

# DBRS: KA's 1H17 Results Impacted by Lower Net Interest Income and Positive One-offs



Insight beyond the rating

*DBRS Ratings Limited (DBRS) comments on Kommunalkredit Austria AG recent interim results for 2017*

Kommunalkredit Austria's (KA or the Bank) reported pre-tax profit of EUR 10.9 million in 1H17 under IFRS accounting rules, down by EUR 23.7 million year-on-year (YoY), with lower net interest income from the declining legacy portfolio only partially mitigated by one-offs in trading income. The Bank reported further net attributable profit of EUR 13.9 million for the 1H 2017 compared to EUR 27.5 million for the same period in 2016 which was impacted by a positive one-off tax benefit from tax loss carryforwards of EUR 3 million.

Net interest income (NII) was EUR 16.2 million for the 1H 2017 period, down 13% year-on-year driven by the scheduled run-off of the legacy portfolio and the current low yield environment. Net fees and commission income was EUR 8.8 million for 1H 2017, up by 11% YoY, driven by higher related income from bank operations, representing 23% of operating income. KA recorded a net trading and valuation result of EUR 6.4 million (EUR 31.9 million in 1H16), which was (as in the previous year) primarily driven by the early redemption of CHF denominated outstanding covered bonds and the related early termination of associated hedging instruments (interest rates swaps). DBRS notes that KA does not engage in proprietary trading.

General administrative expenses were up by 14% to EUR 25.9 million due to increased expenses for strategic investments and costs for regulatory compliance. DBRS notes the cost-income ratio for the Bank went up to 71%, from 53.3% at end-2016.

KA's asset quality continues to benefit from its high-quality public sector legacy portfolio. The Bank's impaired loans ratio was 0% as of 1H17 with no credit defaults within the first half of the year. KA's credit portfolio is primarily investment grade and has been skewed towards Austrian municipalities. DBRS notes however the unseasoned nature of KA's newly built-up loan book and the prominent risks during the portfolio build-up phase.

The Bank's fully loaded Basel III Common Equity Tier 1 (CET1) ratio decreased to 26.9% at end-June 2017, down by 6pp from end-2016, driven by the development of new business and consequently higher RWAs. According to regulatory requirements KA needs to maintain a minimum CET 1 ratio of at least 5.75% and a total capital ratio of at least 9.25%. As of 1H17, the Bank reported a total capital ratio of 34.4%. KA reported under IFRS in 1H17 cash dividend payments attributable to the owners of the parent in the amount of EUR 32 million which related to FY 2016 result.

## Summary:

- 1H17 Results impacted by positive one-offs and lower net interest income
- General administrative expenses were up by 14% due to increased costs for strategic investments and regulatory compliance
- KA's asset quality continues to benefit from its high-quality public sector legacy portfolio
- DBRS rates Kommunalkredit Austria AG at BBB (low), Negative trend

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