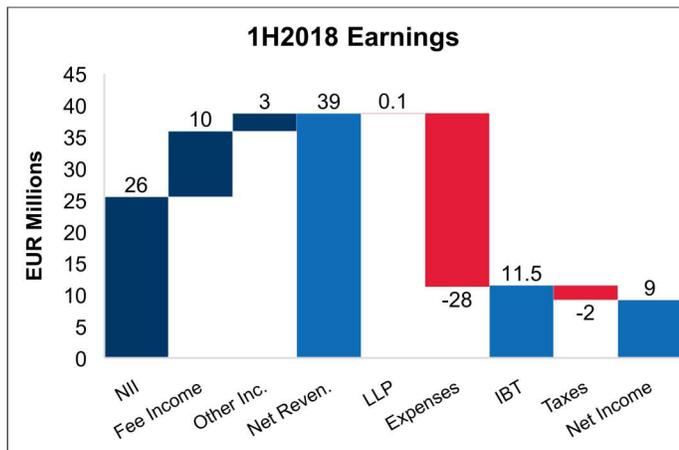
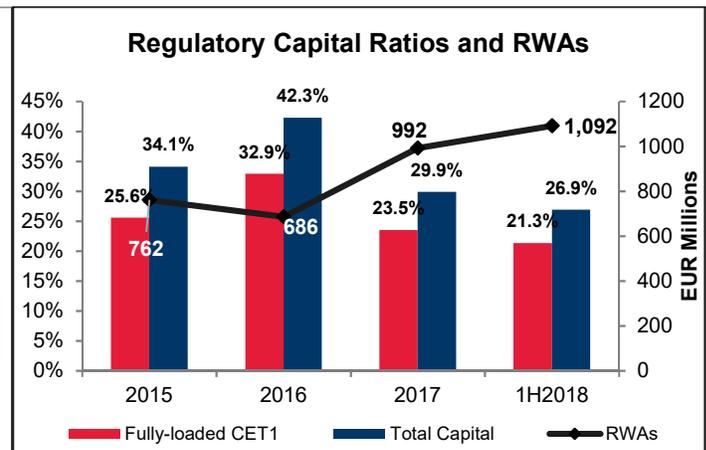


DBRS: Kommunalkredit's 1H18 Underlying Results Improved, but Impacted by Restructuring Costs

- Kommunalkredit Austria AG (Kommunalkredit or the Bank) reported pre-tax profit of EUR 11.5 million in 1H18, up from EUR 10.8 million year-on-year (YoY), due to strong new business and controlled operating expenses. The Bank's operating results improved to EUR 13.8 million during 1H18 (from EUR 4.6 million in 1H17). DBRS notes that due to the implementation of IFRS 9 accounting rules in 2018, previous years' figures are of limited comparability.
- Kommunalkredit reported a significant uplift in business growth (new business in infrastructure finance, with a volume of EUR 532.5 million corresponding to 10 transactions (1H17: EUR 300 million, 14 transactions)). The Bank also reported strong customer deposit growth of 41% YoY to EUR 910 million at end-June 2018.



Source: Company disclosures, DBRS



Source: Company disclosures, DBRS

- Net Interest Income (NII) expanded by 56% to EUR 25.5 million in 1H18 as a result of increasing revenue generation capacity from new business which now accounts for more than 50% of total NII. Part of the NII results from an accounting effect related to the adoption of IFRS 9. DBRS sees as positive the strong increase (4x) in NII from new business.
- Fees & commissions improved by 18% to EUR 10.4 million, supported by advisory fees generated by Kommunalkredit's consulting unit, KPC, together with a positive contribution of fees from new business. Income from net trading and valuation results returned to a low level at EUR 0.2 million for the 1H18 period, after an extraordinary positive effect from the Bank's buyback of own issuances accounted for in 1H17.
- Following a cost efficiency programme implemented in 2017, Kommunalkredit's administrative expenses reduced to EUR 25.0 million during 1H18, despite substantial activity growth. After a year of investments, namely on its front office team, the Bank managed to reduce personnel expenses by around EUR 1 million YoY. As a result of the improved performance, the cost-income ratio improved to 64.5% at end-June 2018 (85.1% YoY).
- The Bank reported a very small charge of loan loss provisions (LLP) to comply with new IFRS 9 accounting rules, but Kommunalkredit maintains strong asset quality, with an unchanged NPL ratio of 0.0%.
- Kommunalkredit announced a transfer of the service agreement with KA Finanz AG to a new service provider for March 2019. Therefore, the Bank provisioned EUR 2.5 million in the 1H18 period to address expenses related to its internal reorganisation. The Bank's 1H18 income tax expense amounted to EUR 2.3 million and compares with a tax release of EUR 3.1 million for 1H17. This tax effect (swing of EUR 5.4 million) was the main driver for the Bank's nominal net income decline to EUR 9.2 million in 1H18 (from EUR 13.9 million in 1H17).
- Capital levels remain solid at end-June 2018 with Kommunalkredit reporting a fully loaded Basel III Common Equity Tier 1 (CET1) ratio of 21.3% (FY2017: 23.5%). Capital ratios were lower due to higher Risk-weighted assets (RWA) related to new business generation in infrastructure project finance which consumes higher levels of RWAs than its maturing low-risk public finance exposures. DBRS notes that the Bank aims for a medium term CET1 target of around 15% as it will continue to invest excess capital in the build-up of new business.

Current Ratings	Rating	Trend
Long-Term Issuer Rating	BBB (low)	Negative
Short-Term Issuer Rating	R-2 (middle)	Negative

Notes:

All figures are in Euros unless otherwise noted.

Sources: Company disclosures and SNL Financial.

For more information on this credit, visit www.dbrs.com or contact us at info@dbrs.com.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings México, Institución Calificadora de Valores S.A. de C.V. (Mexico)(CRA, NRSRO affiliate, DRO affiliate). Please note that DBRS Ratings Limited was registered as an NRSRO affiliate on July 14, 2017. For more information on regulatory registrations, recognitions and approvals, please see: <http://www.dbrs.com/research/225752/highlights.pdf>.

© 2018, DBRS. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings and other types of credit opinions issued by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT <http://www.dbrs.com/about/disclaimer>. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON <http://www.dbrs.com>.

DBRS Ratings Ltd | 20 Fenchurch, 31st Floor, London, EC3M 3BY, United Kingdom | TEL +44 (0)20 7855 6600 | www.dbrs.com