

Research Update:

Austrian Bank BKS Affirmed At 'BBB+' As Solid Operating Performance Helps Absorb Elevated Credit Losses

January 27, 2026

Overview

- BKS Bank AG reported solid operating performance in the first nine months of 2025, only slightly below the historical highs seen in 2024, despite lower policy rates. However, net income decreased by 18%, mainly because asset quality pressure on BKS' corporate and real estate exposures in Austria led to a marked increase in credit loss provisioning year on year.
- We anticipate a recovery in the Austrian economy that will ease pressure on asset quality and that solid operating performance will help BKS absorb its still-high, but decreasing, risk provisions.
- We affirmed our 'BBB+' long-term issuer credit rating on BKS. Our rating is one notch above the bank's 'bbb' stand-alone credit profile (SACP) due to its additional loss-absorbing capacity (ALAC).
- The stable outlook indicates that, over the next 24 months, we expect BKS to maintain solid operating profitability and the strong capitalization that gives it a buffer against elevated credit losses.

Rating Action

On Jan. 27, 2026, S&P Global Ratings affirmed its 'BBB+' long-term issuer credit rating on BKS Bank AG. The outlook remains stable. At the same time, we affirmed our 'A-' resolution counterparty rating and our issuer credit ratings on BKS' senior unsecured (senior preferred) instruments.

Rationale

We forecast an economic recovery in Austria, and therefore that pressure on asset quality at BKS will ease. The bank is likely to demonstrate resilience as pressure on its lending portfolio in

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Austria gradually recedes. Based on S&P Global Ratings' calculations, nonperforming loans (NPLs) reached an estimated 4.0% in 2025 (3.8% during the first nine months of the year) and are projected to improve to 3.7% by 2027. We forecast that credit losses will decrease slightly in 2026, from the 55 to 60 basis points (bps) estimated for 2025, and that GDP in Austria will grow by 1.2% per year on average over 2026-2028.

BKS's loan portfolio came under greater asset quality pressure than most domestic peers because it is more exposed to corporate and real estate entities. Its elevated credit losses reflect the impact on these entities of the higher interest rates and economic stagnation in Austria since 2023. We project that BKS' risk costs, which are materially above the Austrian banking system average, are likely to remain elevated over the next two years. Positively, BKS' operating performance has remained solid and largely stable in 2025, despite decreasing interest rates, and this has acted as a buffer to absorb its elevated credit losses.

BKS' strong earnings retention supports our view that the bank has adequate capital for the risks it faces. In our view, earnings retention supported by a conservative distribution policy will outweigh contained growth in risk-weighted assets (RWA). This, combined with the bank's new focus on retail lending, supports our forecast that the bank's risk-adjusted capital (RAC) ratio will rise to about 14.0%-14.5% over the next two years, from an estimated 13.5% in 2025. BKS reported solid operating income in the first nine months of 2025--its net interest income fell only 4% from the historical high of 2024. We anticipate that margins will slightly decrease, but remain broadly robust, based on stable interest rates supported by easing inflation. Return on equity over the next two years is calculated to be consistent, at 6%-7%, indicating a normalization from the peak seen in 2023.

BKS has a sizable buffer of subordinated, bail-inable debt, which should help to protect senior creditors in the event of a resolution. We understand that the Austrian resolution authority would target BKS for an open bank resolution in case of need. As of Dec. 31, 2025, we estimate that the bank's ALAC buffer was about 4.3% of its S&P Global Ratings-adjusted RWA. Based on the bank's planned subordinated debt issuance and the growth in RWAs, we estimate that its buffer of subordinated, bail-inable debt will increase to about 4.8% through 2028. This is well above our adjusted threshold of 2.75% for applying one notch of uplift for ALAC support.

Outlook

The stable outlook indicates that, over the next 24 months, we expect BKS to maintain moderate but stable profitability, supported by robust operating performance. This should provide it with a buffer against decreasing, but still-elevated, credit losses. The outlook also indicates that we expect BKS' risk-adjusted capital ratio to remain strong, and that the bank will continue to issue subordinated debt to support its ALAC buffer.

Downside scenario

We could lower the rating if:

- BKS' asset quality were to deteriorate further, such that credit losses exceed those in our base-case scenario, which could occur, for example, if economic recovery in Austria were delayed, weaker-than-expected, or absent;
- BKS' ability to absorb elevated credit losses diminished significantly because its revenue base had narrowed and its operating profitability had weakened; or
- BKS failed to maintain its ALAC ratio at or above 2.75%.

Upside scenario

We regard an upgrade as very remote over our outlook horizon. Given regional concentrations in revenue and risks, we do not consider the bank's business profile to be in line with that of higher-rated peers with more-diversified and retail-oriented portfolios.

Rating Component Scores

Rating Component Scores

Issuer Credit Rating	BBB+/Stable/--
SACP	bbb
Anchor	bbb+
Business position	Moderate (-1)
Capital and earnings	Strong (1)
Risk position	Moderate (-1)
Funding and liquidity	Adequate and Adequate (0)
Comparable ratings analysis	0
Support	1
ALAC support	1
GRE support	0
Group support	0
Sovereign support	0
Additional factors	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: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [Austrian Banking Outlook 2026: Rating Stability Hinges On Asset Quality Improving](#), Jan. 8, 2026
- [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
- [Austria 'AA+/A-1+' Ratings Affirmed; Outlook Stable](#), Aug. 8, 2025
- [BKS Bank AG](#), Jan. 14, 2025

Ratings List

Ratings List

Ratings Affirmed

BKS Bank AG

Issuer Credit Rating	BBB+/Stable/--
Resolution Counterparty Rating	A/--/--
Senior Unsecured	BBB+

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