

Research Update:

# Switzerland-Based Aargauische Kantonalbank Outlook Revised To Positive Mirroring Action On Aargau; Affirmed At 'AA/A-1+'

July 1, 2021

## Overview

- We revised our outlook on the Swiss Canton of Aargau to positive from stable on June 18, 2021.
- Our ratings on Aargauische Kantonalbank (AKB) benefit from the bank being a government-related entity (GRE) with an extremely high likelihood of receiving support from its sole owner and guarantor Aargau.
- We revised our outlook on AKB to positive from stable mirroring the outlook change on its home canton, while affirming our 'AA/A-1+' long- and short-term ratings.
- The positive outlook indicates that we would consider an upgrade of AKB if Aargau's creditworthiness were to strengthen to 'AAA'.

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## Rating Action

On July 1, 2021, S&P Global Ratings revised its outlook on Aargauische Kantonalbank (AKB) to positive from stable. At the same time, we affirmed our 'AA/A-1+' long- and short-term issuer credit ratings on the bank.

## Rationale

**The outlook revision mirrors that on Aargau, indicating a potential increase of the canton's ability to support AKB.** The positive outlook on Aargau reflects our view of at least a one-in-three likelihood that Aargau's budgetary results will remain very strong over the medium term (see "Swiss Canton of Aargau Outlook Revised To Positive On Strong Financial Results; 'AA+/A-1+' Ratings Affirmed," published June 18, 2021, on RatingsDirect.) Despite the COVID-19 pandemic, Aargau's budgetary results were among the strongest recorded by Swiss cantons in 2020 due to buoyant revenue, and we expect robust results in 2021.

**We expect AKB to maintain its integral link and very important role for Aargau.** We continue to regard AKB as a GRE with an extremely high likelihood of receiving timely and sufficient extraordinary government support in times of financial distress from its sole owner Aargau. We expect Aargau will remain supportive of AKB and a long-term shareholder of the bank.

**Our rating also balances the bank's solid franchise and business stability against concentration risks.** AKB focuses on real estate lending in Aargau, which poses concentration risk. This is mitigated by AKB's strong business model, with a history of prudent risk management and cautious lending standards, supported by customer loyalty instilled by the canton's ownership and guarantee. We also expect that AKB's capitalization will remain a particular rating strength, and AKB will continue to benefit from its diversified funding profile dominated by stable retail deposits and its strong liquidity position.

## Outlook

Our positive outlook on AKB mirrors that on its owner and guarantor, the Canton of Aargau. We expect that AKB will continue to benefit from being a GRE with an extremely high likelihood of receiving support from Aargau over the next two years, if needed. We expect AKB to maintain its sound financial profile, underpinned by its very strong capitalization and sound earnings capacity over that period.

## Downside scenario

We would consider revising our outlook on AKB to stable if the outlook on Aargau is revised to stable.

A downgrade could be triggered by significant weakening of AKB's role for, or link with Aargau, for example, due to changes in the statutory guarantee. However, we consider this scenario unlikely and expect AKB's existing obligations would be grandfathered.

## Upside scenario

We could consider an upgrade of AKB over the next two years if Aargau's creditworthiness were to strengthen to 'AAA' or if AKB's stand-alone credit profile (SACP) were to improve to 'aa-'. However, we regard the latter scenario as unlikely, given the bank's high 'a+' SACP and our expectation that the bank will not change its concentrated business model or be able to materially improve its risk and funding position.

## Ratings Score Snapshot

Issuer Credit Rating: AA/Positive/A-1+

SACP: a+

Anchor: a-

Business Position: Adequate (0)

Capital and Earnings: Very Strong (+2)

Risk Position: Adequate (0)

Funding and: Average and (0)

Liquidity: Strong

Support: +2

ALAC Support: 0

GRE Support: +2

Group Support: 0

Sovereign Support: 0

Additional Factors: 0

## Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Swiss Canton of Aargau Outlook Revised To Positive On Strong Financial Results; 'AA+/A-1+' Ratings Affirmed, June 18, 2021

## Ratings List

### Ratings Affirmed; Outlook Action

	To	From
<b>Aargauische Kantonalbank</b>		
Issuer Credit Rating	AA/Positive/A-1+	AA/Stable/A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,

have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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