KOMMUNALKREDIT – AN INFRA BANK IS BORN

FRESH GERMAN CAPITAL BROUGHT DEXIA'S AUSTRIAN UNIT KOMMUNALKREDIT BACK INTO PRIVATE MANAGEMENT. NEW LEADERSHIP JOINING FROM DEUTSCHE BANK IS NOW CARVING A NICHE FOR THE BANK IN THE INFRASTRUCTURE MARKET. BY STEFANO BERRA.

Vienna is the new place to be for infrastructure bankers. Over the past year, project finance veterans from Germany and further afield have moved to the Austrian capital, attracted by the prospect of working for a boutique infrastructure bank with a clean slate.

They were brought in by a man with a plan. Bernd Fislage joined Kommunalkredit in February 2017 after almost 20 years at Deutsche Bank, where he worked as global head of asset finance.

Hired to build up the Austrian bank's presence in the infrastructure market, Fislage is taking the reins of the institution this summer as its new chief executive officer. He will take over from Alois Steinbichler, who will move into a supervisory board role after a decade cleaning up the bank's books.

Kommunalkredit was formerly part-owned by Dexia and was rescued by the Austrian government during the financial crisis. After the state shaved off underperforming loans into a bad bank, Kommunalkredit re-emerged from state-ownership in 2015, when it was bought by private equity firms Interritus, owned by German investor Patrick Bettscheider, and Attestor Capital, led by Jan-Christoph Peters.

The bank was given a €4.3bn profitable loan book almost entirely made up of public and project finance debt.

Even though they had limited experience in infrastructure finance, the new owners believed Kommunalkredit could play a role as a specialist infrastructure lender.

The turmoil at Deutsche Bank, which has undergone continuous restructuring over the past few years, gave them an opportunity to hire an experienced team. After leaving the German lender, Fislage initially considered working with infrastructure debt funds, but was eventually drawn by the fresh opportunity of leading a new infrastructure bank.

Fislage is proud of his record at Deutsche Bank leading up to the financial crisis, when he said his team kept a clean book that allowed it to stay in business after the crash. He says the period contributed to forming his "DNA" as an infrastructure banker.

Kommunalkredit gave him a chance to shape an infrastructure banking business around the current market, free from the shackles of non-performing loans but conscious of the mistakes made when too much liquidity was pouring into low-yielding and substandard projects.

"The CEO and the shareholders of the bank convinced me to join the bank's executive board, offering a white piece of paper to advance and implement a strategy for a bank active in infrastructure and energy financing, with no negative burden from the past," says Fislage.

"Infrastructure financing offers a lot of repeat client business. To service your clients, you need a combination of both the brains, the vision, the execution capabilities of the people and a corporate branding with which the people can effectively deliver what they promised their clients," he continues.

"This has been my overriding theme for 2017, after I joined in February. I brought in a number of experienced people that were either with me at Deutsche or competing within my age cohort or within John Weiland's peer group."

John Philip Weiland, formerly Deutsche Bank's head of infrastructure and energy syndication, joined Kommunalkredit last July as head of banking. He moved with Joakim Forsberg, who was Deutsche Bank's co-head of special situations and is now running Kommunalkredit's special situations team.

Within months the team grew exponentially. In came Markus Menedetter from KPMG, Pal Prileszky from UniCredit, Leopold Reymaier from HSH Nordbank, and Klaus Thalheimer, formerly co-head of Macquarie in Germany.

Agnes Mazurek moved from Macquarie as head of placement and sales and Tom Christopherson joined her team from CEE Fund Advisory. Arnd Baumgard, joined from Societe Generale in Kommunalkredit's Frankfurt office.

> Coming to a smaller institution that is playing on a smaller scale you put your own credibility at stake. There was a continuous reshaping

Some of the existing management remained in place. Ruprecht von Heusinger, who has been at Kommunalkredit for five years, is now heading the Frankfurt branch. Stefan Wala, who joined in 2016, is head of origination and client coverage.

Moving from running a large team within a huge established institution to setting up a small-scale banking operation almost from scratch, Fislage had to deal with unfamiliar tasks.

"In my previous experience at Deutsche everything was big. Staff was focusing on elephant hunting," he says. "Funding was not an issue. The business was global with a vast coverage network. There was limited debate to do a deal in any particular country as long as there was a strong client angle and a transaction that made sense."

"When I entered an institution with a very regional focus, that doesn't have a huge balance sheet, that is not doing a €1bn underwriting in a single transaction, the situation was quite different."

"You need to reflect on why clients are selecting banks," he continues. "In my prior life people were selecting my bank because they knew Deutsche could deliver. They knew Deutsche can do distribution because of its global reach. The team I was running had credibility and handshake quality."

"Here, coming to a smaller institution that is playing on a smaller scale you put your own credibility at stake. There was a continuous reshaping, looking at the people I had on board, bringing in new people, understanding how decisions were taken and implementing the business forcefully to maintain direction."

His approach revolved around setting up a nimble operation, with a relatively flat structure and little sector divisions.

"Big investment banks are looking at big-ticket underwriting, high-yield and M&A business while struggling with their cost income ratios. Cross selling is another issue. Therefore, we have seen some of the larger institutions pulling back from the market. In these institutions, cutting costs often means cutting business that is less plain vanilla," he says.

"The benefit of smaller banks is agility, no silo mentality and eagerness to succeed. Also, to get board approval doesn't take a lot of time here, because of which things can be turned around very quickly."

A primary concern was setting up a reliable stream of funding sources for the bank in addition to the funds injected as part of the privatisation and shareholders' equity capital.

"We have a combination of long-term funding that we were provided with at the time of the privatisation, capital markets funding that we are gradually rolling out with growing tenors, and deposit funding resting on three pillars: public sector, corporate and online retail deposits. This gives us sufficient liquidity," says Fislage.

Municipal and corporate deposits are collected through the Kommunalkredit Direkt platform, while retail deposits are gathered through the Kommunalkredit Invest online product launched in Austria in September, gathering €100m in the first three months, and extended to Germany this year.

The institution currently benefits from a solid 29.9% own funds ratio and a 23.5% Common Equity Tier 1 ratio, well above the Basel III requirements of 4.5%.

The bulk of new funding, especially longer-term, is expected to come from debt capital market issuance. Kommunalkredit has €1.7bn of outstanding bonds according to Eikon data, of which €1.2bn was issued by its predecessor entity before the financial crisis. A significant amount is denominated in Swiss franc and is being gradually bought back to reduce foreign exchange risk.

Last year, the bank issued the first Social covered bonds in Austria – a €300m four-year 0.375% note issue rated Single A by S&P. The proceeds of the bond deal, which attracted €531m of orders from 40 investors, are earmarked for social infrastructure deals in education, health and social housing.

Rated BBB by Canada's DBRS, Kommunalkredit has set up an €800m debt issuance programme for senior unsecured bonds. Since its launch last year it has issued

Bernd Fislage of Kommunalkredit

three short-term floating-rate note offerings totalling €46m according to Eikon data, including a €20m 18-month 68bp tranche, an €11m two-year 60bp tranche, and a €15m two-year 80bp tranche.

With customer deposits more than tripling last year, the bank currently has surplus liquidity but in the future a challenge will be raising longer-term funding at competitive rates. Fislage says the bank plans to issue more longer-dated senior unsecured bonds, focusing on euros and to a limited extent on sterling to match lending in these currencies.

"Given that we don't have an investment-grade rating yet from one of the large rating entities, we have slightly higher funding costs when compared with some of our competitors that benefit from a higher rating," he says.

"Having said this, there is much liquidity out in the market and many people are yield-hungry, so from this perspective the incremental premium paid by us is not really hurting."

Kommunalkredit participated in some of the longest-dated infrastructure debt deals in the European market last year, such as 30-year bond financings for the Gipuzkoa waste-to-energy project in Spain, paying 3.662%, and the Pedemontana Veneta motorway in Italy, paying 5%.

However, it also signed several short-term deals that have led to a 7.3-year weighted average tenor of the portfolio, balanced against the 7.5-year weighted average term of the bank's liabilities.

"Doing 30-year transactions at a yield of 100bp to 120bp is not working for this institution," says Fislage. "We are doing long-term transactions – we contributed to the financing of the Pedemontana project which has a 30-year duration – but we are actually doing a lot of short-term financings, either taking refinancing risk or with an acquisition financing element or similar. This drives the duration mix down, matching assets and liabilities."

The bank is focusing on distributing its loans widely as another way to avoid overburdening its balance sheet. It is selling to asset managers, insurers, family investors and banks, tapping the German-speaking market as well as dealing with UK, Asian and North American institutions.

The hiring of Mazurek to lead placements and sales is aimed at expanding this business, building on the contact book coming from the former Deutsche Bank team.

"Generally, we want to use our balance sheet for half of the new business," says Fislage. "Last year, initially the bank wasn't really focusing on distribution; it was rather looking at distribution after construction completion.

"The way we look at distribution nowadays is twofold. One is getting market confirmation on structure and pricing. The other one is trying to intermediate real money accounts into the business we are pursuing here.

"With my background at Deutsche, historically we have always focused very much on distribution to insurers, asset managers and other real money accounts," he adds. "From that perspective it would be surprising in the context of a growth story to let go of the ties we developed over 20 years in the real money account universe."

In 2017, the bank recorded €635m of new business, almost entirely infrastructure and energy lending, distributing €194m across nine new projects to external investors, plus another €179m of existing portfolio debt. Fislage expects newly-originated loan sales to increase in 2018.

"As of May we stand with new business of close to €430m underwriting and €280m distribution," he says. "We have seen some distribution benefiting from deals closed last year and we retain a position in every transaction."

Interest income was €35.2m in 2017, with new business contributing €7.9m compared with €0.2m in the previous year. Fee and commission income was €17.3m, a 2.8% year-on-year increase.

Last year, Kommunalkredit closed 26 deals in 13 countries, working as mandated lead arranger or co-arranger on half of the transactions.

In addition to the Pedemontana and Gipuzkoa projects, important transport deals included the €230m four-year refinancing of the first section of the A2 toll road in Poland and the €182m 20-year refinancing of ACS's A21 shadow toll road in Spain.

In the UK sterling market, the bank acted as senior lender on two waste-to-energy projects: the £505m Cory Riverside refinancing and the £180m Adfer project in North Wales.

In renewables, it took part in the financing of solar plants and wind farms in France, Germany, Italy, Spain and the UK.

Other deals outside core infrastructure sectors included financing the acquisition of a national fixed line telecoms operator in South-Eastern Europe, refinancing Baltic telecoms operator Bite, and funding a nursing home in Germany.

In its home market, the bank worked as Porr's financial adviser on the €46m Berresgasse school PPP project in Vienna.

The bank is just getting started, according to Fislage. At the start of the year it closed the €165m 24-year 4% refinancing of the Zaragoza tramway. It financed healthcare and fibre-optic projects, and the acquisition of care homes for elderly people, continuing to look at higher-yielding and shorter-term financings outside core infrastructure sectors.

In the next months Fislage wants to finance more renewable projects, including in new countries. In the short-term, the bank will look at the financing of Belgrade airport and the Spanish road PPP programme, if it goes ahead. In the future, it is looking at energy efficiency, telecoms, healthcare and even electro mobility. ■