

Research Update:

Kommunalkredit Austria Downgraded To 'BBB-/A-3' On Lower Profitability; Outlook Stable

October 6, 2026

Overview

- We expect Kommunalkredit's profitability to remain weak through 2026, and do not foresee outperformance against European peer banks to support a rating uplift.
- While problem loans remain high, we acknowledge the bank is steadily reducing these in its infrastructure and energy portfolio, even if this results in elevated credit losses in 2026.
- We therefore lowered our long- and short-term ratings on Kommunalkredit to 'BBB-/A-3' from 'BBB/A-2'. We also lowered our issue rating on the bank's senior unsecured debt to 'BBB-' from 'BBB' and rating on the Tier 2 instrument to 'BB' from 'BB+'.
- The stable outlook reflects our view that Kommunalkredit will stabilize its nonperforming loans to about 3.5% of the portfolio over the next two years, while simultaneously restoring profitability and maintaining consistently strong capital ratios through 2028.

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Rating Action

On Oct. 6, 2026, S&P Global Ratings lowered its long- and short-term issuer credit ratings on Kommunalkredit Austria AG (Kommunalkredit) to 'BBB-/A-3' from 'BBB/A-2'. The outlook is stable.

We also lowered our issue rating on Kommunalkredit's senior unsecured (senior preferred) debt to 'BBB-' from 'BBB' and the rating on the subordinated Tier 2 instrument to 'BB' from 'BB+'.

Rationale

Our downgrade to Kommunalkredit reflects our view that the bank will demonstrate lower profitability than previously anticipated. Mid-year 2026 after-tax profit totaled €1.4 million, primarily reflecting elevated loan loss provisions linked to portfolio de-risking activities. We now project after-tax profits of approximately €13 million in 2026, consistent with 2025 levels, which is lower than our previous baseline. This results in a low return on average equity (RoAE) of 1.8% in 2026, down from 1.9% in 2025. We expect RoAE to recover toward 10% by 2028, aligning with other European banks that hold a stand-alone credit profile of 'bbb-' and a median RoAE of 10%.

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12%. We therefore removed the positive comparable rating analysis adjustment that previously reflected Kommunalkredit's historical outperformance against its peers. We expect this to persist as we foresee lower operating margins and a more cautious approach to originating new business in the infrastructure and energy segments. That said, we note the above-average new business reported in first-half 2026. We believe Kommunalkredit's business model remains sound despite the current geopolitical environment, as its focus on renewable energy financing aligns with Europe's transition to green energy and the growing importance of energy sovereignty. On a risk-adjusted basis, profit metrics will also converge with European peers. We expect core earnings relative to S&P Global Ratings' risk-weighted assets (RWAs) to recover to 1.0%–1.5% by 2028, after 0.3% in 2025. The bank's cost efficiency remains solid; based on our comparable metrics across banks, we estimate the cost-to-income ratio to be near 50% in 2026, improving to 44% by 2028. Management aims to implement efficiency measures via IT investments in AI and data analytics to drive staff productivity and increase the quality of new business.

Positively, the bank continues to reduce nonperforming loans faster than anticipated

following the 2025 asset quality deterioration. As of June 2026, the nonperforming asset (NPA) ratio stood at 6.7%, only slightly improved from the 6.8% reported at year-end 2025 following significant deterioration in certain pockets of the portfolio, particularly in the German and U.K. fiber segments. While the NPA ratio remains among the highest in the Austrian bank sector, management has implemented a strict plan to reduce stressed assets through active portfolio management. Targeted de-risking will reduce the NPA stock until year-end 2026 through restructuring efforts and active sales of NPAs. Crucially, we have not seen further significant deterioration in the bank portfolio's most vulnerable parts, suggesting the NPA spike was driven by deal-specific factors rather than systemic weak underwriting standards. Absent further shocks to the European infrastructure and energy sectors, which we deem unlikely, we expect the NPA ratio to fall below 5.0% by year-end 2026 and toward 3.5% by 2028, aligning with European peers active in niche business segments or regions. Due to active reductions of NPAs, the credit loss ratio remained elevated at mid-year 2026 at 160 basis points (bps), compared to 158 bps in 2025; we expect this to normalize toward 55 bps, which is close to the bank's normal cost of risk, in our view. While concentration risks remain due to its niche project finance business, we understand the bank is working to reduce deal sizes in its business pipeline to improve the overall risk profile of the portfolio.

Kommunalkredit's consistently strong capitalization is a key rating strength. The bank reported a sound 16.9% Tier 1 capital ratio at mid-year 2026. We project the bank's risk-adjusted capital (RAC) ratio to increase by approximately 100 bps. Combined with our RWA projections for credit, market, and operational risks—which reflect organic growth over the next two years—we forecast Kommunalkredit's RAC ratio to range between 17.5% and 18.5% through 2028, up from 16.7% in 2025. This is well above the 15.0% threshold, qualifying for very strong capitalization. Coupled with its solid level of pre-provision income, very strong capitalization will give the bank sufficient financial flexibility to absorb potentially higher credit losses, should they emerge, similar to the levels experienced in 2025 and 2026. Importantly, we expect no dividend payments to its shareholders within our forecast horizon.

Kommunalkredit's growing Austrian retail deposit franchise could lead to a change in resolution strategy and make the bank eligible for additional loss-absorbing capacity (ALAC) consideration.

The bank has low systemic importance in the Austrian banking system and is therefore subject to an insolvency regime focused on liquidation rather than resolution in the unlikely event of nonviability. That said, considering the bank's growing retail deposit base and its importance to the funding profile, we believe the Austrian Financial Market Authority (FMA) could deem Kommunalkredit to perform critical functions. In that scenario, Kommunalkredit may be

required to meet minimum requirements for own funds and eligible liabilities as set by the FMA. While not currently part of our baseline, this could make Kommunalkredit eligible for ALAC uplift.

Outlook

The stable outlook reflects our expectation that, during the next 12-24 months, Kommunalkredit will further de-risk its balance sheet and reduce nonperforming loans. We expect the bank will see solid client demand in its infrastructure and energy portfolios and gradually recover post-tax profits after 2026 while keeping capitalization at a strong level.

Downside scenario

We could lower our ratings on Kommunalkredit if the bank's asset quality reverses from its currently improving trajectory, with a subsequent rise in nonperforming loans and credit losses well above our baseline projections. While unlikely, we could also lower our ratings if the bank's capitalization reduces significantly, particularly if its RAC ratio falls below 15% within our forecast horizon.

Upside scenario

An upgrade is unlikely over the next 12-24 months because we expect Kommunalkredit will further de-risk its balance sheet with the goal of recovering profitability. The bank's focus will remain on active portfolio cleanup and normalizing credit losses to sustain a resilient business model and build a better risk profile.

Rating Component Scores

Kommunalkredit Austria AG--Rating component scores

Issuer Credit Rating	BBB-/Stable/A-3	BBB/Negative/A-2
SACP	bbb-	bbb
Anchor	bbb+	bbb+
Business position	Constrained (-2)	Constrained (-2)
Capital and earnings	Very strong (2)	Very strong (2)
Risk position	Moderate (-1)	Moderate (-1)
Funding and liquidity	Moderate and Adequate (-1)	Moderate and Adequate (-1)
Comparable ratings analysis	0	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

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- [Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology](#), May 5, 2026
- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), Oct. 13, 2025
- [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 & Outlook Europe Q4 2026 Highlights Solid Demand With Slimmer Buffers](#), Sept. 24, 2026
- [Kommunalkredit Austria On Track To Stabilize Asset Quality, But Downside Risks Remain](#), June 30, 2026
- [Kommunalkredit Austria AG](#), April 27, 2026
- [Banking Industry Country Risk Assessment: Austria](#), Sept. 30, 2025

Ratings List

Ratings List		
Downgraded; Outlook Action		
	To	From
Kommunalkredit Austria AG		
Issuer Credit Rating	BBB-/Stable/A-3	BBB/Negative/A-2
Downgraded		
	To	From
Kommunalkredit Austria AG		
Senior Unsecured	BBB-	BBB
Subordinated	BB	BB+

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