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Research Update:

Aargauische Kantonalbank Long-Term Rating Lowered To 'AA' After Similar Action On Canton of Aargau; Outlook Stable

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Overview

- On July 20, 2018, we lowered our rating on the owner and support provider of Aargauische Kantonalbank (AKB), the Swiss Canton of Aargau, to 'AA+' from 'AAA'.
- In our view, the canton now has a relatively weaker capacity to provide extraordinary support to AKB if needed.
- As a result, we are lowering our long-term rating on AKB to 'AA' from 'AA+' and affirming the 'A-1+' short-term rating.
- The stable outlook on AKB mirrors that on the canton.

Rating Action

On July 24, 2018, S&P Global Ratings lowered its long-term issuer rating on Switzerland-based Aargauische Kantonalbank (AKB) to 'AA' from 'AA+'. The outlook is stable.

At the same time, we affirmed our 'A-1+' short-term issuer credit rating on the bank.

Rationale

The downgrade of AKB reflects a similar action on the canton (see "Swiss Canton of Aargau Ratings Lowered To 'AA+/A-1+' On Reassessment Of Financial Management; Outlook Stable," published July 20, 2018, on RatingsDirect). The canton fully owns the bank and guarantees its liabilities.

We continue to see AKB's creditworthiness as closely connected to that of its cantonal owner. We assess AKB to be a government-related entity (GRE) with an extremely high likelihood of receiving timely and sufficient extraordinary government support in times of stress.

We regard the bank as playing a very important role for the canton. We consider that a default of AKB would have a systemic impact on the local economy. The cantonal bank law provides the basis for the bank's activities and it includes the state guarantee for AKB's senior liabilities, which supports our assessment of an integral link with the home canton.

The lower rating on Aargau indicates a reduced capacity to support AKB in times of stress. We therefore decreased the rating uplift for extraordinary support to two notches from three, leading to the 'AA' long-term rating on AKB, two notches above its 'a+' stand-alone credit profile (SACP). The canton's weaker credit standing, in our view, does not have any implications for AKB's stand-alone creditworthiness.

Outlook

The stable outlook on AKB reflects that on its owner and guarantor, Aargau. Moreover, we expect that AKB will continue to benefit from being a government-related entity (GRE) with an extremely high likelihood of receiving support from Aargau over the next two years, if needed. In addition, we expect that AKB will maintain its sound financial profile, underpinned by its very strong capitalization and sound earnings capacity over that period.

A negative rating action is very remote at present. However, it could be triggered by a downward revision of our assessment of AKB's role for or link with Aargau, or changes in the statutory guarantee, which may lead us to reassess AKB's status as a GRE.

We could consider an upgrade of AKB if Aargau's creditworthiness were to strengthen to 'AAA' or if AKB's SACP were to improve to 'aa-'. However, we regard this scenario as unlikely, given 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/Stable/A-1+
SACP	a+
Anchor	a-
Business Position	Adequate (0)
Capital and Earnings	Very strong (+2)
Risk Position	Adequate (0)
Funding and Liquidity	Average and (0) Strong
Support	(+2)
ALAC Support	(0)
GRE Support	(+2)
Group Support	(0)
Sovereign Support	(0)

Additional Factors (0)

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Swiss Canton of Aargau Long-Term Rating Lowered To 'AA+' From 'AAA' On Weaker Financial Management; Outlook Stable, July 20, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For Switzerland Completed, June 25, 2018
- Banking Industry Country Risk Assessment: Switzerland, Nov. 6, 2017
- Aargauische Kantonalbank, Sept. 13, 2017

Ratings List

Downgraded; Rating Affirmed

	To	From
Aargauische Kantonalbank Issuer Credit Rating	AA/Stable/A-1+	AA+/Negative/A-1+

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