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Aargauische Kantonalbank

Primary Credit Analyst:
Sophie Nehrer, Frankfurt + 49 693 399 9242; sophie.nehrer@spglobal.com

Secondary Contact:
Harm Semder, Frankfurt + 49 693 399 9158; harm.semder@spglobal.com

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Aargauische Kantonalbank

Ratings Score Snapshot

Issuer Credit Rating
AA/Positive/A-1+

SACP: a+ → **Support: +2** → **Additional factors: 0**

Anchor	a-	
Business position	Adequate	0
Capital and earnings	Very strong	+2
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Strong	
CRA adjustment		0

ALAC support	0
GRE support	+2
Group support	0
Sovereign support	0

Issuer credit rating
AA/Positive/A-1+

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Extremely high likelihood of support from the financially strong Canton of Aargau, if needed.	Concentration risks from limited geographic diversity and focus on residential mortgage lending.
A sound financial profile underpinned by very strong capitalization and sustained profitability.	Subdued growth prospects in the competitive home market.
High-quality loan book dominated by granular and well-collateralized residential mortgages.	Limited earnings diversification due to reliance on net interest income.

Despite increasing downside risks due to a worsened economic environment, we expect Aargauische Kantonalbank's (AKB) performance will remain sound thanks to a resilient customer base and prudent lending policies. The effects of the Russia-Ukraine conflict on the Swiss economy and its financial sector have been more contained than in other Western European countries. AKB is not directly affected and, for now, second round effects have been very limited. The bank is also helped by resilient credit conditions in its home canton, a solid business model, prudent risk management and cautious lending standards, as well as a loyal customer base. We expect Swiss households will maintain their financial health and also note that the Swiss industrial sector is generally less vulnerable to the current energy crisis than in other Western European countries.

Focus on mortgage lending provides business stability but results in sensitivity to real estate markets. More than 90% of AKB's loan book is well collateralized residential mortgage lending and the remainder is financing of local small and midsize enterprises (SMEs) in its home and neighboring regions. In line with the nationwide trend, house price growth in Aargau has been very strong recently. That said, we still think that a market correction in the near to medium term is relatively remote given persistent demand supply imbalances.

The bank's capitalization remains a rating strength and provides cushioning against tail risk. We anticipate that AKB will maintain its superior capitalization. Its risk-adjusted capital (RAC) ratio stood at 20.7% as of Dec. 31, 2021. We forecast that it will hover around 21%-22% over the next 24 months, which makes AKB's capitalization among the world's strongest, together with some cantonal bank peers.

We expect that AKB will receive government support from its sole owner the Canton of Aargau, if needed. In our view, AKB will maintain its integral link with and very important role for Aargau, which is largely facilitated by cantonal bank law. The law stipulates the cantonal ownership and guarantee, as well as the objectives of the bank. We expect the canton will maintain the existing guarantee for the medium term.

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 government-related entity (GRE) with an extremely high likelihood of receiving support from Aargau over the next two years, if needed. We expect AKB will 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 we revised the outlook on Aargau to stable.

A downgrade could be triggered by a 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 upgrading 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 banks 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.

Key Metrics

Aargauische Kantonalbank--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2020a**	**2021a**	**2022f**	**2023f**	**2024f**
Growth in operating revenue	5.6	2.3	0.2-0.3	2.4-3.0	2.7-3.3
Growth in customer loans	1.0	2.8	2.2-2.7	2.2-2.7	2.7-3.3
Net interest income/average earning assets (NIM)	1.2	1.2	1.1-1.2	1.1-1.2	1.1-1.2
Cost to income ratio	51.9	51.0	50.1-52.7	50.0-52.6	49.3-51.8
Return on average common equity	5.5	6.5	5.8-6.4	5.9-6.5	6.1-6.7
Gross nonperforming assets/customer loans	0.9	1.1	1.0-1.2	1.0-1.1	0.8-0.9
Risk-adjusted capital ratio	20.9	20.7	21.0-22.1	21.1-22.2	21.2-22.3

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'a-' For Banks Operating Mainly In Switzerland

Our criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor SACP, the starting point in assigning an issuer credit rating. Our anchor for banks operating mainly in Switzerland is 'a-'. We consider the trend for economic and industry risk in Switzerland to be stable.

Despite a weaker economic outlook and further risks to the economic trajectory from the unclear consequences of the Russia-Ukraine military conflict, we expect Swiss banks will demonstrate robust asset quality and lower credit losses than most peers, close to levels observed pre-pandemic. Strong resilience stems from the superior financial strength of both the household and corporate sectors, as well as banks' prudent underwriting standards focusing on collateralized lending, mainly in residential mortgages. We also do not expect material constraints on customers' debt service capacity from higher rates, given the dominance of fixed-rate mortgage contracts with an average 10-year interest period. We also see the risk of a severe price correction in the housing market as low, because it would likely require a steep rise in unemployment. However, we think risks in the investment property subsegment remain slightly elevated because prices are still sensitive to immigration levels, construction activity, investment alternatives in a rising rates environment, and vacancy rates, which recently reached a multiyear high.

Our view of industry risk in Switzerland encompasses the stability of the domestic banking sector. We view positively that, despite high competitive pressure between local players, domestic banks can still earn their cost of capital. We expect Swiss banks will see a net revenue benefit from rises in policy rates, but less so than peers, given that Swiss banks benefit from the central bank's broad exemption for sight deposits being subject to negative rates. We also note banks' high capitalization and heavy reliance on stable customer deposits and equity for funding. In our view, the Swiss Financial Market Supervisory Authority (FINMA) remains on top of both regulatory oversight and innovations and overall we think Swiss banks face limited risks from technology disruption. We also expect the regulator to effectively limit Swiss banks' sensitivity to financial crime. Strong anti-money-laundering standards and business models and practices that do not rely on customers' undeclared wealth are crucial for the stability and strength of the Swiss banking sector, in our view.

Business Position: Geographic And Product Concentration Mitigated By Solid Franchise And Stable Business Activity

We expect AKB will maintain its solid franchise and high business stability, which offsets concentration risks arising from its focus on real estate lending in Aargau. AKB's history of sound and sustainable profitability, prudent risk management, and cautious lending standards are fundamental to our business position assessment. Our assessment is further supported by customer loyalty, which is instilled by the cantonal ownership and guarantee and is typically even stronger during crises.

With total assets of Swiss francs (CHF) 34.3 billion, AKB is a midsize cantonal bank and ranks seventh out of 24 cantonal banks in Switzerland (by total assets at year-end 2021). It operates in northwest Switzerland, which is characterized by its strong small and midsize industrial sector. Like most cantonal banks, AKB focuses mainly on its home canton and neighboring regions, and is active primarily in residential mortgage lending (about 93% of the loan book as of June 2022) and in financing local SMEs. AKB's business activity also includes private banking services.

Compared with many cantonal banks we rate, the competitive environment in AKB's core market is tougher--several other domestic and regional banks compete in the canton. AKB's market share, at about 25%, is consequently lower than for other cantonal banks. That said, we expect AKB will be able to protect its market-leading position in Aargau over the next few years, building on its status as the cantonal bank.

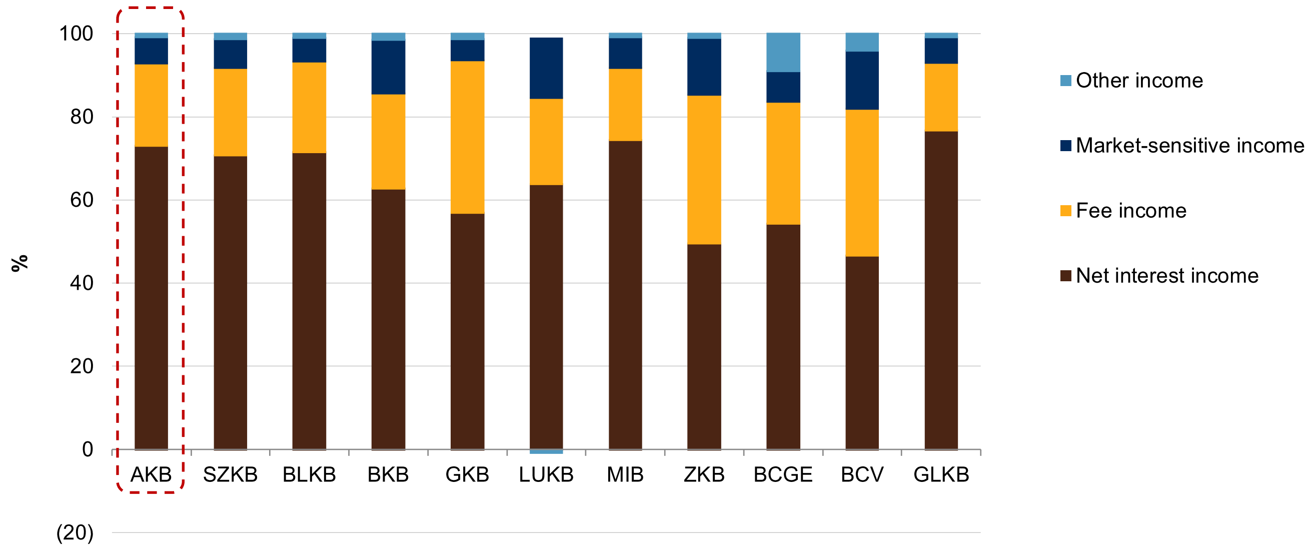
The bank's geographic concentration in Aargau and neighboring regions exposes its business volumes and earnings to economic swings in a rather small economy. That said, risks are somewhat mitigated by a wealthy and resilient customer base. Although we see risks arising from AKB's concentrated business position, we expect the bank will continue to post sound and stable earnings in the coming years by retaining its focus on achieving appropriate risk-adjusted margins, rather than business volumes. We view Switzerland as less vulnerable to the current economic turmoil and think that AKB will weather the current crises reasonably unscathed.

The bank's cost-income ratio stood at 49.1% as of end-2021, in line with the bank's long-term cost-to-income target of below 55%, which we expect it will continue to meet. The fees and commission income continues to develop very positively, increasing to CHF43.1 million for first-half 2022, a 5% increase on the previous year. Despite a difficult market environment, the securities and investment business grew by 4.6%.

We see relatively low risk that new fintech competitors could disrupt AKB's business model in future given its loyal and conservative client base, which is likely to continue to favor a relationship-based bank over pure digital banks. This will give AKB time to gradually adjust its product offering and digital customer interaction.

Chart 1

Swiss Banks' Breakdown Of Operating Revenues



Data relates to FY-2021. AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank. GKB--Graubuendner Kantonalbank. LUKB--Luzerner Kantonalbank. SZKB--Schwyzer Kantonalbank. ZKB--Zuercher Kantonalbank. MIB--Migros Bank.
Source: S&P Global Ratings.

Capital And Earnings: Capitalization Remains A Key Rating Strength

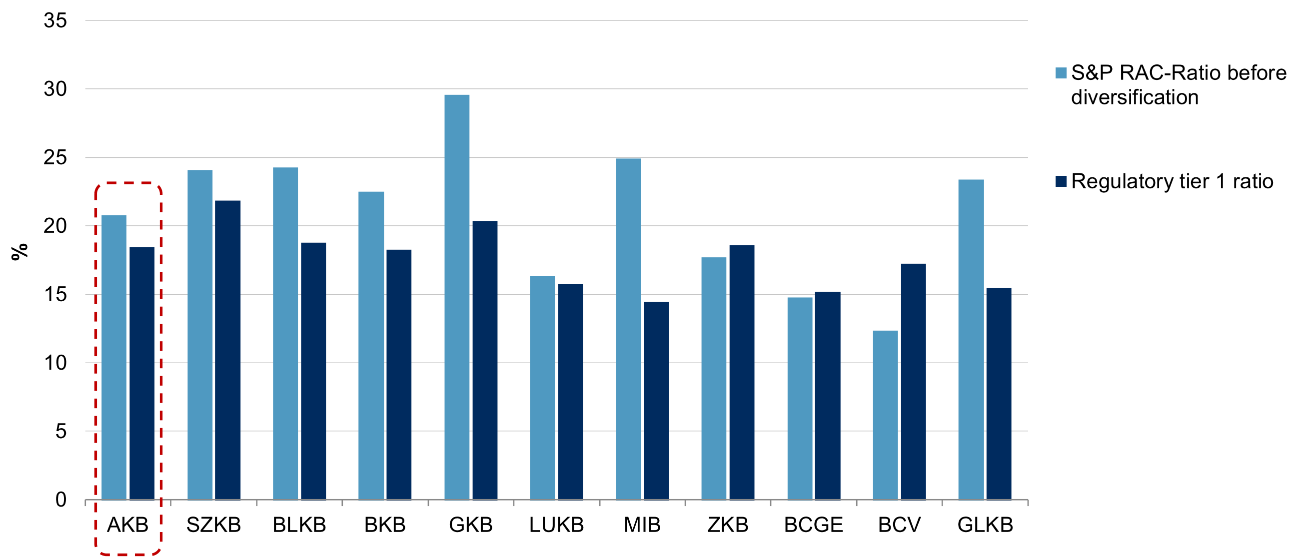
We expect that AKB will maintain its rating strength of superior capitalization, mainly based on our projected RAC ratio of over 21% over the next two years (compared with 20.7% at year-end 2021).

The stability in capital ratios is supported by the bank's agreement with the canton that it would maintain a 4%-6% buffer above its current 12% regulatory total capital requirement. It therefore targets a total capital ratio of 16%-18%. The bank's reported total capital ratio as of June 30, 2022, was 17.5% (Dec. 31, 2021: 18%) which maintains a 5.5 percentage point buffer. Although we understand that this agreement is not binding, we expect the canton would adjust its dividend requirement to allow AKB's common equity tier 1 (CET1) ratio to stay above the target. AKB has not issued any hybrid securities, which results in a high quality of capital.

In our view, AKB's earnings are predictable and stable. We forecast net income of around CHF165 million-CHF185 million over 2022-2024 and expect a slight increase in the bank's net interest margin (NIM) in the near to medium term. We also expect stable risk-adjusted profitability and forecast AKB's earnings buffer will remain about 1.10% in 2022-2024 compared with 1.13% in 2021, broadly in line with that of its Swiss peers. This buffer, which measures a bank's capacity of pre-provision operating income to cover normalized (annual average through the cycle) credit losses, would act as a first line of defense.

Chart 2

Swiss Banks' Capitalization



RAC--Risk-adjusted capital. Ratios as of Dec 2021. AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank. GKB--Graubuendner Kantonalbank. LUKB--Luzerner Kantonalbank. SZKB--Schwyzer Kantonalbank. ZKB--Zuercher Kantonalbank. MIB--Migros Bank.

Source: S&P Global Ratings.

Risk Position: Concentration In Residential Mortgage Lending, But Strong Risk Metrics

We expect AKB's risk position will remain a neutral rating factor. In our base case, we assume that Swiss domestic markets will stay resilient amid the current economic turmoil. We think that the asset quality of AKB's loan portfolio is high and well managed despite its inherent regional and segment concentrations. We base our view on AKB's prudent risk management and conservative lending standards. We expect loan book growth will pick up and remain at about 2.5%-3.0% in the next couple of years.

As of June 2022, AKB's mortgage loan portfolio represented about 93% of the loan book and mostly consisted of residential real estate loans. It benefited from its high granularity, high collateralization, and a comparably favorable average loan-to-value ratio of about 61%.

Housing prices in Switzerland have increased substantially over the past several years, which heightens the risk of a correction. Given AKB's focus on mortgage lending, a major correction could pressure its asset quality. That said, we see the risk of a material price correction in the real estate market currently as low given ongoing demand and supply imbalances and low unemployment rates. Over the past year, residential real estate price increases in Aargau have been slightly below the Swiss average. The prices for single-family houses in the canton have increased by 6.1% on average from first-quarter 2021 to first-quarter 2022 and prices for condominiums have increased by about 3.9%. We believe, in an adverse scenario, the Aargau housing market would not be able to delink itself from developments in the national housing market.

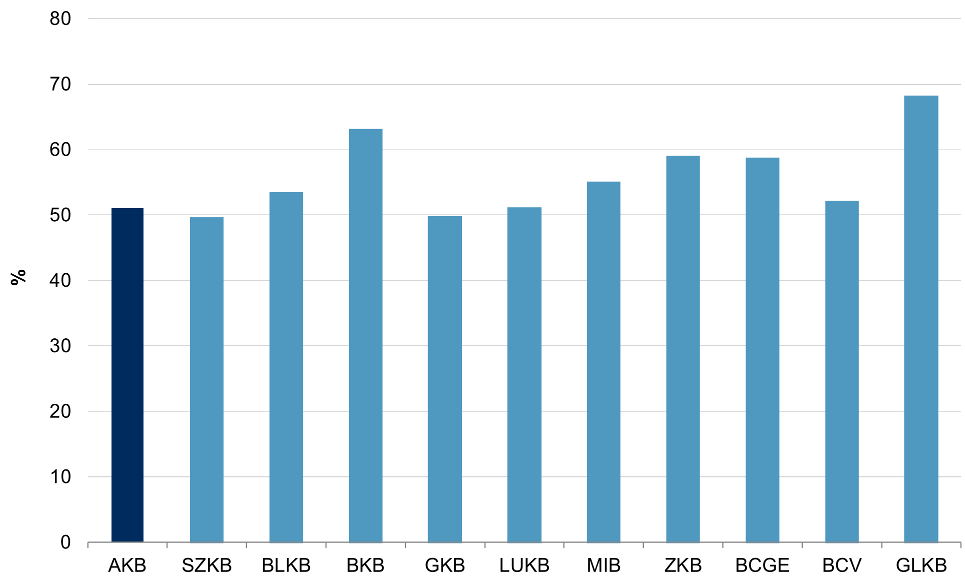
We generally view commercial lending as riskier than residential real estate loans. That said, we see AKB's commercial loan portfolio as sound in quality because of its modest exposure to cyclical and riskier sectors, such as tourism or real estate development. Nevertheless, AKB's commercial lending exposes it to higher credit losses in a recessionary scenario than its retail business.

Positively, we anticipate the bank will maintain its conservative underwriting standards in new mortgage lending, helping it keep nonperforming loans (NPL) in its loan book to a minimum. Its NPL ratio of 1.13% at the end of 2021 was based on AKB's disclosure of loans at risk, which is more conservative than the 90 days past due standard we usually reference. We expect the NPLs will decline toward pre-pandemic levels of around 0.9% by 2024.

AKB makes negligible use of complex products because it is dedicated to the local market and only offers standard products. AKB's loan book consists mainly of longer-term, fixed-rate loans, which are largely funded by shorter-term savings deposits. This exposes the bank to interest rate risks, which are adequately hedged, in our view. Risks from trading activities are very limited because these are generally client-initiated.

Chart 3

Swiss Banks' Cost-To-Income Ratios



Cost-to-income ratio is defined as noninterest expense as % of operating revenues. Data relates to FY-2021. AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank. GKB--Graubuendner Kantonalbank. LUKB--Luzerner Kantonalbank. SZKB--Schwyzer Kantonalbank. ZKB--Zuercher Kantonalbank. MIB--Migros Bank. Source: S&P Global Ratings.

Funding And Liquidity: Stable Funding Base, Owing To A Strong Retail Franchise

We expect that our funding assessment for AKB will remain comfortably in line with domestic peers. At the same time, we see the bank's liquidity position and management as a strength. Funding and liquidity benefit from the stability of customer deposits, supported by the guarantee provided by the canton. The bank's core customer deposits accounted for 68% of its funding base as of June 2022. Its leverage ratio was 6.7% of total assets at the same date.

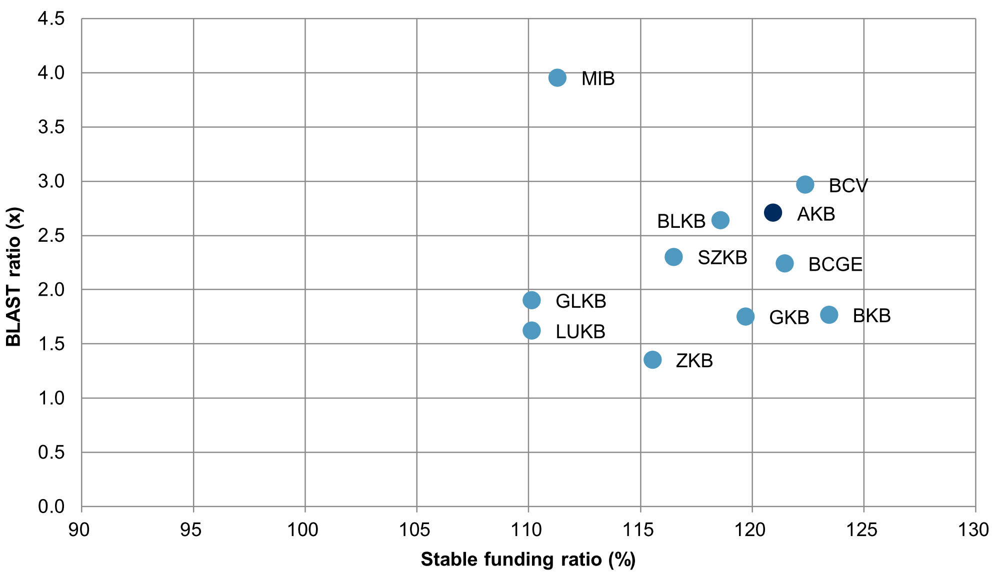
We expect customer loans will continue to exceed customer deposits, indicating AKB's dependency on other means of funding. These additional sources of AKB's funding mix are diversified between capital market funding, via secured and unsecured instruments, and interbank funding. We expect AKB's stable funding ratio--our measure of available long-term funding relative to long-term funding needs--will remain at about 110% over the next few years, which is broadly comparable with other rated cantonal banks.

Our strong liquidity assessment mainly indicates that AKB's broad liquid assets comfortable covered its short-term wholesale funding needs by 2.05x as of June 2022 (end-2021: 2.7x), implying that it could operate for more than 12 months with no access to market funding. This level of liquid assets to short-term liquidity needs is in line with the strong levels at most other rated cantonal banks. Furthermore, broad liquid assets over short-term wholesale funding still exceeded short-term customer deposits by about 25.5% as of June 2022 (25.3% as of year-end 2021). We consider that the bank has proper governance to prevent any funding concentrations and undergoes regular stress testing.

Owing to AKB's close ties with, and the statutory guarantee by, the canton, we do not think that the bank would be exposed to large withdrawals of customer deposits in times of stress. On the contrary, during the global financial crisis, we observed a flight to quality that strengthened AKB's funding and liquidity profile. Nevertheless, AKB also considers severe idiosyncratic stress in its stress testing.

Chart 4

Swiss Banks' Funding And Liquidity Profiles



BLAST ratio is calculated as broad liquid assets divided by short-term wholesale funding. Ratios as of Dec. 2021. AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank. GKB--Graubuendner Kantonalbank. LUKB--Luzerner Kantonalbank. SZKB--Schwyzer Kantonalbank. ZKB--Zuercher Kantonalbank. MIB--Migros Bank. Source: S&P Global Ratings.

Support: 2 Notches Of Uplift On Extremely High Likelihood Of Extraordinary Support From Government

We expect AKB will remain a GRE given its full ownership by Aargau. The long-term rating on AKB is two notches higher than its SACP, reflecting our opinion of an extremely high likelihood of timely and sufficient extraordinary government support for AKB from its owner in the event of financial distress.

We view AKB as having an integral link with and a very important role for Aargau, which is largely facilitated by cantonal bank law. The law stipulates the cantonal ownership and guarantee as well as the bank's objectives. We think a potential default of AKB would have a significant systemic impact on the local economy, which further incentivizes support mechanisms for the bank if it encounters financial distress.

We expect the canton will maintain the existing guarantee for the short-to-medium term. Beyond our outlook horizon, we see a potential risk that future agreements between Switzerland and the EU regarding preferential market access for Switzerland might include the removal of the remaining guarantees for all cantonal banks.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have a neutral impact in our assessment of AKB's credit worthiness. Social and environmental credit factors are in line with those of peers in the banking industry, while the bank's governance standards are comparable with the practice in its home country.

Key Statistics

Table 1

Aargauische Kantonalbank--Key Figures

	--Year-ended Dec. 31--				
(Mil. CHF)	**2022***	**2021**	**2020**	**2019**	**2018**
Adjusted assets	37,285.8	34,329.9	31,775.4	30,240.4	28,348.6
Customer loans (gross)	24,762.6	24,325.7	23,660.8	23,437.9	22,876.3
Adjusted common equity	2,663.5	2,562.5	2,516.9	2,398.7	2,289.6
Operating revenues	211.4	419.4	409.8	388.0	382.4
Noninterest expenses	107.4	214.0	212.7	214.9	209.1
Core earnings	100.1	195.0	187.8	173.0	173.9

*Data as of June 30. CHF--Swiss franc.

Table 2

Aargauische Kantonalbank--Business Position

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Total revenues from business line (currency in millions)	212.4	421.5	406.7	389.7	388.7
Commercial and retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0

Table 2

Aargauische Kantonalbank--Business Position (cont.)

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Return on average common equity	6.7	6.5	5.5	6.1	6.2

*Data as of June 30.

Table 3

Aargauische Kantonalbank--Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	17.5	18.4	18.6	17.9	17.4
S&P Global Ratings' RAC ratio before diversification	N/A	20.7	20.9	20.6	20.4
S&P Global Ratings' RAC ratio after diversification	N/A	17.0	17.2	16.7	16.7
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	72.6	73.0	74.4	73.6	74.5
Fee income/operating revenues	20.4	19.8	18.4	18.2	17.1
Market-sensitive income/operating revenues	5.9	6.2	6.2	6.6	6.5
Cost to income ratio	50.8	51.0	51.9	55.4	54.7
Preprovision operating income/average assets	0.6	0.6	0.6	0.6	0.6
Core earnings/average managed assets	0.6	0.6	0.6	0.6	0.6

*Data as of June 30. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Aargauische Kantonalbank--Risk-Adjusted Capital Framework Data

(Mil. CHF)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government and central banks	7,545.6	2.0	0.0	226.4	3.0
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	1,717.6	530.9	30.9	310.2	18.1
Corporate	8,480.9	5,282.1	62.3	5,597.3	66.0
Retail	17,274.4	7,190.0	41.6	4,974.8	28.8
Of which mortgage	15,011.5	5,536.6	36.9	3,481.1	23.2
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	55.6	55.5	99.9	55.0	98.9
Total credit risk	35,074.1	13,060.5	37.2	11,163.7	31.8
Credit valuation adjustment					
Total credit valuation adjustment	--	38.8	--	0.0	--
Market risk					
Equity in the banking book	48.5	59.9	123.4	351.4	724.4
Trading book market risk	--	40.4	--	60.6	--
Total market risk	--	100.3	--	411.9	--

Table 4

Aargauische Kantonalbank--Risk-Adjusted Capital Framework Data (cont.)

Operational risk					
Total operational risk	--	756.0	--	801.1	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	13,955.5	--	12,376.8	100.0
Total diversification/ Concentration adjustments	--	--	--	2,675.2	21.6
RWA after diversification	--	13,955.5	--	15,051.9	121.6
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		2,563.8	18.4	2,562.5	20.7
Capital ratio after adjustments‡		2,563.8	18.4	2,562.5	17.0

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to tier 1 ratio are additional regulatory requirements (e.g. transitional floor or pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. CHF--Swiss franc. Sources: Company data as of Dec. 31, 2021, S&P Global Ratings.

Table 5

Aargauische Kantonalbank--Risk Position

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Growth in customer loans	2.0	2.8	1.0	2.5	4.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	21.6	21.3	23.2	22.2
Total managed assets/adjusted common equity (x)	14.0	13.4	12.6	12.6	12.4
New loan loss provisions/average customer loans	(0.0)	0.0	0.0	(0.0)	(0.0)
Net charge-offs/average customer loans	0.0	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	1.1	1.1	0.9	0.7	0.7
Loan loss reserves/gross nonperforming assets	22.0	22.0	28.9	42.6	50.3

*Data as of June 30. N/A--Not applicable. RWA--Risk-weighted assets.

Table 6

Aargauische Kantonalbank--Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Core deposits/funding base	68.0	72.6	70.2	68.4	70.8
Customer loans (net)/customer deposits	106.3	106.7	116.3	124.3	124.9
Long-term funding ratio	85.0	90.3	90.8	88.6	91.3
Stable funding ratio	120.9	121.0	116.0	108.8	108.0
Short-term wholesale funding/funding base	16.2	10.6	10.0	12.5	9.4
Regulatory net stable funding ratio	148.1	N/A	N/A	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	2.0	2.7	2.5	1.7	1.9

Table 6

Aargauische Kantonalbank--Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Broad liquid assets/total assets	30.4	26.1	22.3	19.3	16.0
Broad liquid assets/customer deposits	48.8	39.3	34.9	31.0	24.9
Net broad liquid assets/short-term customer deposits	25.5	25.3	21.2	13.2	12.0
Regulatory liquidity coverage ratio (LCR) (x)	189.7	N/A	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	50.6	38.5	33.4	39.5	32.4
Narrow liquid assets/3-month wholesale funding (x)	5.9	6.4	4.1	3.4	2.9

*Data as of June 30. N/A--Not applicable.

Aargauische Kantonalbank--Rating Component Scores	
Issuer Credit Rating	**AA/Positive/A-1+**
SACP	a+
Anchor	a-
Economic risk	2
Industry risk	2
Business position	Adequate
Capital and earnings	Very strong
Risk position	Adequate
Funding	Adequate
Liquidity	Strong
Comparable ratings analysis	0
Support	2
ALAC support	0
GRE support	2
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- 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
- 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

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Swiss Canton of Aargau 'AA+/A-1+' Ratings Affirmed; Outlook Remains Positive,June 17, 2022
- Banking Industry Country Risk Assessment: Switzerland, May 30, 2022
- Swiss and Liechtenstein Bank Ratings Affirmed Under Revised FI Criteria, Feb. 8, 2022
- ESG Credit Indicator Report Card: EMEA Banks, Jan. 19, 2022
- Aargauische Kantonalbank, Nov. 19, 2021

Ratings Detail (As Of November 18, 2022)*		
Aargauische Kantonalbank		
Issuer Credit Rating		AA/Positive/A-1+
Issuer Credit Ratings History		
01-Jul-2021	*Foreign Currency*	AA/Positive/A-1+
24-Jul-2018		AA/Stable/A-1+
26-Jul-2016		AA+/Negative/A-1+
01-Jul-2021	*Local Currency*	AA/Positive/A-1+
24-Jul-2018		AA/Stable/A-1+
26-Jul-2016		AA+/Negative/A-1+
Sovereign Rating		
Switzerland		AAA/Stable/A-1+
Related Entities		
Aargau (Canton of)		
Issuer Credit Rating		AA+/Positive/A-1+
Senior Unsecured		AA+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.