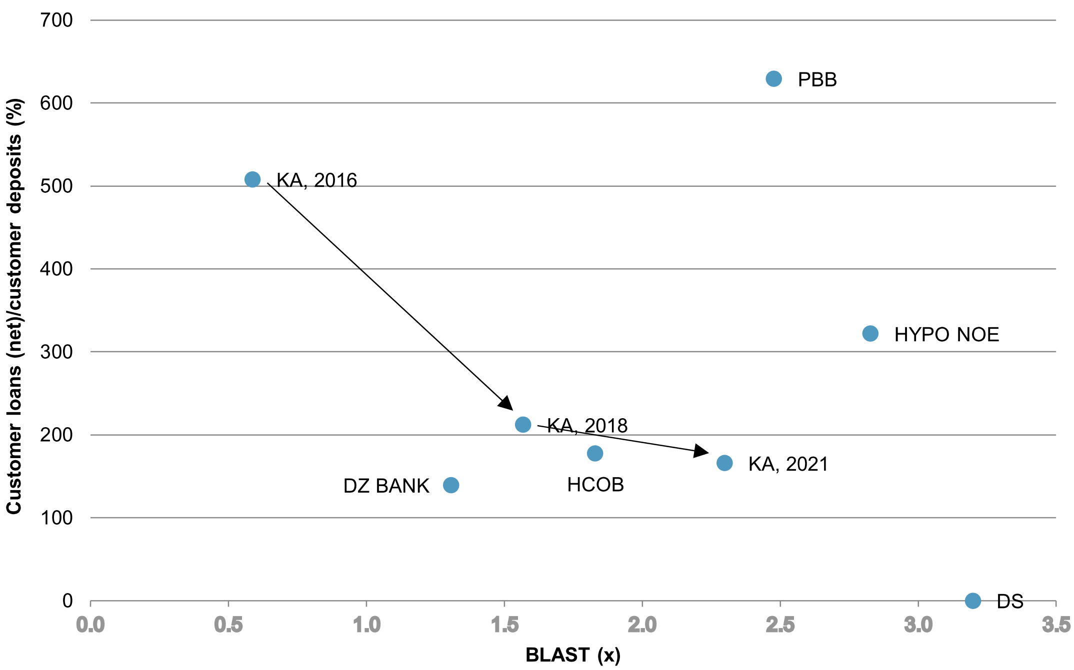
KA--Kommunalkredit Austria. DS--Danmarks Skibskredit. PBB-Deutsche Pfandbriefbank. RWA--Risk-weighted assets. HCOB--Hamburg Commercial Bank. Source: S&P Global Ratings.

Funding And Liquidity: Deposits Have A Greater Role As A Funding Source

We consider Kommunalkredit's funding as weaker than that of many of its global peers. Although its share of wholesale funding has decreased against a significant rise in deposits, including term deposits, on the funding side, we consider online marketed deposits to be rather price sensitive and less sticky. We expect the ratio of broad liquid assets to short-term wholesale funding to remain close to current levels of around 2.0x over the next two years (see chart 5), with an expected survival period of over six months and assuming no access to the external market or support by the owners.

Chart 5

Improved Liquidity Metrics



KA--Kommunalkredit Austria. DZ BANK--DZ BANK AG. PBB--Deutsche Pfandbriefbank AG. DS--Danmarks Skibskredit A/S. HCOB--Hamburg Commercial Bank AG. BLAST--Broad liquid assets/short-term wholesale funding. Data as per December 2021. Source: S&P Global Ratings.

Support: No Uplift For Government Or Additional Loss-Absorbing Capacity (ALAC) Support, And Low Systemic Importance

The long-term rating on Kommunalkredit is at the same level as the stand-alone credit profile. We regard the bank as having low systemic importance in the Austrian banking sector. Furthermore, generally, we do not incorporate government support into our ratings on systemic banks in Austria, because we think that the prospects of such support are uncertain.

We recognize that the Austrian bank resolution framework is advanced and therefore we include notches of uplift in our ratings on systemic banks that we expect will build sizable bail-in-able capital volumes over the coming years. However, we see a resolution scenario for Kommunalkredit as unlikely, reflecting our view of its low systemic importance, and therefore we do not incorporate any uplift under our ALAC criteria.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	G-2	**G-3**	G-4	G-5

- N/A	- N/A	- Governance structure

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Governance factors are a moderately negative consideration in our credit rating analysis of Kommunalkredit Austria. Its concentrated business model and small size, along with its high dependence on key individuals, make the bank more sensitive to adverse scenarios than peers. We partly balance this weakness against the material strategic and operational progress following its reprivatization and restructuring in 2015. Because the bank is growing quickly, we will look in particular for enhancements in governance and the broader internal control infrastructure to keep pace with growth.

Key Statistics

Table 1

Kommunalkredit Austria AG--Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2021**	**2020**	**2019**	**2018**	**2017**
Adjusted assets	4,427.0	4,422.7	4,305.1	3,941.6	3,663.0
Customer loans (gross)	3,085.1	2,755.0	3,017.0	3,086.4	2,675.4
Adjusted common equity	272.6	262.4	218.0	170.0	237.5
Operating revenues	135.9	104.2	83.3	80.7	63.7
Noninterest expenses	68.8	60.9	57.5	59.1	60.9
Core earnings	48.7	31.6	25.6	9.3	13.5

Table 2

Kommunalkredit Austria AG--Business Position

	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Return on average common equity	13.3	10.4	9.3	4.9	6.2

Table 3

Kommunalkredit Austria AG--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	18.7	20.0	17.8	19.9	23.5
S&P Global Ratings' RAC ratio before diversification	13.4	14.9	13.5	11.7	N/A

Table 3

Kommunalkredit Austria AG--Capital And Earnings (cont.)

	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
S&P Global Ratings' RAC ratio after diversification	11.1	12.3	10.3	9.6	N/A
Adjusted common equity/total adjusted capital	88.8	100.0	100.0	100.0	100.0
Net interest income/operating revenues	58.0	74.0	70.4	65.3	55.3
Fee income/operating revenues	21.7	27.4	29.9	22.9	27.1
Market-sensitive income/operating revenues	7.4	(1.6)	(3.5)	0.3	(2.1)
Cost to income ratio	50.6	58.4	69.1	73.2	95.6
Preprovision operating income/average assets	1.5	1.0	0.6	0.6	0.1
Core earnings/average managed assets	1.1	0.7	0.6	0.2	0.4

N/A--Not applicable.

Table 4

Kommunalkredit Austria AG--Risk-Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	1,974.7	30.8	1.6	153.7	7.8
Of which regional governments and local authorities	730.4	11.7	1.6	41.5	5.7
Institutions and CCPs	434.3	67.0	15.4	64.4	14.8
Corporate	2,046.9	1,694.2	82.8	1,703.4	83.2
Retail	0.0	0.0	0.0	0.0	0.0
Of which mortgage	0.0	0.0	0.0	0.0	0.0
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	57.3	58.7	102.5	93.5	163.3
Total credit risk	4,513.1	1,850.7	41.0	2,015.1	44.7
Credit valuation adjustment					
Total credit valuation adjustment	--	14.6	--	0.0	--
Market Risk					
Equity in the banking book	0.9	1.0	113.9	7.8	879.2
Trading book market risk	--	0.0	--	0.0	--
Total market risk	--	1.0	--	7.8	--
Operational risk					
Total operational risk	--	160.2	--	265.2	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	2,026.4	--	2,288.1	100.0
Total diversification/ concentration adjustments	--	--	--	482.7	21.1
RWA after diversification	--	2,026.4	--	2,770.9	121.1

Table 4

Kommunalkredit Austria AG--Risk-Adjusted Capital Framework Data (cont.)

	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	379.0	18.7	307.1	13.4
Capital ratio after adjustments‡	379.0	18.7	307.1	11.1

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2021, S&P Global Ratings.

Table 5

Kommunalkredit Austria AG--Risk Position

	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Growth in customer loans	12.0	(8.7)	(2.3)	15.4	(4.6)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	21.1	21.2	31.2	22.6	N/A
Total managed assets/adjusted common equity (x)	16.2	16.9	19.7	23.2	15.4
New loan loss provisions/average customer loans	0.0	0.0	0.1	0.0	0.0

N/A--Not applicable. RWA--Risk-weighted assets.

Table 6

Kommunalkredit Austria AG--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Core deposits/funding base	48.9	55.6	50.6	42.6	33.4
Customer loans (net)/customer deposits	165.7	130.1	160.7	211.8	257.7
Long-term funding ratio	92.5	88.0	85.0	93.9	94.6
Stable funding ratio	108.0	111.9	98.1	103.3	108.6
Short-term wholesale funding/funding base	8.4	13.2	16.4	6.6	5.9
Broad liquid assets/short-term wholesale funding (x)	2.3	2.1	1.0	1.6	2.6
Broad liquid assets/total assets	16.5	23.4	14.6	9.0	13.2
Broad liquid assets/customer deposits	39.2	48.9	33.5	24.5	46.7
Net broad liquid assets/short-term customer deposits	41.8	44.1	2.2	15.6	48.8
Short-term wholesale funding/total wholesale funding	16.1	29.7	33.2	11.6	8.9
Narrow liquid assets/3-month wholesale funding (x)	2.7	13.1	3.9	2.7	3.1

N/A--Not applicable.

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Austrian Bank Ratings Affirmed Under Revised FI Criteria, Feb. 7, 2022
- ESG Credit Indicator Report Card: EMEA Banks, Jan. 19, 2022
- Easing Economic Risks And Structural Profitability Issues Prompt Rating Actions On Seven Austrian Banks, June 24, 2021
- Banking Industry Country Risk Assessment: Austria, July 13, 2021

Ratings Detail (As Of July 5, 2022)*	
Kommunalkredit Austria AG	
Issuer Credit Rating	BBB-/Stable/A-3
Senior Secured	A+/Stable
Senior Unsecured	BBB-
Issuer Credit Ratings History	
24-Feb-2021	BBB-/Stable/A-3
Sovereign Rating	
Austria	AA+/Positive/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.