S&P Global Ratings

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Bulletin:

Kommunalkredit Austria On Track To Stabilize Asset Quality, But Downside Risks Remain

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Primary Contact

Cihan Duran, CFA
Frankfurt
49-69-33999-177
cihan.duran
@spglobal.com

Secondary Contact

Anna Lozmann
Frankfurt
49-69-33999-166
anna.lozmann
@spglobal.com

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FRANKFURT (S&P Global Ratings) June 30, 2026--S&P Global Ratings said today that, despite efforts by **Kommunalkredit Austria AG** (BBB/Negative/A-2) to reduce risk, both its nonperforming loan (NPL) ratio and credit losses were elevated at mid-year 2026. In our view, this highlights the pressure on the bank's energy and infrastructure portfolio.

Our negative outlook indicates that Kommunalkredit's persistently weak asset quality and profitability indicators could result in weaker creditworthiness relative to other peer banks in the next six months. Kommunalkredit's NPL ratio was 7.0% at year-end 2025, one of the highest among Austrian banks.

Working with the regulator, the Austrian Financial Market Authority, the bank has implemented a plan to stabilize the NPL ratio. It is focusing on active portfolio management of its stressed exposures and on restructuring initiatives, particularly in the German and U.K. fiber segments. To reduce the number of troubled assets in its workout portfolio, the bank set up a distinct workout unit.

Management expects the NPL ratio to recover and the cost of risk to normalize over full-year 2026. This is in line with our view that intensified workout efforts and a generally favorable distressed debt market could help Kommunalkredit to stabilize the NPL ratio and reduce credit losses through the rest of 2026. The bank disclosed that its newly installed workout unit has only 13 cases, and it has made progress toward restructuring these during the first half of 2026. We forecast that the NPL ratio will drop to 3.5% by 2028, but external risk factors and deal-specific events could present downside risks.

During its global investor call on June 29, 2026, the bank disclosed key performance indicators for mid-year 2026. New business volumes reached a mid-year record of about €1 billion. This was particularly surprising, given the global economic risks related to the Middle East war and the adverse spillover from the conflict to European markets.

Of these deals, 57% were in the renewable energy sector, a segment where Kommunalkredit has key expertise and where it benefits from Europe's green energy transition. New deals related to project finance were smaller in size but help to reduce concentration risks in the portfolio. In our view, concentration risks have been key to the worsening of Kommunalkredit's asset quality indicators since 2023 and are one of the bank's structural weaknesses.

We understand that the bank is pivoting away from the higher-risk parts of its portfolio, such as the fiber sector. Instead, it aims to maintain moderate risk parameters in new project finance deals, even if that means accepting lower operating margins.

Management has confirmed that it targets a cost-to-income ratio of about 45% and a common equity Tier 1 (CET1) ratio of at least 14.5% for full-year 2026. Both ratios would be favorable compared with European bank averages. However, given the bank's elevated credit losses at mid-year, we anticipate that bottom-line profitability is likely to remain at a similar level to that in 2025. Our projections indicate that the return on equity ratio for full-year 2026 will likely be about 5%, materially below peer banks and our previous expectations. Nevertheless, we anticipate that our risk-adjusted capital (RAC) ratio will remain above 15% until 2028 and will retain sufficient headroom. We understand that the bank will call and roll-over its €56.8 million additional Tier 1 capital instrument in the next few months, reinforcing its strong RAC ratio.

Finally, Kommunalkredit has announced that its chief risk officer Mr. Sebastian Firlinger has chosen to depart by year-end 2026. We understand that this was neither prompted by the bank's risk performance, nor will it disrupt the bank's risk functions. In our view, the board is experienced enough to steer the bank through a controlled transitional phase. Last year, Kommunalkredit established a remuneration and nomination committee within the supervisory board, and we anticipate that this will help the bank find a suitable replacement for Mr. Firlinger.

Related Research

- Economic Outlook Europe Q3 2026: Energy Shock Rekindles Stagflation Risks, June 24, 2026
- Four Austrian Banks Downgraded On Increased Economic Risks, March 25, 2026
- Austrian Banking Outlook 2026, Jan. 8, 2026
- Austria 'AA+/A-1+' Ratings Affirmed, Feb. 6, 2026
- Kommunalkredit Austria Outlook Revised To Negative On Asset Quality Deterioration; 'BBB/A-2' Ratings Affirmed, Dec. 11, 2025
- Look Forward: Data Center Frontiers, Dec. 3, 2025
- Banking Industry Country Risk Assessment: Austria, Sept. 30, 2025