

# Kommunalkredit Austria Outlook Revised To Negative On Asset Quality Deterioration; 'BBB/A-2' Ratings Affirmed

December 11, 2025

## Overview

- Kommunalkredit Austria is going through a period of asset quality deterioration because of deal-specific challenges in its concentrated infrastructure and energy finance portfolio.
- We expect the increasing nonperforming assets and credit loss ratio to peak at year-end 2025, followed by a recovery by the end of 2027.
- At the same time, we expect the bank to operate with high capital ratios and maintain strong pre-provision income. Both will give sufficient room to absorb potential higher-than-expected credit losses in the next few years, absent large shocks to the portfolio.
- We therefore revised our outlook on Kommunalkredit to negative from stable and affirmed the 'BBB/A-2' long and short-term issuer credit ratings.
- The negative outlook reflects our view that asset quality pressure could intensify in the next 12 months or that its financial performance could weaken relative to its peer group of European banks.

## Rating Action

On Dec. 11, 2025, S&P Global Ratings revised the outlook on Kommunalkredit Austria AG to negative from stable. At the same time, we affirmed the 'BBB/A-2' long- and short-term issuer credit ratings.

We also affirmed our 'BBB' issue ratings on Kommunalkredit's senior unsecured (senior preferred) debt and the 'BB' rating on the subordinated Tier 2 instrument.

## Rationale

**The outlook revision on Kommunalkredit is a result of significant asset quality deterioration throughout 2025.** Transaction-specific adverse events in the concentrated infrastructure and energy portfolio forced the bank to reclassify some larger project finance deals in Western Europe to problem exposures, triggering credit losses with a negative effect on profits in 2025.

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The bank is operating with a reshuffled management team following the unexpected departure of the former CEO in August 2024. Under the leadership of the new CEO, Jacques Ripoll, since September 2025, we expect Kommunalkredit will intensify monitoring activity of its portfolio while sticking to prudent risk practices and strict underwriting when selecting individual transactions in Europe's growing infrastructure and energy market. We believe asset quality issues will remain a challenge in the next 12-24 months as the bank targets to resolve larger and problematic project finance tickets. Positively, one of the bigger nonperforming exposures will be resolved, thanks to insurance from an export credit agency, which supports recovery of claims.

**The nonperforming asset (NPA) ratio and cost of risk will likely reach peak values at year-end 2025 and recover thereafter.** At midyear 2025, the bank had an NPA ratio of 4.1%, compared with 2.7% in 2024 and 1.3% in 2023. While the NPA ratio is a backward-looking indicator, the rapid deterioration indicates the weaknesses of Kommunalkredit's concentrated loan portfolio. A limited number of defaults in some segments of the portfolio, notably in fiber and energy, in the larger Western European markets has pushed up the NPA ratio significantly. Liquidity issues at some of the borrowers and disagreements among project sponsors regarding financing commitments, leading to equity gaps, were the main reasons behind the defaults. The defaults caused the bank to book higher loan-loss provisions, which reached 42 basis points (bps) in June 2025. By the end of 2025, we expect the NPA ratio to further deteriorate to 5.5% and the credit loss provision ratio by 100 bps. We believe the bank will face further headwinds in the next 12 months because of the fragile European economy, particularly Germany, the U.K., and France, where Kommunalkredit had about 30% of its total exposures as of June 2025. The planned German fiscal stimulus package could have a positive impact on Kommunalkredit's new business in 2026 and beyond, as the initiatives focus on transportation, green transition, and digital infrastructure, segments where Kommunalkredit has been growing strongly. That said, a weak execution of the fiscal package could cloud near-term growth prospects.

**The project finance business is facing new competition from private credit funds, which adds to the bank's current challenges.** We understand that nonbank financial institutions, notably private credit funds, have significantly increased their lending activity in European credit markets, particularly in digital infrastructure and transport asset-based finance. Their unregulated nature and more bespoke and flexible business model--characterized by faster approval processes and less stringent covenants--compared with traditional bank lending have pressured pricing and narrowed net interest margins in some of the segments where Kommunalkredit has its key business. This has had a visible impact on new loan disbursements in the infrastructure and energy portfolio at the bank, which at midyear 2025 was only about €600 million versus about €1.05 billion at midyear 2024. While we believe Kommunalkredit will need to adapt to these new competitors, its project finance expertise, well-established track record in the market, and its strong relationships with sponsors and investors, will allow it to attract new business. Nevertheless, combined with higher-than-expected loan prepayments throughout 2025, portfolio growth will be weaker in 2025, with an impact on S&P Global Ratings' risk-weighted assets (RWAs). We have therefore trimmed our forecast of Kommunalkredit's RWAs for the next 12-24 months, leading to a significantly higher projected risk-adjusted capital (RAC) ratio than before. We believe the RAC ratio will move in the range of 16.0% to 16.5% until 2027. Importantly, we expect no dividend payments to the owners of the bank, based on current management guidance. We believe these higher sustained capital buffers will be important because they shield the bank against potentially higher unexpected losses that could materialize if there are new inflows of NPAs.

**Kommunalkredit maintains strong risk-adjusted profitability and solid cost efficiency versus other European banks.** Thanks to its high net interest income and a low-cost base, the pre-

provision income of the bank is consistently high. We think this is an important component of Kommunalkredit's business model, as the pre-provision income acts as a first line of defense against elevated credit losses. We project that core earnings as a percentage of our RWAs will remain at a sound 1.7% in 2026. This is higher than the median ratio for other European banks with a 'bbb-' stand-alone credit profile (SACP), which we project at 1.2% in 2025. Although we forecast a deterioration in Kommunalkredit's cost-to-income ratio to 50% (44% on June 30, 2025), we expect operating efficiency to rebound until 2027, where we expect it to reach 41%. This compares well against a projected median cost-to-income ratio of 54% for other European banks with 'bbb-' SACPs in 2025. We therefore maintain the positive ratings adjustment on Kommunalkredit because of the persistent financial outperformance when compared with its peer group of banks. This adjustment is informed by our analysis of the bank's peers and captures characteristics not fully covered by other rating factors.

## Outlook

The negative outlook reflects our expectation that, in the next 12 months, Kommunalkredit could experience a phase of further asset quality pressure in its energy and infrastructure portfolio. While the bank's pre-provision operating income and capital buffers remain strong, a further increase in NPAs and deterioration of profitability could weaken its creditworthiness relative to other peer banks.

### Downside scenario

We could lower our ratings on Kommunalkredit if the bank's asset quality deteriorates due to defaults in its concentrated loan portfolio, with a subsequent rise in NPAs and credit losses well above our baseline projections. Weakening profitability, stemming from reduced demand for project finance loans, could also put pressure on the ratings because it could challenge our views of Kommunalkredit as an outperformer in its 'bbb-' SACP peer group of European banks. While unlikely, we could also lower our ratings on the bank if capitalization reduced significantly, particularly if its RAC ratio falls below 15% within our forecast horizon.

### Upside scenario

We could revise the outlook to stable if Kommunalkredit's asset quality improves, indicated by a recovery of the NPA ratio closer to 3.0% and normalizing cost of risk level in line with the prudent risk-taking approach of the bank. A precondition for the outlook revision is Kommunalkredit's unchanged robust capital situation, with a RAC ratio well above 15.0%.

## Rating Component Scores

	To	From
Issuer Credit Rating	BBB/Negative/A-2	BBB/Stable/A-2
SACP	bbb	bbb
Anchor	bbb+	bbb+
Business position	Constrained (-2)	Constrained (-2)
Capital and earnings	Very Strong (2)	Strong (1)
Risk position	Moderate (-1)	Adequate (0)
Funding and liquidity	Moderate and Adequate (-1)	Moderate and Adequate (-1)

	To	From
Comparable ratings analysis	1	1
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

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

## Related Criteria

- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), Oct. 13, 2025
- [Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology](#), April 30, 2024
- [Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions](#), Dec. 9, 2021
- [Criteria | Financial Institutions | General: Financial Institutions Rating Methodology](#), 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

- [Look Forward: Data Center Frontiers](#), Dec. 2, 2025
- [Credit Conditions Europe Q1 2026: Tr\(e\)ading A Narrow Path](#), Dec. 2, 2025
- [Economic Outlook Europe Q1 2026: Germany's Fiscal Reawakening](#), Nov. 24, 2025
- [Banking Industry Country Risk Assessment: Austria](#), Sept. 30, 2025
- [Kommunalkredit Austria AG](#), April 25, 2025

## Ratings List

Ratings List		
Ratings Affirmed; Outlook Action		
	To	From
<b>Kommunalkredit Austria AG</b>		
Issuer Credit Rating	BBB/Negative/A-2	BBB/Stable/A-2
Ratings Affirmed		

Ratings List

<b>Kommunalkredit Austria AG</b>	
Senior Unsecured	BBB
Subordinated	BB+

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