

## Kommunalkredit Austria AG

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# Kommunalkredit Austria AG

## Ratings Score Snapshot

### Issuer Credit Rating

BBB-/Positive/A-3

SACP: **bbb-**



Support: **0**



Additional factors: **0**

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

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
<b>BBB-/Positive/A-3</b>

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 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 risks from its high concentrations.*

Kommunalkredit's niche business model rests on its strong expertise in infrastructure, energy, and sustainable finance projects, as well as its ability to syndicate up to 50% of its new business. We believe this balances the risks stemming from its small size and high revenue concentration, along with its high dependence on key personnel. We anticipate ongoing strong new business inflow at attractive margins in green energy and social infrastructure. We forecast Kommunalkredit will generate a favorable 10%-13% return on equity (ROE) between 2023 and 2025, after 19.9% in 2022 that was partly boosted by the acquisition of a discounted bank portfolio.

### *We expect Kommunalkredit's internal and external capital generation capacity to remain strong.*

We expect Kommunalkredit to maintain strong capitalization, with a risk-adjusted capital (RAC) ratio of 13%-14% over the next two years, after 13.5% at year-end 2022. We anticipate that Altor Funds (Altor) will become its 80% owner pending

regulatory approval, and that it will fully support the continuance of Kommunalkredit management's business strategy, risk appetite, and capital needs, including Altors' announced €100 million capital increase in February 2023.

***We anticipate Kommunalkredit will maintain solid asset quality metrics.*** Supported by its solid risk management and ongoing governance improvements, we expect Kommunalkredit to maintain a very good credit-risk record, after incurring almost no credit-risk costs and no nonperforming loans since its reprivatization in 2015. However, it has a more concentrated portfolio than many other European banks, with high single-name concentrations, increasing its exposure to adverse economic scenarios or single events.

## Outlook

The positive outlook reflects our expectation that Kommunalkredit's new owner will fully support the continuance of the bank's existing business and risk strategy over the next 12-24 months. In particular, we expect Kommunalkredit to maintain its double-digit RoE, while retaining its sound risk appetite and asset quality, and robust capitalization. Similarly, we anticipate that Kommunalkredit will continue to further improve its management and control capabilities consistent with its growth trajectory.

### Upside scenario

We could raise our rating on Kommunalkredit over the next 24 months, if the bank shows similar or higher-than-anticipated earnings performance and sound asset quality demonstrating outperformance of higher rated, more diversified banking peers. In addition, we would also need more confidence that Altor will fully fund and support Kommunalkredit's business expansion strategies in the medium-to-long term.

### Downside scenario

We would revise the outlook to stable over the next 24 months, if the bank or its owner were to adversely change Kommunalkredit's business and risk strategies, or unexpectedly we were to see meaningful deterioration in its earnings or asset quality, or if delayed economic recovery adversely affected Kommunalkredit's key markets.

Similarly, we could revise the outlook to stable if Kommunalkredit failed to improve its organizational and business settings in line with its strong growth path, or if it shifted unexpectedly to a more aggressive growth strategy beyond its core competencies.

## Key Metrics

### Kommunalkredit Austria AG--Key ratios and forecasts

	--Fiscal year ended Dec. 31 --				
(%)	2021a	2022a	2023f	2024f	2025f
Growth in operating revenue	30.4	33.3	(3.2)-(3.9)	17.7-21.6	8.4-10.3
Growth in customer loans	12.0	5.2	23.4-28.6	6.2-7.6	11.6-14.2
Net interest income/average earning assets (NIM)	2.2	3.3	2.7-3.0	2.6-2.9	2.4-2.7

**Kommunalkredit Austria AG--Key ratios and forecasts (cont.)**

	--Fiscal year ended Dec. 31 --				
(%)	2021a	2022a	2023f	2024f	2025f
Cost to income ratio	50.6	44.9	54.4-57.2	48.7-51.2	48.3-50.8
Return on average common equity	13.3	19.9	11.0-12.2	12.1-13.4	11.4-12.6
New loan loss provisions/average customer loans	0.0	0.0	0.0-0.2	0.0-0.2	0.1-0.3
Gross nonperforming assets/customer loans	0.0	0.0	0.0-1.0	0.0-1.5	0.0-2.0
Risk-adjusted capital ratio	13.4	13.5	13.0-13.7	12.6-13.3	12.8-13.4

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. 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 of Kommunalkredit's exposures in countries where it operates.

Kommunalkredit pursues lending in several countries, and we take the bank's international corporate exposures at year-end 2022 into account when analyzing its economic risks. Since the majority 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 EU's and that banks' funding conditions remain comfortable, reflecting a high share of customer deposits. Austrian banks are among the largest beneficiaries of rising interest rates, maintaining a material share of variable interest rate lending that allows for quick repricing on the asset side. However, Austrian banks' cost-to-income ratio, at about 65%, remains mediocre in a broader international context. We highlight that it remains crucial that banks continue to tackle inefficiencies to remain competitive throughout the cycle.

## Business Position: Kommunalkredit Is A Specialized Niche Bank With High Geographic Diversification

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, and significant improvements in its profitability and operating efficiency in recent years.

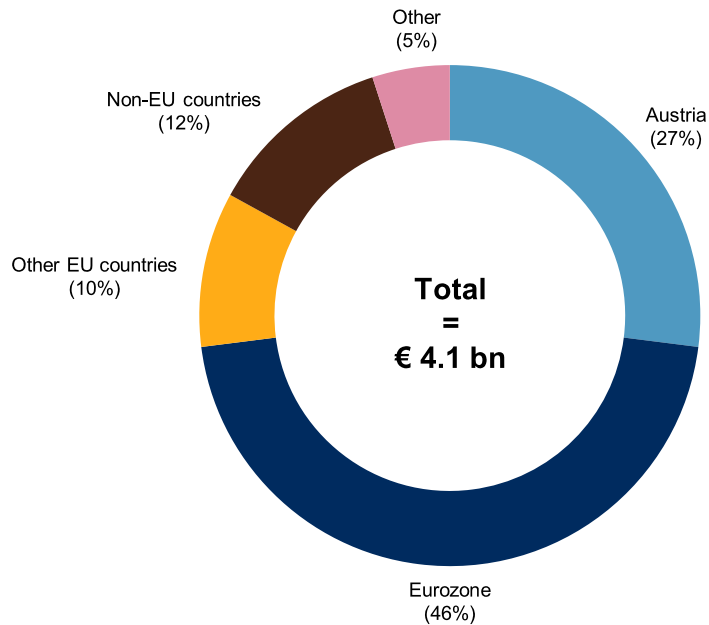
Kommunalkredit's business stability has been notable amid macroeconomic deterioration, benefiting from its expertise in infrastructure and energy financing and public finance. The bank's key focus is on sourcing, underwriting, and advisory services in the early stages of the project life cycle, complemented by an active syndication strategy for long-term investors. The majority of its loan portfolio is located outside of Austria, with a focus on the EU. While the composition of its loan portfolio is relatively balanced between infrastructure and energy and public finance, 90% of

new business in 2022 came from infrastructure and energy financing.

**Chart 1**

**Most of its loans\* are non-domestic**

Loan portfolio by region as of December 31, 2022

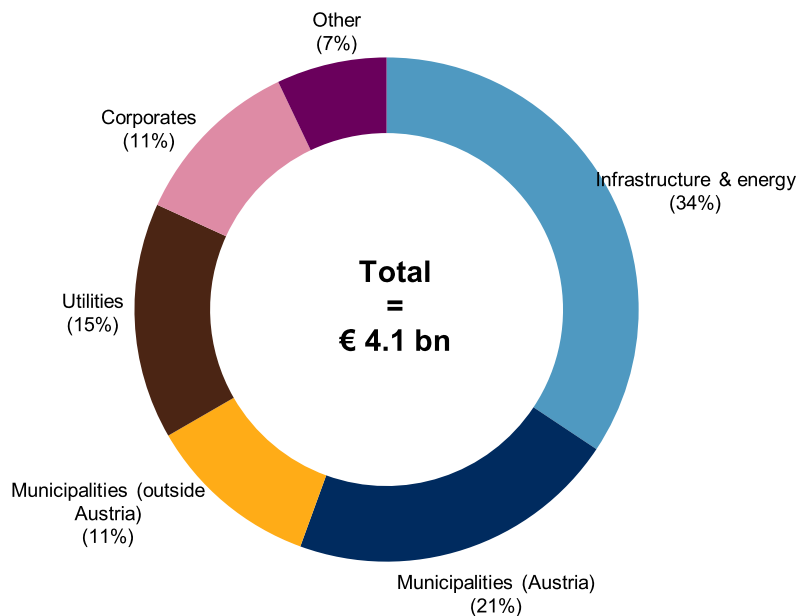


\*Including project bonds and disbursement obligations. Source: Company reports.  
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**Chart 2**

**Kommunalkredit's loan book\* is directed towards infrastructure and energy**

Loan portfolio by borrower as of December 31, 2022



\*Including project bonds and disbursement obligations. Source: Company reports.  
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We expect that business growth will accelerate in the next two-to-three years, aided by the targeted €100 million capital increase from Altor. We estimate that its loan book may increase by about 50% by year-end 2025. Current shareholders Interritus and Trinity Investments DAC will remain minority shareholders, each holding 9.9% alongside Altor's 80% stake. The remaining 0.2% will be held by the Austrian Association of Municipalities.

## Capital And Earnings: We Expect Capital Injections To Accompany Kommunalkredit's Ambitious Growth Plans

We expect Kommunalkredit's capitalization to remain a rating strength, as indicated by our forecast that the bank's RAC ratio will remain 13%-14% over the next two years. Our forecast is based on the following assumptions:

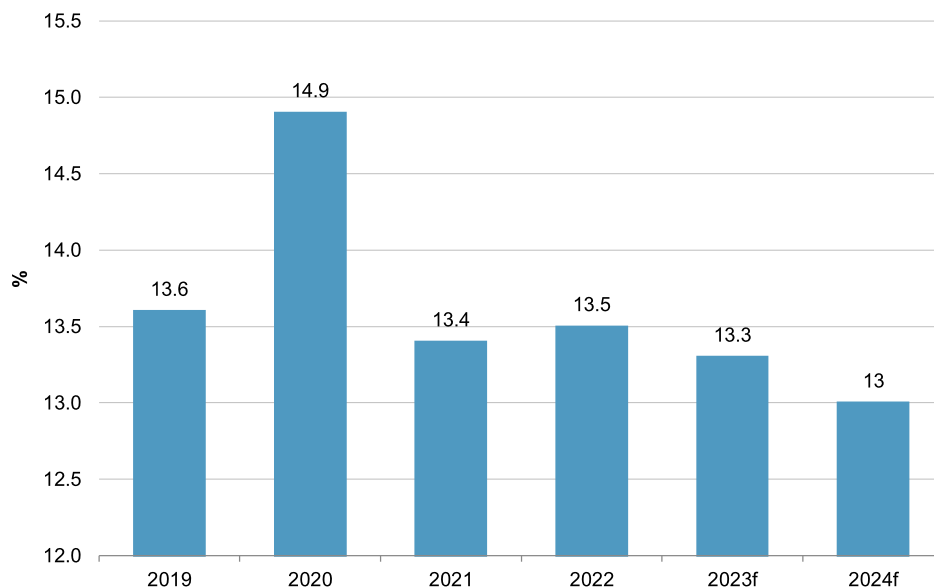
- The targeted capital increase of €100 million is finalized by third-quarter 2023. We expect Altor to provide ongoing capital increases to support Kommunalkredit's growth ambitions.
- S&P Global Ratings' risk-weighted assets increase by about 35% in 2023 and about 15% in 2024. This reflects the bank's growth ambitions, as well as a structural shift in its portfolio as public-sector exposures expire.
- €15 million of annual dividend payments.

The three-year average earnings buffer of 2.17%, which measures the capacity for a bank's earnings to cover its normalized credit losses, is at the upper end compared to the median of 1% for European banks in countries with similar levels of economic and industry risk. However, we anticipate the earnings buffer will fall below these levels over the next years, considering an expected time lag between loan growth in 2023-2025 and the corresponding increase in revenues.

### Chart 3

#### We expect the risk-adjusted capital ratio to remain stable

Evolution of Kommunalkredit's RAC ratio over 2019-2024f



f--Forecast. Source: S&P Global Ratings.

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## Risk Position: A Good Track Record Despite High Single-Name Concentrations

We think Kommunalkredit is adequately capitalized for the risks it takes. Apart from complexity in some infrastructure and energy financing transactions, the bank does not have complex products on its balance sheet. Since its reprivatization and restructuring at the end of 2015, the bank has not had any NPLs either. Kommunalkredit's track record on loan losses has limited informational value due to the restructuring and asset transfer in 2015. The €145 million of stage 2 exposures as of year-end 2022 represent only 3.5% of the total loan portfolio.

We see concentration risks due to Kommunalkredit's focus on certain sectors, large single-name exposures, and very high expected lending growth in the coming years. We anticipate the cost of risk to increase but remain manageable in



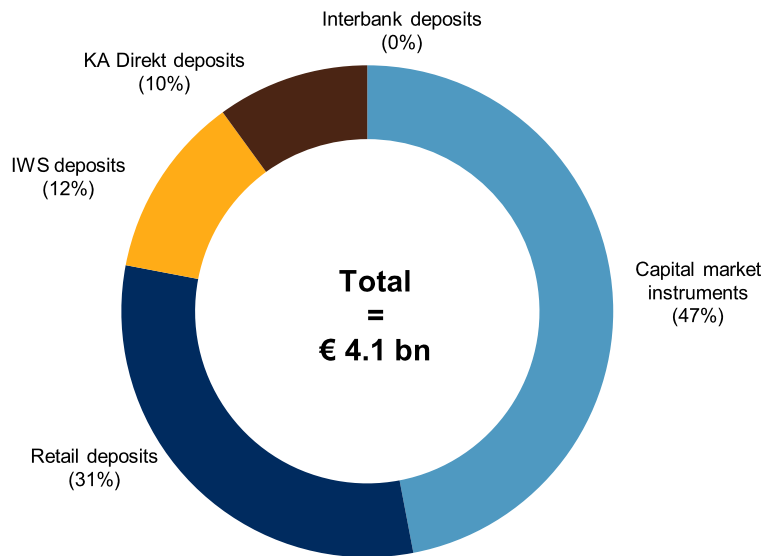
the next 12-24 months. However, we also expect the bank's risk metrics to deteriorate to more normal levels as the portfolio continues to season.

## Funding And Liquidity: Larger Reliance On Price-Sensitive Deposits

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 more stable term deposits, we view Kommunalkredit's online marketed deposits as more price sensitive and less sticky. We expect broad liquid assets to cover just under 0.5x total wholesale funding over the next two years, which is weaker than many peers.

### Chart 4

**Wholesale funding is the dominant refinancing source**  
Refinancing structure as of December 31, 2022

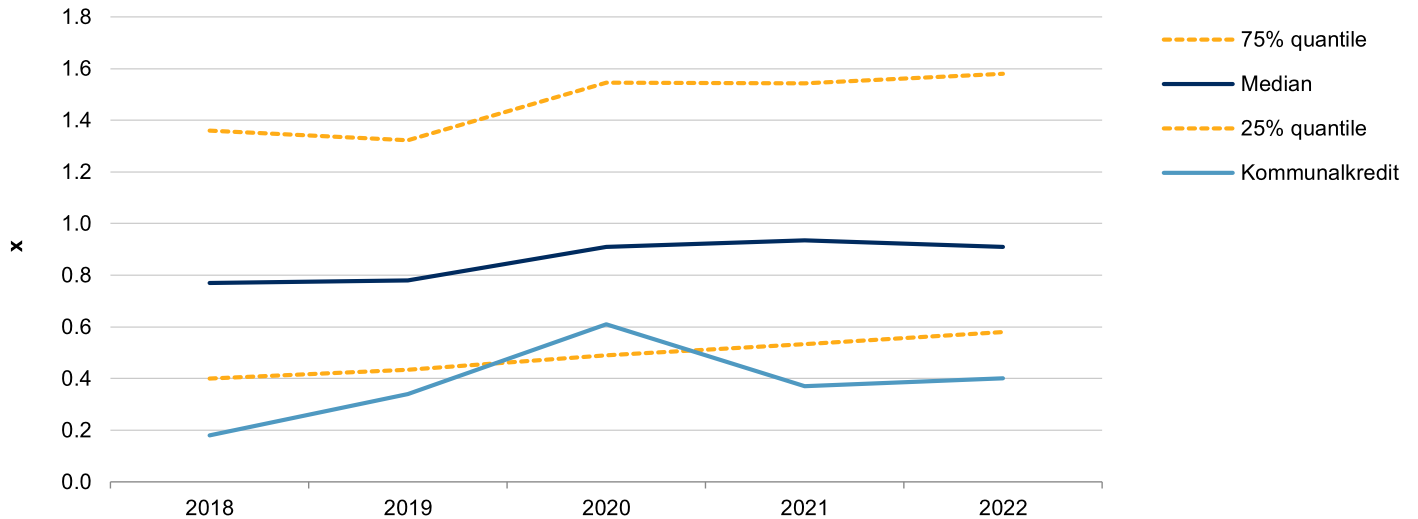


Source: Company reports. KA Direkt--Wholesale deposits from municipalities and public sector companies. IWS deposits--Direct business with corporate/institutional customers.  
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**Chart 5**

**Liquid assets relative to total wholesale funding are below average**

Broad liquid assets to total wholesale funding



Source: S&P Global Ratings. Peers include S&P-rated European banks in countries with similar economic and industry risk.

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**Support: No Uplift For Government Or Additional Loss-Absorbing Capacity (ALAC) Support**

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 we therefore include uplift in our ratings on systemic banks that we expect to 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	<b>E-2</b>	E-3	E-4	E-5	S-1	<b>S-2</b>	S-3	S-4	S-5	G-1	G-2	<b>G-3</b>	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 alphanumeric 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 due to the bank's high dependence on key individuals. We partly balance this weakness against the material strategic and operational progress made 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. €)	2022	2021	2020	2019	2018
Adjusted assets	4,624.0	4,427.0	4,422.7	4,305.1	3,941.6
Customer loans (gross)	3,246.5	3,085.1	2,755.0	3,017.0	3,086.4
Adjusted common equity	354.5	272.6	262.4	218.0	170.0
Operating revenues	181.1	135.9	104.2	83.3	80.7
Noninterest expenses	81.2	68.8	60.9	57.5	59.1
Core earnings	77.4	48.7	31.6	25.6	9.3

Table 2

Kommunalkredit Austria AG--Business position					
--Year-ended Dec. 31--					
(%)	2022	2021	2020	2019	2018
Return on average common equity	19.9	13.3	10.4	9.3	4.9

Table 3

Kommunalkredit Austria AG--Capital and earnings					
--Year-ended Dec. 31--					
(%)	2022	2021	2020	2019	2018
Tier 1 capital ratio	17.3	18.7	20.0	17.8	19.9
S&P Global Ratings' RAC ratio before diversification	13.5	13.4	14.9	13.5	11.7
S&P Global Ratings' RAC ratio after diversification	10.8	11.1	12.3	10.3	9.6
Adjusted common equity/total adjusted capital	90.7	88.8	100.0	100.0	100.0

Table 3

Kommunalkredit Austria AG--Capital and earnings (cont.)					
--Year-ended Dec. 31--					
(%)	2022	2021	2020	2019	2018
Net interest income/operating revenues	69.4	58.0	74.0	70.4	65.3
Fee income/operating revenues	16.5	21.7	27.4	29.9	22.9
Market-sensitive income/operating revenues	8.4	7.4	(1.6)	(3.5)	0.3
Cost to income ratio	44.9	50.6	58.4	69.1	73.2
Provision operating income/average assets	2.2	1.5	1.0	0.6	0.6
Core earnings/average managed assets	1.7	1.1	0.7	0.6	0.2

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 (%)
<b>Credit risk</b>					
Government & central banks	2,266.6	41.5	1.8	97.9	4.3
Of which regional governments and local authorities	794.0	11.4	1.4	37.8	4.8
Institutions and CCPs	379.6	68.2	18.0	64.7	17.1
Corporate	2,406.4	2,118.0	88.0	2,204.4	91.6
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†	67.9	72.3	106.4	67.2	98.9
Total credit risk	5,120.6	2,300.0	44.9	2,434.3	47.5
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	16.9	--	21.9	--
<b>Market Risk</b>					
Equity in the banking book	14.3	0.0	0.0	107.3	750.3
Trading book market risk	--	0.0	--	0.0	--
Total market risk	--	0.0	--	107.3	--
<b>Operational risk</b>					
Total operational risk	--	187.6	--	339.4	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
<b>Diversification adjustments</b>					
RWA before diversification	--	2,513.2	--	2,902.9	100.0
Total Diversification/ Concentration Adjustments	--	--	--	716.5	24.7
RWA after diversification	--	2,513.2	--	3,619.3	124.7
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio before adjustments		438.0	17.4	390.7	13.5

**Table 4**

<b>Kommunalkredit Austria AG--Risk-adjusted capital framework data (cont.)</b>				
Capital ratio after adjustments†	438.0	17.3	390.7	10.8

\*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. Sources: Company data as of 'Dec. 31 2022', S&P Global Ratings.

**Table 5**

<b>Kommunalkredit Austria AG--Risk position</b>					
(%)	<b>--Year-ended Dec. 31--</b>				
	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Growth in customer loans	5.2	12.0	(8.7)	(2.3)	15.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	24.7	21.1	21.2	31.2	22.6
Total managed assets/adjusted common equity (x)	13.1	16.2	16.9	19.7	23.2
New loan loss provisions/average customer loans	0.0	0.0	0.0	0.1	0.0

**Table 6**

<b>Kommunalkredit Austria AG--Funding and liquidity</b>					
(%)	<b>--Year-ended Dec. 31--</b>				
	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Core deposits/funding base	58.7	48.9	55.6	50.6	42.6
Customer loans (net)/customer deposits	141.7	165.7	130.1	160.7	211.8
Long-term funding ratio	98.0	92.5	88.0	85.0	93.9
Stable funding ratio	111.7	108.0	111.9	98.1	103.3
Short-term wholesale funding/funding base	2.2	8.4	13.2	16.4	6.6
Regulatory net stable funding ratio	129.0	122.0	N/A	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	7.7	2.3	2.1	1.0	1.6
Broad liquid assets/total assets	14.4	16.5	23.4	14.6	9.0
Broad liquid assets/customer deposits	29.1	39.2	48.9	33.5	24.5
Net broad liquid assets/short-term customer deposits	37.7	41.8	44.1	2.2	15.6
Regulatory liquidity coverage ratio (LCR) (x)	348.0	735.0	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	5.2	16.1	29.7	33.2	11.6
Narrow liquid assets/3-month wholesale funding (x)	16.6	2.7	13.1	3.9	2.7

N/A--Not applicable.

<b>Kommunalkredit Austria AG--Rating component scores</b>	
Issuer Credit Rating	BBB-/Positive/A-3
SACP	bbb-
Anchor	bbb+
Economic risk	3
Industry risk	3
Business position	Constrained
Capital and earnings	Strong
Risk position	Adequate
Funding	Moderate

**Kommunalkredit Austria AG--Rating component scores (cont.)**

	Adequate
Liquidity	
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

**Related Criteria**

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, 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, March 2, 2022
- 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**

- Kommunalkredit Austria Outlook Revised To Positive On Sound Performance And Asset Quality Trajectory; Affirmed At 'BBB-', March 10, 2023
- Banking Industry Country Risk Assessment: Austria, July 13, 2022

**Ratings Detail (As Of July 21, 2023)\*****Kommunalkredit Austria AG**

Issuer Credit Rating	BBB-/Positive/A-3
Senior Secured	A+/Stable
Senior Unsecured	BBB-

**Issuer Credit Ratings History**

10-Mar-2023	BBB-/Positive/A-3
24-Feb-2021	BBB-/Stable/A-3

**Sovereign Rating**

Austria	AA+/Stable/A-1+
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\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable

**Ratings Detail (As Of July 21, 2023)\*(cont.)**

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.

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