

Kommunalkredit Austria AG

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Table Of Contents

Rating Score Snapshot

Credit Highlights

Outlook

Key Metrics

Anchor: 'bbb+', Reflecting Kommunalkredit's Geographically Diverse Exposures

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

Capital And Earnings: Solid Profits And The Recent Capital Injection Supports Strong Capitalization

Risk Position: A Good Track Record Despite Single-Name Concentration

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

Comparable Ratings Analysis

Table Of Contents (cont.)

Support: No Uplift

Environmental, Social, And Governance

Key Statistics

Related Criteria

Related Research

Kommunalkredit Austria AG

Rating Score Snapshot

Issuer Credit Rating

BBB/Stable/A-2

SACP: bbb

Support: 0

Additional factors: 0

Anchor	bbb+		ALAC support	0	Issuer credit rating BBB/Stable/A-2
Business position	Constrained	-2	GRE support	0	
Capital and earnings	Strong	+1	Group support	0	
Risk position	Adequate	0	Sovereign support	0	
Funding	Moderate	-1			
Liquidity	Adequate				
CRA adjustment		+1			

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
Extensive expertise in infrastructure, energy, and public sector finance.	Business concentration on niche bespoke products and services, with high dependence on key personnel.
Strong risk-adjusted profitability, which supports capitalization.	Tail risks from a small number of opportunistic transactions, high business growth rates, and syndication risks.
Relatively low credit losses and nonperforming loans, underpinning good asset quality.	Reliance on price-sensitive retail deposits and wholesale funding concentration.

Kommunalkredit Austria AG's solid earnings performance balances risks from its concentrated loan portfolio. The bank's high returns rest on its extensive business expertise in infrastructure, energy, and public finance. In 2024, Kommunalkredit reported a record-high €2.3 billion of loan volume in these sectors, achieving a loan portfolio of €5.7 billion. Its strong risk-adjusted profitability and the ability to syndicate up to 50% of its new business reduces the risks from its small size and high revenue concentration, in our view. We think the bank will capitalize on megatrends such as the green transition, energy security, and digitalization over the next five years. We forecast Kommunalkredit will generate a favorable 10%-12% return on equity from 2025-2027, outperforming its peer group.

The bank's capital and earnings generation is a key rating strength. The capital injection of €100 million from new majority shareholder Altor Funds, which holds an 80% ownership stake, has lifted Kommunalkredit's risk-adjusted capital (RAC) ratio to 16.8% at year-end 2024 from 14.5% at year-end 2023. Considering the bank's growth plans, we

expect the projected RAC ratio will decrease below 15.0% over the next two years, a level we consider strong. We think Altor is aligned with Kommunalkredit's management on its strategy to grow prudently with its balance sheet in the infrastructure and energy market.

We anticipate a modest-yet-manageable deterioration of asset quality, supported by Kommunalkredit's robust risk management standards. We think the bank's loan portfolio is resilient against market volatility and potential economic fluctuations, although single-name exposures are key risks to our projections for nonperforming assets. While the ratio of nonperforming assets (NPAs) more than doubled to 2.7% in 2024 from 1.3% in 2023 due to single exposures, we expect further deterioration to be limited. Kommunalkredit's reliance on wholesale markets and price-sensitive retail deposits remains a weakness for its funding profile. Positively, we note its good access to financial markets thanks to its track record of debt issuance.

Outlook

The stable outlook reflects our expectation that, in the next 12-24 months, Kommunalkredit will maintain sound earnings and asset quality, strong capitalization, and prudent lending and underwriting standards. We think the bank's strategy and risk governance, including execution of the business pipeline, will not change under the majority shareholder, Altor.

Downside scenario

We could lower our ratings on Kommunalkredit if the bank's loan portfolio deteriorated, with a subsequent rise of nonperforming assets and credit losses. Similarly, we could lower our ratings on the bank if it adopted a more aggressive growth strategy that stretched its resources, or material risks arose from higher risk-taking within its loan syndication portfolio. Weakening profitability could also put pressure on the ratings.

Upside scenario

An upgrade is unlikely over the next 12-24 months because we expect Kommunalkredit's business expansion and growth of risk-weighted assets (RWAs) will restrict further improvement of our RAC ratio. In our view, the number of unseasoned loans in its portfolio since 2020 on the portfolio growth, and concentration on the loan book make the bank vulnerable to asset quality deterioration.

Key Metrics

Kommunalkredit Austria AG--Key ratios and forecasts

	--Fiscal year ended Dec. 31--				
(%)	2023a	2024a	2025f	2026f	2027f
Growth in operating revenue	28.2	3.5	2.1-2.6	6.7-8.2	11.0-13.4
Growth in customer loans	30.0	14.0	18.0-22.0	13.5-16.5	9.0-11.0
Net interest income/average earning assets (NIM)	4.5	3.6	3.1-3.5	2.9-3.2	2.9-3.2
Cost-to-income ratio	41.3	43.1	45.2-47.5	45.4-47.8	43.7-46.0

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

	--Fiscal year ended Dec. 31--				
(%)	2023a	2024a	2025f	2026f	2027f
Return on average common equity	21.7	15.8	11.2-12.4	10.6-11.7	11.0-12.2
New loan loss provisions/average customer loans	0.0	0.2	0.3-0.3	0.2-0.3	0.2-0.3
Gross nonperforming assets/customer loans	1.3	2.7	2.6-2.9	2.9-3.2	3.0-3.3
Risk-adjusted capital ratio	14.5	16.8	14.9-15.6	14.3-15.0	14.1-14.9

All figures include S&P Global Ratings' adjustments. NIM--Net interest margin. a--Actual. f--Forecast.

Anchor: 'bbb+', Reflecting Kommunalkredit's Geographically Diverse Exposures

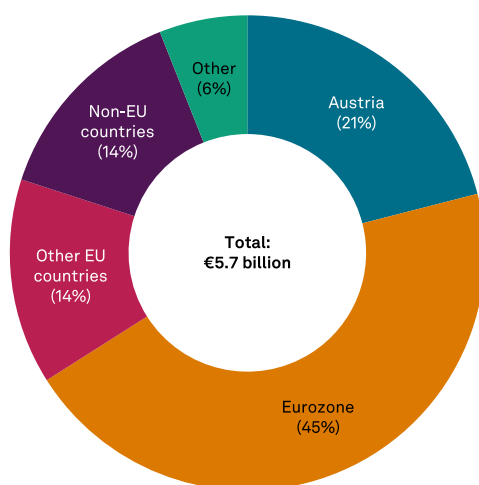
The 'bbb+' anchor on Kommunalkredit is one notch lower than that of a purely Austrian domestic bank. This reflects our view of the weighted-average economic risk of Kommunalkredit's exposures in countries where it operates and the industry risk of Austria, the bank's domicile and jurisdiction responsible for group regulation.

Kommunalkredit pursues lending in several countries, and we take the bank's international lending book at year-end 2024 into account when analyzing its economic risks (see chart 1). Most of Kommunalkredit's exposures are in countries with weaker economic risk scores than Austria, so our weighted economic risk score for Kommunalkredit is '4' on a scale of '1' to '10' ('1' being the lowest risk).

Chart 1

Most of Kommunalkredit's exposure is outside Austria

Loan portfolio by country and region as of Dec. 31, 2024



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

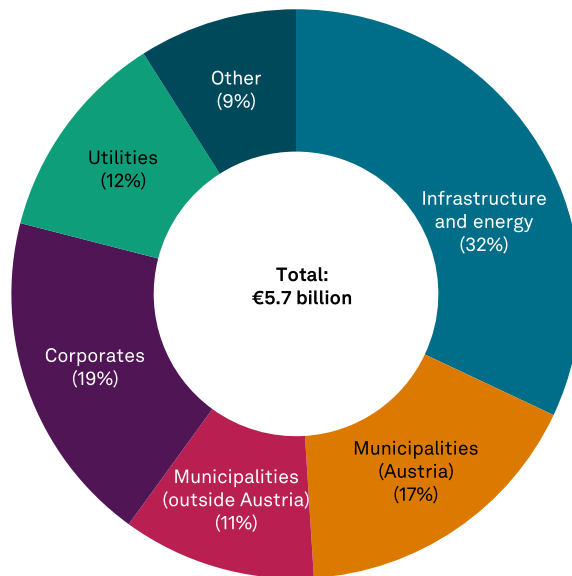
We think Kommunalkredit's concentrated business model, small size, and high dependence on key personnel, make the bank more sensitive to adverse scenarios than peers. We balance this against Kommunalkredit's strategic and operational success, and significant improvements in its profitability and operating efficiency in recent years.

Kommunalkredit's business stability is sound and benefits from its expertise in infrastructure, energy financing, and public finance. Its portfolio is strategically well positioned and gains from Europe's infrastructure and energy markets, which have withstood economic shocks in recent years. The bank's key focus is on sourcing, underwriting, and advisory services in the early stages of the project lifecycle, complemented by an active syndication strategy for long-term investors. Most of its loan portfolio is outside Austria, with a focus on the EU. The composition of its loan portfolio is relatively balanced between infrastructure and energy, and public finance (see chart 2). Almost 90% of new business came from the infrastructure and energy finance segment in 2024, reflecting the bank's focus in these growth markets.

Chart 2

The loan book is directed toward the infrastructure and energy sector

Loan portfolio by borrower type as of Dec. 31, 2024



Source: S&P Global Ratings.

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Capital And Earnings: Solid Profits And The Recent Capital Injection Supports Strong Capitalization

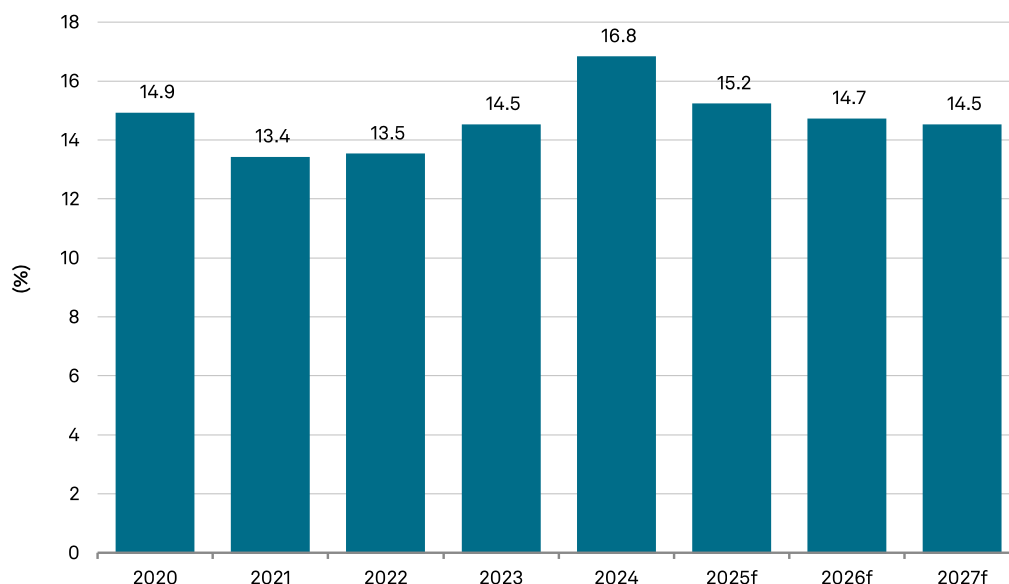
We expect Kommunalkredit's capitalization to remain a key rating strength, and forecast that the bank's RAC ratio will be in the 14%-15% range over the next two years (see chart 3). We base our forecast on the following assumptions:

- Stabilization of net interest margins toward 3.0%-3.3% in 2025-2027, from 3.6% at year-end 2024.
- Annual 10%-20% loan growth until year-end 2027. This reflects the bank's growth ambitions, as well as a structural shift in its portfolio toward more energy and infrastructure lending.
- Annual increase of operating expense by 8.0%-10.0% during 2025-2027.
- No dividend payouts from 2025-2027.

Chart 3

We expect Kommunalkredit's RAC ratio to remain strong

Evolution of RAC ratio from 2020-2027f



RAC--Risk-adjusted capital. f--forecast. Source: S&P Global Ratings.

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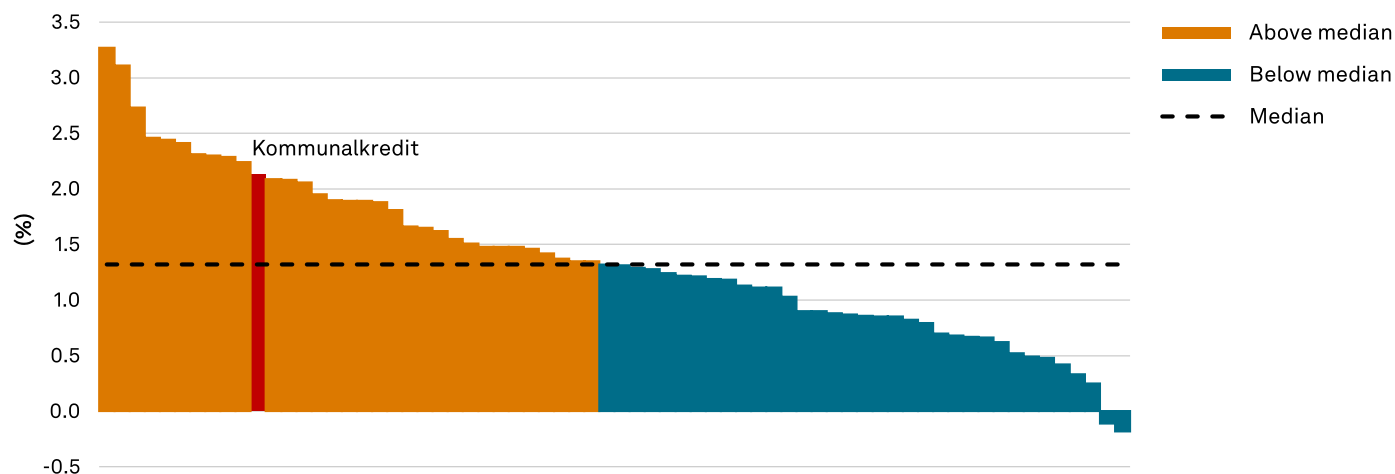
Following Altor's capital injection of €100 million in July 2024, we anticipate Kommunalkredit will accelerate its business growth in achieving its ambitious growth plans. We expect prudent risk management in parallel of this balance sheet growth. Furthermore, we expect that profitability and operating efficiency will deteriorate marginally due to interest rates normalizing from cyclical highs and investment in its digital infrastructure.

Kommunalkredit's earnings quality is a credit strength and enables high earnings retention. We expect the earnings buffer, which measures the capacity for a bank's earnings to cover its normalized credit losses, at approximately 2.0% over the next two years after 2.9% in 2024. This puts Kommunalkredit in the top quartile of European banks in countries with similar levels of economic and industry risk (see chart 4).

Chart 4

Strong earnings enable Kommunalkredit to cover losses better than peers

Peer comparison of earnings buffer in 2025f



Peers include rated European banks in countries with similar economic and industry risk (i.e., anchor of 'bbb+'). Earnings buffer--Preprovision operating income less normalized losses divided by S&P Global Ratings' risk-weighted assets. f--Forecast. Source: S&P Global Ratings.

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Risk Position: A Good Track Record Despite Single-Name Concentration

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. While Kommunalkredit has maintained robust asset quality for many years, underperformance of single-name tickets resulted in a deterioration of the NPA ratio and significantly increased credit losses in 2024 (see chart 5).

Kommunalkredit had a NPA ratio of 2.7% as of Dec. 31, 2024 (based on S&P Global Ratings' definition), up from 1.3% the previous year. Export credit agencies (ECA) insure NPA exposure, which supports recovery of claims. The net NPA ratio after ECA coverage was 2.4% at year-end 2024. The bank's cost of risk increased to 22 basis points (bps) in 2024, from 2 bps in 2023. Adequate provisioning of the portfolio is a challenge, in our view, considering large single tickets that could materially affect risk indicators in case of deteriorating creditworthiness. We think this will remain a feature of Kommunalkredit's risk profile.

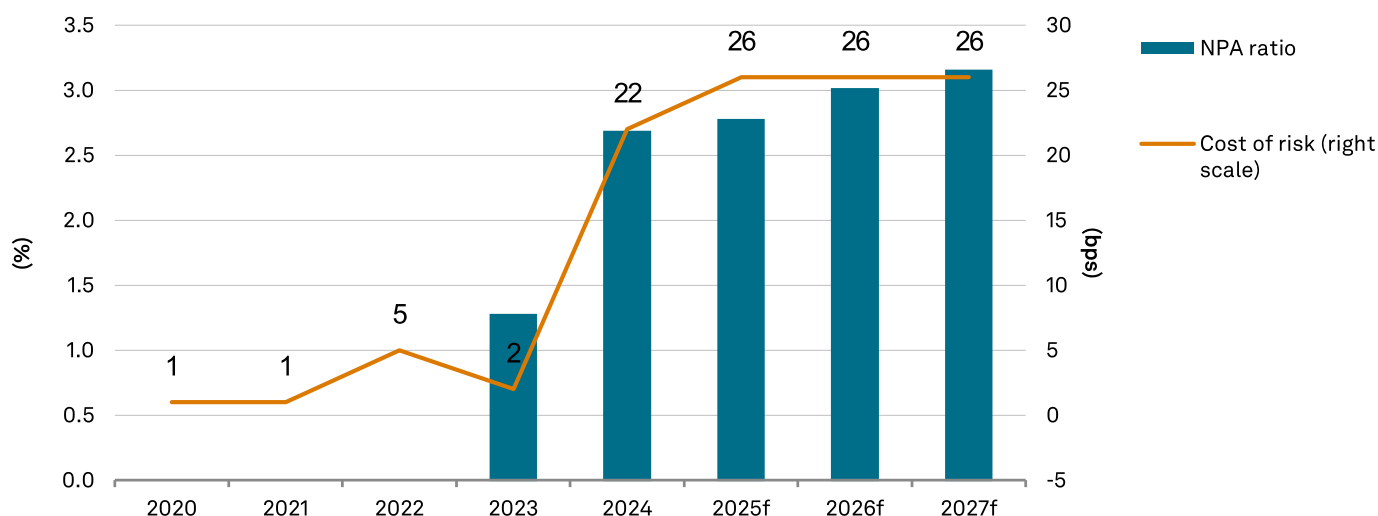
While we believe asset quality indicators are now more in line with that of its peers, Kommunalkredit's narrow sector

focus presents a risk to our projections. Given the bank's growth plans and the event risks associated with its concentrated loan portfolio, we expect new NPAs to emerge, keeping the NPA ratio close to 3.0% through 2027. We also anticipate that the cost of risk will increase but remain manageable, at below 30 bps over the next 12-24 months.

Chart 5

Kommunalkredit's asset quality deteriorated

NPA ratio and cost of risk from 2020-2027f



NPA--Nonperforming asset. f--Forecast. Source: S&P Global Ratings.

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

We consider Kommunalkredit's funding weaker than that of many of its global peers. Although its share of short-term wholesale funding has decreased against a significant rise in deposits, including more stable term deposits, we view the bank's online marketed deposits as more price sensitive and less sticky. About 50% of funding consists of wholesale instruments (see chart 6).

The bank's stable funding ratio (SFR) was stable at a solid 124% at year-end 2024, higher than the median of about 110% at other European banks. Nevertheless, the SFR does not reflect concentration in the bank's wholesale deposit base. The top 20 deposits made up 19% of total customer deposits at year-end 2024, significantly higher than the 5%-10% typical at other banks.

Kommunalkredit had broad liquid assets of €1.4 billion at year-end 2024, covering about 0.6x of total wholesale funding. This is in line with peers, but weaker compared with domestic commercial banks. In addition to cash and reserves at the central bank, Kommunalkredit's liquidity position is supported by unencumbered liquidity reserves consisting of high-quality liquid assets of €376 million at year-end 2024. Furthermore, the bank is actively issuing

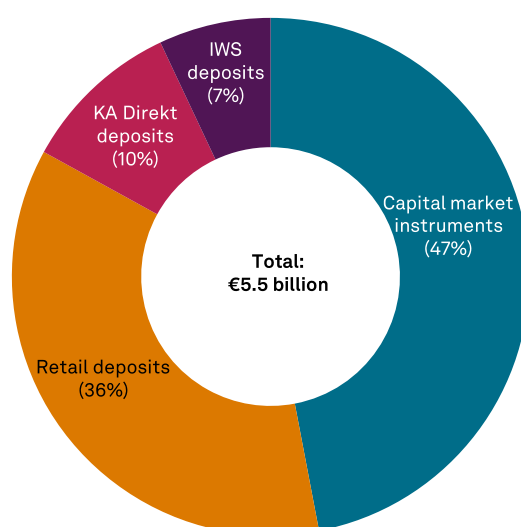
capital markets instruments, including secured and unsecured senior bonds.

Internal liquidity stress tests ("time to wall") as of December 2024 indicate Kommunalkredit could uphold business operations for at least one year without access to capital markets, but it usually ranges from 6-12 months. These stress tests are implemented regularly. The bank has an adequate maturity distribution of its capital market instruments, which limits concentration and rollover risks, in our view.

Chart 6

Wholesale funding is the dominant refinancing source

Refinancing structure as of Dec. 31, 2024



KA Direkt: Wholesale deposits from municipalities and public sector companies. IWS deposits: Direct business with corporate/institutional customers. Source: Company reports.
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Comparable Ratings Analysis

Kommunalkredit benefits from a one notch uplift, which reflects strong earnings and better performance than other European banks with similar intrinsic creditworthiness. The adjustment is informed by our analysis of the bank's peers and captures characteristics that other rating factors don't fully cover.

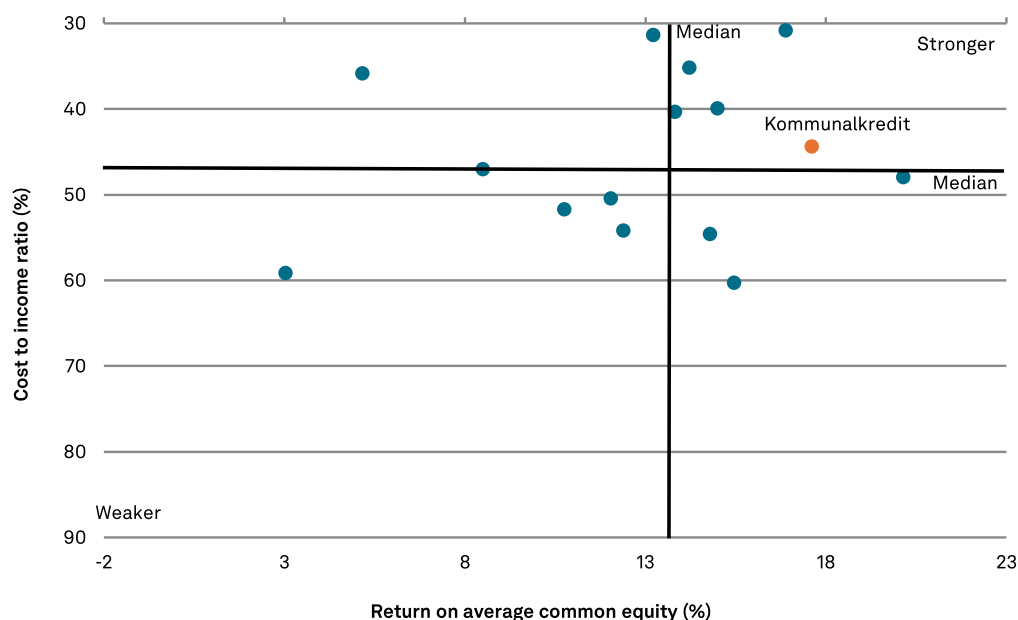
Kommunalkredit reported after-tax profits of €96 million at year-end 2024, translating into a return on average common equity (RoAE) of 15.8% and a cost-to-income ratio of 43.1%. By contrast, the median RoAE for the peer group was 7.0% and cost-to-income figure was 50.0% (see chart 7). The bank's risk-adjusted profitability, measured as core earnings to S&P Global Ratings' RWAs metric, also reached 2.4%, surpassing the 1.1% median for the peer group.

We therefore think Kommunalkredit has stronger earnings power and higher efficiency compared with banks with a 'bbb-' stand-alone credit profile (SACP).

Chart 7

Kommunalkredit's strong earnings outperform peers

Peer comparison of return on average common equity and cost to income ratio as of June 30, 2024



Peers include S&P Global Ratings-rated European banks with a stand-alone credit profile of 'bbb-'.
Source: S&P Global Ratings.

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Support: No Uplift

The long-term rating on Kommunalkredit is at the same level as the SACP. We recognize that the Austrian bank resolution framework is advanced, and therefore include uplift in our ratings on systemic banks that we expect to build sizable bail-inable capital volumes. However, we see a resolution scenario for Kommunalkredit as unlikely, reflecting our view of its low systemic importance and our expectation that the bank will go through normal insolvency proceedings in the unlikely event of failure. We therefore do not incorporate any uplift for additional loss-absorbing capacity.

Environmental, Social, And Governance

Governance factors are a moderately negative consideration in our credit rating analysis due to the bank's high dependence on key individuals. Nevertheless, the departure of the former CEO in August 2024 did not disrupt

operations, which reflects positively on the seamless ability to continue business operations. Positively, Kommunalkredit's focus on the energy and infrastructure market strategically positions it to support green transition efforts that reduce carbon emissions and foster a greener economy. Furthermore, the bank benefits from European policymakers' initiatives designed to enhance digital infrastructures and promote energy security across the continent.

Key Statistics

Table 1

Kommunalkredit Austria AG--Key figures					
	--Year ended Dec. 31--				
(Mil. €)	2024	2023	2022	2021	2020
Adjusted assets	6,597	5,864	4,624	4,427	4,423
Customer loans (gross)	4,811	4,221	3,247	3,085	2,755
Adjusted common equity	638	447	354	273	262
Operating revenues	240	232	181	136	104
Noninterest expenses	104	96	81	69	61
Core earnings	96	101	77	49	32

Table 2

Kommunalkredit Austria AG--Business position					
	--Year ended Dec. 31--				
(%)	2024	2023	2022	2021	2020
Return on average common equity	15.8	21.7	19.9	13.3	10.4

Table 3

Kommunalkredit Austria AG--Capital and earnings					
	--Year ended Dec. 31--				
(%)	2024	2023	2022	2021	2020
Tier 1 capital ratio	19.0	18.3	17.3	18.7	20.0
S&P Global Ratings' RAC ratio before diversification	16.8	14.5	13.5	13.4	14.9
S&P Global Ratings' RAC ratio after diversification	13.5	11.6	10.8	11.1	12.3
Adjusted common equity/total adjusted capital	94.4	92.5	90.7	88.8	100.0
Net interest income/operating revenues	77.0	82.9	69.4	58.0	74.0
Fee income/operating revenues	18.8	16.6	16.5	21.7	27.4
Market-sensitive income/operating revenues	3.9	0.0	8.4	7.4	(1.6)
Cost to income ratio	43.1	41.3	44.9	50.6	58.4
Preprovision operating income/average assets	2.2	2.6	2.2	1.5	1.0
Core earnings/average managed assets	1.5	1.9	1.7	1.1	0.7

RAC--Risk-adjusted capital.

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	3,062	51	2	308	10
Of which regional governments and local authorities	1,344	10	1	51	4
Institutions and CCPs	377	49	13	116	31
Corporate	3,414	3,289	96	2,875	84
Retail	0	0	0	0	0
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets†	119	135	113	108	90
Total credit risk	6,973	3,523	51	3,407	49
Credit valuation adjustment					
Total credit valuation adjustment	--	14	--	0	--
Market risk					
Equity in the banking book	19	22	112	170	875
Trading book market risk	--	0	--	0	--
Total market risk	--	22	--	170	--
Operational risk					
Total operational risk	--	304	--	450	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	3,862	--	4,027	100
Total diversification/ concentration adjustments	--	--	--	977	24
RWA after diversification	--	3,862	--	5,004	124
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		724	18.7	675	16.8
Capital ratio after adjustments‡		724	18.9	675	13.5

*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, 2024, S&P Global Ratings.

Table 5

Kommunalkredit Austria AG--Risk position					
(%)	--Year ended Dec. 31--				
	2024	2023	2022	2021	2020
Growth in customer loans	14.0	30.0	5.2	12.0	(8.7)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	24.3	24.9	24.7	21.1	21.2
Total managed assets/adjusted common equity (x)	10.4	13.1	13.1	16.2	16.9
New loan loss provisions/average customer loans	0.2	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	2.7	1.3	0.0	0.0	0.0
Loan loss reserves/gross nonperforming assets	5.1	6.9	N.M.	N.M.	N.M.

RWA--Risk-weighted assets. N.M.--Not meaningful.

Table 6

Kommunalkredit Austria AG--Funding and liquidity					
(%)	--Year ended Dec. 31--				
	2024	2023	2022	2021	2020
Core deposits/funding base	55.4	65.5	58.7	48.9	55.6
Customer loans (net)/customer deposits	154.0	127.3	141.7	165.7	130.1
Long-term funding ratio	97.7	93.9	98.0	92.5	88.0
Stable funding ratio	123.5	123.9	111.7	108.0	111.9
Short-term wholesale funding/funding base	2.6	6.7	2.2	8.4	13.2
Regulatory net stable funding ratio	119.0	135.0	129.0	122.0	N/A
Broad liquid assets/short-term wholesale funding (x)	9.6	4.4	7.7	2.3	2.1
Broad liquid assets/total assets	21.6	25.3	14.4	16.5	23.4
Broad liquid assets/customer deposits	45.7	44.8	29.1	39.2	48.9
Net broad liquid assets/short-term customer deposits	75.8	37.9	37.7	41.8	44.1
Regulatory liquidity coverage ratio (LCR) (%)	314.0	542.0	348.0	735.0	N/A
Short-term wholesale funding/total wholesale funding	5.8	19.2	5.2	16.1	29.7
Narrow liquid assets/3-month wholesale funding (x)	52.6	36.8	16.6	2.7	13.1

N/A--Not applicable.

Kommunalkredit Austria AG--Rating component scores	
Issuer Credit Rating	BBB/Stable/A-2
SACP	bbb
Anchor	bbb+
Economic risk	4
Industry risk	3
Business position	Constrained
Capital and earnings	Strong
Risk position	Adequate
Funding	Moderate
Liquidity	Adequate
Comparable ratings analysis	+1
Support	0

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

Issuer Credit Rating	BBB/Stable/A-2
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

- Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Credit Conditions Europe Q2 2025: Europe Plots A New Course, March 26, 2025
- Bulletin: Kommunalkredit Austria's Strategic Course Unchanged After Unexpected CEO Dismissal, Aug. 30, 2024
- Banking Industry Country Risk Assessment: Austria, Aug. 27, 2024

Ratings Detail (As Of April 25, 2025)*

Kommunalkredit Austria AG

Issuer Credit Rating	BBB/Stable/A-2
Senior Secured	AA-/Stable
Senior Unsecured	BBB

Issuer Credit Ratings History

13-Mar-2024	BBB/Stable/A-2
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 April 25, 2025)*(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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