Annual Report 2015

Aargauische
Kantonalbank

Short Version

This unaudited short version of the annual report is not a complete annual report. It is a translation of select segments of the original annual report in German for information purposes only.

In the event of variances, the German version shall take precedence over the English translation. You can find the full German annual report on www.akb.ch for additional information.

Contents

Foreword

Company, Legal Status and Bank Headquarters
Aargauische Kantonalbank (AKB) is an autonomous institution under public cantonal law. Protected by law, Aargauische Kantonalbank launched its operations in 1913. The canton is liable for all debts of the bank. AKB provides comprehensive banking services for private individuals, companies and communities. The bank's headquarters are located in Aarau and the business area is predominantly limited to the canton of Aargau and the bordering regions. Its 31 branch offices are dispersed across all districts of the canton; there is a branch in Olten for the Olten-Gösgen-Gäu region, in addition to an ATM in Egerklingen.

Highest Ever Yearly Profit
During a challenging year, Aargauische Kantonalbank achieved the best result in its history with CHF 155.4 million; an increase of CHF 49.9 million or 47.3% in comparison to the previous year. What is more, this was in a year where economic growth almost stagnated due to the strength of the Swiss Franc. The canton and all the inhabitants of Aargau also profit from this extraordinary course of business. In addition to the general profit distribution of CHF 68 million, AKB also allocated a one-off additional distribution of CHF 7 million. Together with the CHF 10.3 million compensation for the state guarantee and the interest on endowment capital of CHF 3.3 million, this amounts to CHF 88.6 million.

Decisive Success Components
Several factors contributed to this record result. Operating income increased and operating expenses remained virtually the same as the previous year. With regard to operating income, success in commercial business in particular developed extremely positively. This was due to the consistent use of all opportunities in the Treasury and in forex trading after the discontinuation of the minimum Euro exchange rate. A release of provisions that were no longer required benefitted the income statement. The sale of Swisscanto Holding AG shares to Zürcher Kantonalbank also resulted in an extraordinary capital gain.

US Tax Programme Completed
AKB reached an agreement with the American judicial authorities concerning the completion of their tax programme. With a one-time payment of $1.98 million we reached another milestone in the consistent implementation of our clean-money strategy. This payment had no negative impact on the annual profit because adequate provisions had already been made.

Online and Offline Client Focus
We take individual and personal care of our clients. Client proximity is also a focus for the future. We achieve this both online and offline. We want to keep pace with new technologies and be a contemporary bank which will also support its clients in their financial transactions in the future. This means that we will further expand our online services. The 31 branches in the canton and in the region of Olten-Gösgen-Gäu will of course continue to exist because we consider the personal dialogue with our clients to be very important. The significance that we attach to our branch network is reflected in the construction of our new office in Suhr and the relocation of our branch from Fahrwangen to Seengen last year. Our 230,000 loyal clients demonstrate to us their belief and trust in their state bank. We have confirmed this vote of confidence in the past and we will do everything possible to continue to provide it in the future.

AKB Law Passed
Parliament passed the revised AKB law on 30 June 2015. A key change is that the government will no longer be represented on the Board of Directors Committee. We thank Councillor Roland Brogli for his strong commitment to supporting AKB. He had been a member of the Board of Directors and the Steering Committee since 2005.

Satisfied Employees
Competent and satisfied employees are the basis of our success. We therefore regularly carry out internal surveys. This year they have shown that a fair partnership and respectful treatment has paid off for the bank. 90% of all employees indicated a very high level of overall satisfaction. We are pleased with this result and believe that this satisfaction can be felt not only within the bank but also in direct contact with clients.

Thank You
On behalf of the Board of Directors and the Executive Management of AKB we thank our clients and our business partners for the great confidence which our bank was shown in 2015. A special thanks to our employees who work hard each day with dedication and commitment to support our clients and who have contributed significantly to this year's top result.

Dieter Egloff
Chairman of the
Board of Directors

Rudolf Dellenbach
CEO

2015 at a Glance

	[1] 2014 in CHF million	**2015 in CHF million**	Change in CHF million	Change in %
Income statement				
Net result from interest operations	253.3	**259.2**	5.9	2.3
Result from commission business and services	72.6	**60.7**	–11.9	–16.3
Result from trading activities and the fair value option	32.2	**49.1**	16.9	52.4
Other result from ordinary activities	8.4	**6.1**	–2.3	–27.0
Operating income	366.4	**375.1**	8.7	2.4
Personnel expenses	–105.4	**–107.0**	–1.6	1.5
General and administrative expenses	–68.0	**–66.8**	1.2	–1.8
of which compensation for the state guarantee	–9.8	**–10.3**	–0.5	5.2
Operating expenses	–173.4	**–173.8**	–0.4	0.2
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–11.8	**–11.4**	0.4	–3.1
Changes to provisions and other value adjustments, and losses	–11.4	**8.0**	19.3	–170.3
Operating result	169.9	**197.9**	28.0	16.5
Extraordinary income	2.6	**17.8**	15.2	589.0
Extraordinary expenses	–	**–**	–	n. a.
Changes in reserves for general banking risks	–58.7	**–50.4**	8.3	–14.1
Taxes	–8.3	**–9.9**	–1.6	18.7
Profit	105.5	**155.4**	49.9	47.3
Appropriation of profit				
Allocation to statutory retained earnings reserve	35.0	**77.0**	42.0	120.0
Interest on endowment capital	4.0	**3.4**	–0.6	–16.1
Distribution to the canton	66.0	**68.0**	2.0	3.0
Additional distribution to the canton	–	**7.0**	7.0	n. a.

[1] The previous year's figures have been adjusted to the new accounting rules for banks (ARB), effective since 1st January 2015.

	[1] 31.12.2014 in CHF million	31.12.2015 in CHF million	Change in CHF million	Change in %
Balance sheet				
Balance sheet total	22,755.0	**24,286.0**	1,531.0	6.7
Loans to customers	18,920.6	**19,767.8**	847.2	4.5
Amounts due from customers	1,434.3	**1,246.2**	– 188.1	– 13.1
Mortgage loans	17,486.3	**18,521.6**	1,035.3	5.9
Funds due to customers	15,458.6	**15,738.6**	280.0	1.8
Amounts due in respect of customers deposits	15,341.4	**15,648.5**	307.1	2.0
Cash bonds	117.3	**90.1**	– 27.2	– 23.2
Net equity before distribution of net profit	1,958.2	**2,094.0**	135.8	6.9
Total managed assets [2]	24,831.3	**24,286.3**	– 545.0	– 2.2
Personnel [3]	Jobs	**Jobs**		
FTE (full-time equivalent)	686.8	**689.6**	2.8	0.4
of which apprentices/trainees	39.8	**38.0**	– 1.8	– 4.5

	2014 in %	2015 in %	strategic aims in %
Key figures			
Return on Equity (ROE)	8.9	**10.5**	8 – 10
Total Capital Ratio [4]	15.6	**16.3**	> 16,0
Leverage Ratio [5]	8.1	**8.1**	
Cost-Income-Ratio [6]	47.3	**46.3**	
Cost-Income-Ratio [7]	44.7	**43.6**	

	in CHF 1,000	in CHF 1,000
Assets per employee	33,132	**35,218**
Operating income per employee	534	**544**
Operating expenses per employee	252	**252**
Operating result per employee	247	**287**

[1] The previous year's figures have been adjusted to the new accounting rules for banks (ARB), effective since 1st January 2015.
[2] Basis: deposits, client funds, fiduciary investments and assets under management.
[3] FTE (full-time equivalent) is shown as part-time adjusted, apprentices, trainees and employees in the trainee pool are counted as 50 %.
[4] Eligible capital to risk-weighted assets ratio according to Art. 42 para. 2 CAO.
[5] Ratio of Core capital (Tier 1) to total engagement for the leverage ratio (assets, derivate engagements, securities financing transactions engagements and other off-balance-sheet positions).
[6] Calculation of Cost-Income-Ratio: Operating Expenses (incl. compensation for the state guarantee) / Operating Income (incl. changes in value adjustments for default risks and losses from interest operations).
[7] Calculation of Cost-Income-Ratio: Operating Expenses (excl. compensation for the state guarantee) / Operating Income (incl. changes in value adjustments for default risks and losses from interest operations).

Commentary

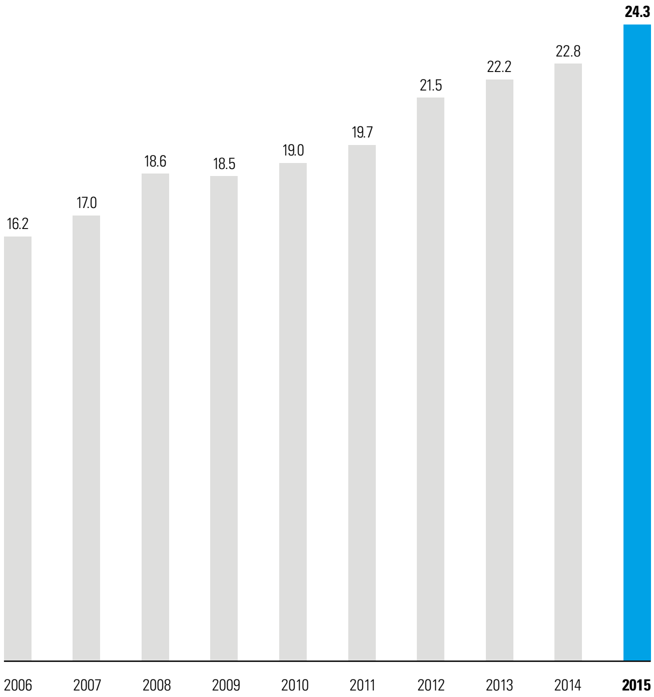
on Business Performance 2015

Aargauische Kantonalbank (AKB) presents an extremely good result for the year 2015. Total assets increased by 6.7% and amounted to CHF 24.3 billion at the end of 2015. The profit of CHF 155.4 million is 47.3% higher than in the previous year and is the highest ever in the bank's history. At CHF 197.9 million, the bank's operating result is up CHF 28.0 million compared with CHF 169.9 million the previous year. On top of the ordinary profit distribution of CHF 68 million, which is two million more than in the 2014 fiscal year, the canton receives an additional distribution of a further CHF 7.0 million.

Balance Sheet

At the end of 2015 the balance sheet total was CHF 24.3 billion, up CHF 1.5 billion or 6.7% more than last year. The granting of mortgages and the increase in liquid assets were the main driver of balance sheet growth on the asset side. On the liabilities side, amounts due in respect of customers deposits the amount due to banks and bond issues and central mortgage institution loans have increased accordingly.

Balance Sheet Total CHF 24.3 bn
in CHF bn



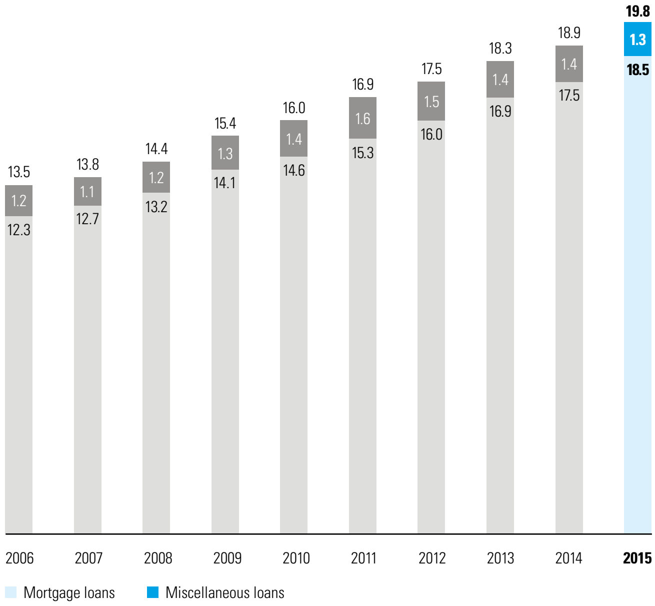
Assets

Loans to customers increased by CHF 847.2 million or 4.5%. With a total volume of CHF 19.8 billion of customers loans, the Kantonalbank contributes sustainably to the economy in its business area.

Mortgage loans, the most important area of lending with a share of 76.3% of total assets, have made a net gain of CHF 1'035.3 million or 5.9% to a total of CHF 18.5 billion. With this growth AKB was able to further strengthen its strong market position which has been continuously developed in recent years. The continued low interest rates during the reporting year prompted customers to take out mainly fixed-rate and money-market mortgage. At the end of the year mortgage loans were divided as follows: 74% fixed-rate mortgages, 25% money-market mortgages and 1% variable rate mortgages.

In addition to the mortgage business, loans to SMEs and to the public sector as well as construction loans are the core businesses of AKB. The balance sheet item "Amounts due from customers" experienced a net decrease in the reporting year by CHF 188.1 million or 13.1% to CHF 1.2 billion (previous year CHF 114.8 million increase). This decrease was primarily a result of lower demands of granted credit limits.

Customer Loans CHF 19.8 bn
in CHF bn



Liabilities

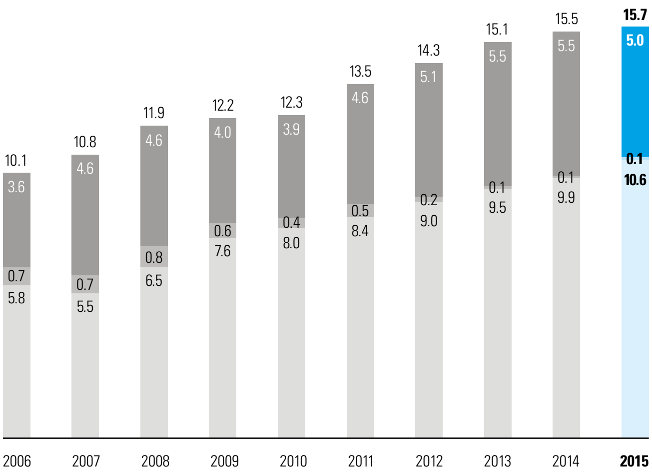
During the previous year many private and institutional clients once again deposited large sums of money in liabilities with AKB. The balance sheet item "Amounts due in respect of customers deposits" has achieved a net increase of CHF 307.1 million or 2.0% during the reporting year, totalling CHF 15.6 billion. As a result of the negative interest on current accounts introduced in the reporting year, these have decreased by CHF 637 million. Customers deposits in savings and investment accounts (incl. salary accounts) have increased by 753.5 million or 7.6% to CHF 10.6 billion (previous year: +CHF 447.7 million or +4.7%). Additionally, we have received CHF 190.6 million of customer time money during the reporting year.

Total customer deposits in savings and investments were sufficient to finance 57.5% of mortgage loans (previous year 56.4%) with this form of client funds. The proportion of these funds on the balance sheet totals 43.8% (previous year 43.1%).

As our clients did not want to commit to the longer term, persistently low interest rates, the cash bonds recorded a further decrease of CHF 27.2 million or 23.2% to CHF 90.1 million in the reporting year, (previous year: –CHF 27.8 million or –19.2%).

Overall, customer funds thus showed a net increase of CHF 280 million or 1.8% to CHF 15.7 billion (previous year +CHF 339.8 million or +2.2%). Assets under management (borrowed funds of clients and portfolio assets) decreased by CHF 545 million in the reporting year. This decrease also affects the performance-adjusted net inflow of new money "Net New Money" which experienced a net decrease of CHF 37 million in the reporting year (previous year: increase CHF 0.7 bn). The outflows of assets were made mainly by large corporate clients and institutional clients.

Customer Funds CHF 15.7 bn
in CHF bn



Furthermore, AKB has used the continuing low interest rates used to increase the long-term refinancing funds in the form of bond issues and central mortgage institution loans. This liability item newly increased by CHF 881.1 million to a new of CHF 3.2 billion (previous year: + CHF 105 million).

Income Statement

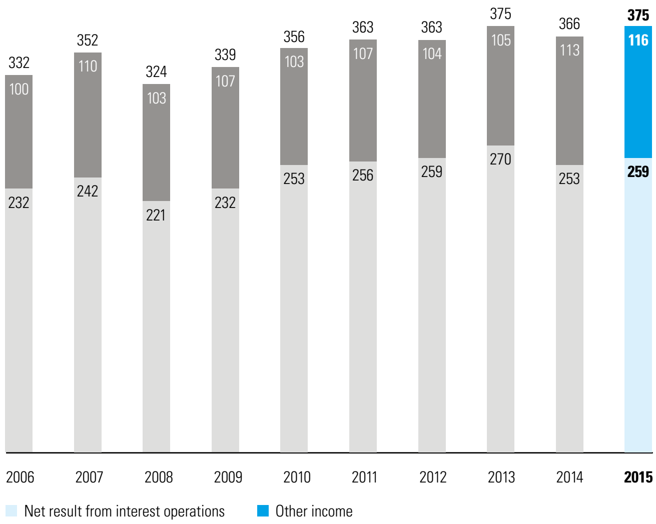
The bank's strongest pillar, interest income – at 69.1% of the total income – was CHF 259.2 million, an increase of 5.9 million or 2.3% from the previous year. The continuing pressure on the interest margin was offset by the strong balance sheet growth, so that the gross result from interest operations is at an equal level as in the previous year. The lower value adjustments contributed positive net result from interest operations on balance sheet transactions. This is due to cautious risk management in lending.

The result from commission business and services recorded a decrease of CHF 11.9 million or 16.3% to a total of CHF 60.7 million (previous year: +CHF 7.3 million or +11.1%). This reduction mainly effects securities trading and investment activities. CHF 7.6 million of this decrease can be explained by the fact that during the previous year, due to an adjustment of the differentiation system in the investment business, a one-off accounting special item was incurred.

A massive increase is reflected in the result from trading activities. The previous year's figure of CHF 32.2 million was increased by 52.4% to CHF 49.1 million. The additional income was accrued primarily in foreign exchange and foreign currency trading due to the decisions of the SNB in January 2015.

The success of "Other result from ordinary activities" decreased from CHF 8.4 million to CHF 6.1 million, which is largely due to the lower result from the disposal of financial investments. The total operating income of CHF 375.1 million saw an increase of CHF 8.7 million or 2.4% on the previous year's figures.

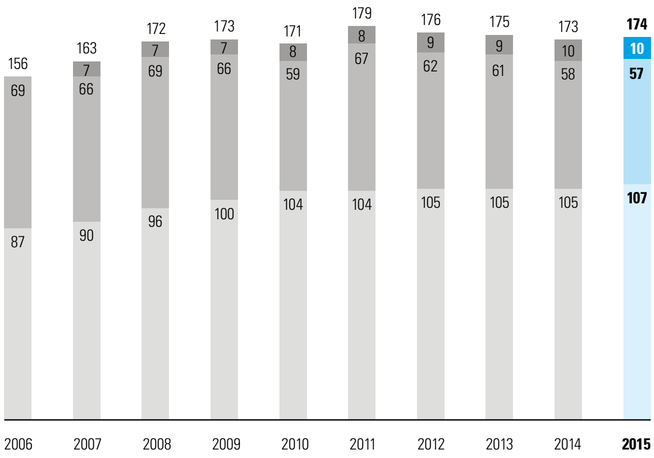
Operating Income CHF 375 m
in CHF m



With virtually no change from the previous year (CHF 173.4 million), operating expenses were CHF 173.8 million. While personnel expenses increased by CHF 1.6 million or 1.5 % to CHF 107 million, operating expenses were reduced by CHF 1.2 million or 1.8 % from 68.0 million to CHF 66.8 million. Under the new accounting rules for banks, the compensation of the state guarantee to the canton forms a new component of operating expenses at AKB. This compensation is regulated by the law concerning Aargauische Kantonalbank, valid since 1st January 2007, under § 5 paragraph 2. It amounts to 1 % of the required capital according to the banking and stock exchange regulations, which for the reporting year totals a compensation of CHF 10.3 million (previous year: CHF 9.8 million).

The increase in operating income and the reduction in operating expenses was also reflected in the cost-income-ratio which improved during the reporting year from 47.3 % to 46.3 %. Excluding the expenditure for the compensation of the state guarantee, the cost-income-ratio was very low, at 43.6 % (previous year: 44.7 %).

Costs CHF 174 m
in CHF m



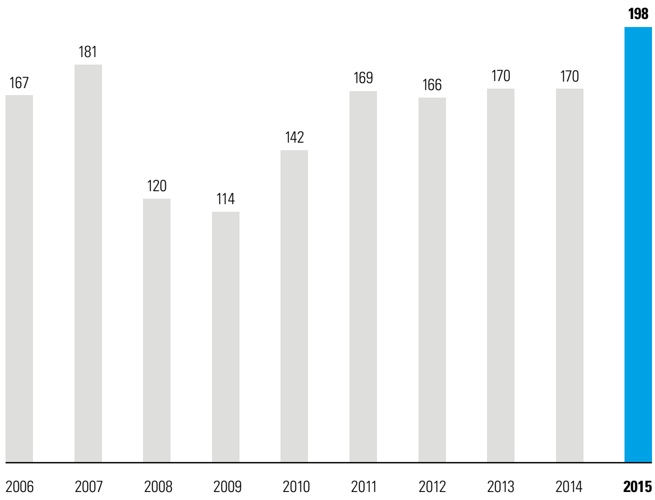
- Personnel expenses
- Other general and administrative expenses
- Compensation for the state guarantee

Value adjustments on participations and depreciation and amortisation of tangible fixed assets amounted to CHF 11.4 million, 3.1% or CHF 0.4 million less than the previous year. This position consists of CHF 0.9 million value adjustments on participations and CHF 10.5 million on depreciation on tangible fixed assets, of which CHF 3.9 million were incurred on bank premises, CHF 0.8 million on other premises and CHF 5.8 million on other tangible fixed assets (predominantly furnishings, equipment, hardware and software).

Since a release of provisions that were no longer required was possible in the year under review, the income item “Changes to provisions and other value adjustment, and losses” demonstrated a positive figure of CHF 8.0 million. Especially in view of the fact that this income statement item still showed a negative value of CHF 11.3 million in the previous year, there is an improvement in results of CHF 19.3 million, which ultimately also has a positive effect on operating result.

Under the new accounting rules, the success of the operating activities is demonstrated in the income statement item “Operating Result”. This shows an increase for the reporting year of 16.5 % from CHF 169.9 million to CHF 197.9 million. This profit increase of CHF 28 million is based on the operating income which increased by CHF 8.7 million, virtually constant operating expenses and additionally, on the to the positive development of the income item “Changes to provisions and other value adjustment, and losses” of CHF 19.3 million.

Operating Result CHF 198 m
in CHF m

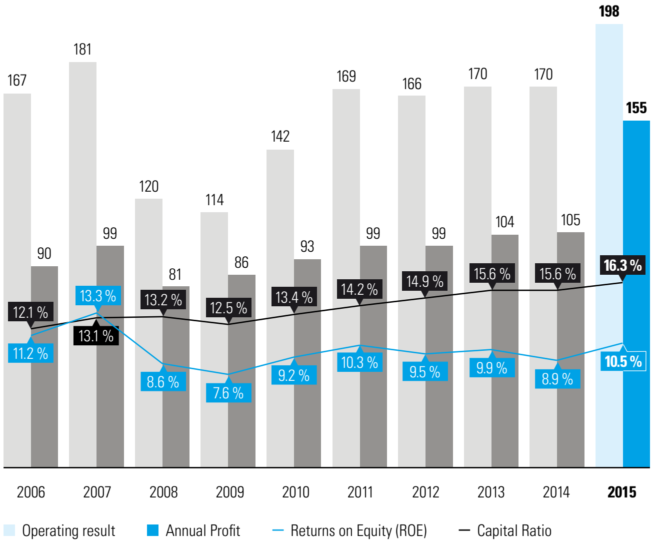


The “extraordinary income” amounts to CHF 17.8 million (previous year: CHF 2.6 million) and is comprised as follows: CHF 16 million gain from the sale of the stake in Swisscanto Holding AG to Zürcher Kantonalbank, CHF 1.2 million book profit due to appreciation of participations and CHF 0.6 million from the release of provisions no longer needed for restructuring.

To further expand the risk-bearing equity charged to the income statement, net CHF 50.4 million was assigned to the reserves for general banking risks (previous year: CHF 58.7 million). This endowment has contributed to the increase in the total capital ratio in the reporting year from 15.6% to 16.3%. The tax expenses of CHF 9.9 million incorporated CHF 8.0 million (previous year: CHF 6.8 million) income tax benefit for local communities of AKB in the canton. These taxes are due to the profit distribution to the canton.

At CHF 155.4 million, AKB achieved a 49.9 million or 47.3% higher annual profit than the previous year (CHF 105.5 million) and thus demonstrated the highest annual profit in its history. The company's profit before changes in reserves for general banking risks amounted to CHF 205.8 million, up CHF 41.6 million or 25.4% more than last year. This results in an operating return on equity after taxes (ROE) of 10.5% (previous year 8.9%).

Operating Result, Annual Profit, Capital Ratio and Returns on Equity (ROE)
in CHF m



Appropriation of Profit

From the annual profit, Aargau received CHF 3.3 million for the interest on the endowment capital, CHF 68 million ordinary profit distribution (previous year: CHF 66 million) and, due to the extraordinary capital gain from the sale of the stake in Swisscanto Holding AG, an additional distribution of CHF 7 million. The details of profit distribution are listed on page 20.

Management Report

Development of Business Environment

The past year started with a bang: on 15 January 2015 the Swiss National Bank lifted the minimum exchange rate of 1.20 Swiss francs per Euro, which had been valid for three years. At the same time it lowered the target for its monetary policy indicator, the 3-month Libor rate, to –0.75%.

Understandably, this measure was not announced. Accordingly, the effects on the financial markets were massive: The Swiss equity market decreased by 15% of its value within a short time, the CHF depreciated against all major currencies by 15 to 20% and almost all domestic interest rates fell below the 0% limit.

However, the SNB's original hope of a speedy normalisation of the situation was only partially realised. Even 12 months later, the overvaluation of the Swiss franc holds, in particular against the Euro; and all interest rates with a maturity of less than 10 years are still in the red.

"The appreciation of the Swiss franc caused the local export industry to suffer a loss of 10–15% of their competitiveness."

Impact on the Real Economy
The development of the financial markets had an impact on the real economy. Due to the massive appreciation import prices fell by more than 10% and this ensured that the Swiss National Index of Consumer Prices also decreased over the whole year by almost 1.5%. Therefore domestic prices also fell across the board. Since then Switzerland has been a deflationary environment.

The appreciation of the Swiss franc caused the local export industry to suffer a loss of 10–15% of their competitiveness in a single blow. Quantitatively, exports still developed well, but at the expense of profit margins. This was due to the fact that companies were forced to bear the increase in the cost of their products as a result of the appreciation themselves. In addition, the shopping tourism flourished even more than before, because shopping in neighbouring countries became even cheaper.

Thus, the pressure rose on local retail trade as well as on the tourism industry, which was faced with the fact that travel and holidays in Switzerland were suddenly 15 to 20% more expensive for foreign tourists. Many enterprises were forced to compensate for the resulting loss of revenue through savings in expenditure. This led to the relocation of jobs abroad, longer working hours for the same pay, and to temporary short-time work.

New Challenges for the Financial Industry and Investors
In addition to the export industry, the retail trade and tourism, the financial industry also faced new challenges. With the Swiss franc interest rates slipping into negative range, a completely new starting point also emerged for the determination of mortgage interest rates. Firstly, the long-term physical borrowing was more difficult as there were hardly any more investors found to invest at these rates. Secondly, interest rate hedging of fixed-rate mortgages on derivatives was suddenly significantly more expensive as the short-term Libor rates were also in negative range. The sharp fall in interest rates forced investors to reorient themselves last year. The search for returns led to further capital inflows to the global stock markets. The demand for domestic real estate funds initially remained high.

The real estate market as a whole, however, seemed to consolidate. Thus the price increases for detached homes and condominiums developed less dynamically than in recent years; the downward trend in office and commercial buildings continued. Fears of a property market bubble were thereby reduced.

Strategic Priorities/Activities

According to its mission statement, the Aargauische Kantonalbank has the ambition to be the leading financial services provider in the canton.

Strategic Objectives
For AKB's strategic orientation 2009–2015, the Board of Directors and the Executive Management defined the following strategic objectives:

Key Strategy Figures	Target Value	Value 2014	**Value 2015**
Returns on Equity (ROE)	8–10%	8.9%	**10.5%**
Cost-Income-Ratio (CIR)	45–50%	44.7%	**43.6%**
Total Capital Ratio[1]	>16.0%	15.6%	**16.3%**

[1] Ratio of eligible capital (net capital requirement for national countercyclical buffer) to risk-weighted positions pursuant to Art. 42 para. 2 CAO.

Thanks to the exceptionally good business results, this strategy could be met and targets were even exceeded in 2015. The details can be found in the commentary on business performance.

Capital Adequacy Withstands Stress Scenarios

In the course of the past 10 years, Aargauische Kantonalbank was able to increase the nominal capital by approximately CHF 845 million, thus increasing the total capital ratio from 12.1% to 16.3%. AKB has thus, measured against the 12% total capital ratio required by the regulator, a very solid capital base: it is around 36% above the minimum requirement. The results of the annual capital planning and stress scenarios show that Aargauische Kantonalbank, even taking into account a substantial economic downturn, would still have an intact capital adequacy and could ensure compliance with the capital requirements at all times.

Total Capital Ratio
in percent

Channel Control and Sales Management

Aargauische Kantonalbank regularly checks its branch network and adapts it to the demands of its clients. In 2015, various locations of AKB were re-designed or newly designed. This information can be found in the “Private and Corporate Clients” report.

Expansion of Digital Services

The importance of digital channels and the clients, expectations of the availability of banking services independent of the physical bank branches are increasing. Accordingly, the demands for the provision of digital services are also rising. AKB has set itself the goal of selectively expanding and creating digital channels for products and services. The physical and the digital channels should thus work in harmony and complement each other with respect to performance and options. The plan for the consistent development and expansion of the existing options was defined in a strategy paper in 2015.

In a first phase, with the introduction of new e-banking in the second half of 2015, the focus was on usability and the optimisation of standard features. AKB was thus able to simultaneously create the technological basis for further planned developments.

US Tax Programme

At the end of 2015, Aargauische Kantonalbank reached an agreement with the American judicial authorities (DOJ) regarding the US tax programme and signed a non-prosecution agreement. The non-prosecution agreement is an agreement with the DOJ which acknowledges the reformation of client relationships with US citizens by AKB. In return, the DOJ waived criminal proceedings against the bank. AKB made a one-off payment of $1.98 million which concludes the US tax programme.

Regulatory Requirements

In 2015, as in previous years, the implementation of new regulatory requirements was a strategic priority and, in the development of measures, also a main operational focus. This year special attention was paid to Liquidity Coverage Ratio (LCR ratio) reporting, management and compliance, and on liquidity itself. With additional priority, the ICS processes were re-worked, re-structured and systematised within the implementation of the FINMA Circular “Operational risks – Banks”.

AKB Law

In the second reading on 30th June 2015, parliament passed the revised AKB law. In the future, the government is the approval authority for the remuneration regulations of the Directorate President and the Executive Management. The annual salary of the President Director is limited to CHF 600,000. The Head of the Department for Finance and Resources is no longer represented in the Board of Directors. The membership of Councillor Roland Brogli in the Board of Directors and the Steering Committee of AKB therefore ended on 31st December 2015.

New President and CEO Appointed

On 23rd November 2015, AKB announced that the Board of Directors appointed Pascal Koradi as the new President and CEO, as the successor to Rudolf Dellenbach. After an intense and demanding search, this was a happy conclusion for the Council. The handover of Rudolf Dellenbach to Pascal Koradi takes place in mid-August 2016.

Development of Overall Banking Strategy

The evolution of the previous, successful overall banking strategy was engineered in 2015. The focus is on:

- the demands and needs of our clients
- supporting the economic development in our market area
- the people-oriented and performance-enhancing corporate culture
- the long-term economic success of the bank

Investment and Trading

Trade was driven last year primarily due to the lifting of the minimum Euro exchange rate and the negative interest rates. The noticeably increased volatility in the financial markets caused a great bustle in the trading business. Thanks to the extensive experience of our employees in treasury and foreign exchange trading, we succeeded at all times – even on 15th January 2015 – in ensuring the accessibility and offering clients the best possible prices.

The resulting opportunities were systematically pursued and led to the best trading result in the history of AKB.

The low interest rate environment significantly influenced the advisory and asset management business. While certain categories benefitted temporarily from inflows, the low interest rates presented defensive investors with a major challenge. Traditional bonds are rarely bought new, which weighed on the portfolio holdings due to repayments.

“The increasing fluctuations in the equity markets were not for the faint-hearted, but this also led to sustained high yields from the transactions business.”

The increasing fluctuations in the equity markets were not for the faint-hearted, but this also led to sustained high yields from the transactions business. Despite the difficult market environment, the private banking advisors succeeded in increasing the assets and securities holdings in the core segment.

With the focal topic “Fair Investment Pays Off” (www.akb.ch/fair), AKB was able to bring together responsible investors and small business owners in emerging markets to improve economic prospects in developing countries and offer independent returns for investors.

Expanding Institutional Business
In institutional business the client base was further expanded despite intense market environment and high price sensitivity. AKB’s own, competently managed, institutional AKB fund played an important role in this. Attractive products for liability-oriented investors and a cooperative approach to the burden of negative interest rates are other success factors. The realignment of the global custody business of a major client resulted in a deposit outflow and thus to a decline in customer assets.

Strong Demand in Bancassurance
The bancassurance services with the topic areas of tax, financial and estate planning, and in occupational pension plans were in high demand and led to an expansion of business volume and enhanced client loyalty, thanks to high expertise and individual financial analyses.

More Mandates
The asset management showed gratifying development in 2015. The number of mandates rose by 8%, to which the new investment product “AKB Dynamic 50” was a contributing factor. It is a mandate in which the weighting of the individual asset classes is dynamically adapted to the market environment, but the risk is limited at the same time. We reviewed the strategic orientation of our investment objectives and adjusted these defensively in early 2016 due to the low interest rates.

Successful Development of Business Investment
Two years after its introduction, we evaluate the realignment of the investment business as successful. The elimination of retrocessions could be partially compensated. Nearly 40 percent of stock exchange orders are inexpensively and directly acquired and processed online by our clients.

Private and Corporate Clients

The consumer and commercial segment can look back on a very successful year. Both in the lending and deposit-taking business, high volume growth was reported in all locations in the private and in the corporate client segment. Regional corporate banking has developed equally strongly, which could partially offset weaker demand for the large, international companies.

However, thanks to the overall growth in business volume, it was possible to maintain the yield in interest margin at the same level as the previous year. In commission business, we suffered a slight decline, which can be explained by the difficult market environment and the resulting uncertainty in the equity markets.

Active Client Focus and Dedication to Service
We attribute our success largely to the close relationship with our clients. We are constantly modernising our offices; our

branch network will be further expanded. The newly opened branches in Fislisbach and Oberentfelden in 2011 and 2012 are developing very positively.

New Seengen Branch
In Seengen, in December 2015, AKB opened a new and modern office with consultation areas, offices and a lounge area for clients. AKB previously had no presence in Seengen, with its large catchment area reaching to Seetal. In turn, the Fahrwangen branch closed.

New Suhr Branch
AKB had the opportunity to purchase new premises in Suhr very close to the station, with modern infrastructure and an ideal floor plan. The offices and the client areas were again built to the latest standards. The move to the new location took place in January 2016.

Refurbishment of the Regional offices in Baden and Brugg
The two large regional offices in Baden and Brugg were completely renovated as well as energetically and sustainably refurbished. The reconstruction phase took several months at both locations and demanded a great deal of flexibility from clients and employees in their everyday business. All the effort was worthwhile. After the renovations, both regional offices present a fresh, modern look and meet all the requirements of contemporary client and employee-friendly working and meeting rooms.

Investment into the Client Contact Centre
Additional jobs were created in the Client Contact Centre and we also invested in new call-switching software. With the additional resources, we improve service for clients who contact us by phone or electronically and reaction times were able to be significantly shortened.

Flexible Products and Fair Pricing
In an environment that is increasingly regulated and continues to create new formal requirements, it is our goal to present our clients a clearly structured, clearly arranged product range. Favourable Account Products and customised conditioning in financing solutions provide a guarantee of a fair pricing model, customised to the conditions and needs of clients.

In 2015 we deliberately did not offer product packages. We focus on flexible solutions: clients of AKB decide for themselves what they need and which products and services they want to use. Thus they shape a significant part of the budget according to their needs.

Education Promotes Professionalism
In 2015 we again invested heavily in the education of our client advisors. They completed a total of 1000 internal and external training days. Proving itself to be especially valuable is the internal specialist and managerial training which is aligned exactly to our needs and offers focussed training to our employees. We also ascribe high importance to the team events, which are completed by each business unit. These promote team spirit and cohesion within the team and have a positive effect on the interdisciplinary cooperation between colleagues.

Services and Logistics

Developing the Core Banking System
Various technical and procedural changes and improvements were introduced with the Avaloq Release 3.10. Developments concerning the new accounting rules were prioritised. Secondly, new SWIFT messages were introduced in payments. Further developments included the replacement of the previous peripheral systems Kondor+, whose functionality for trading and risk management has been integrated into the Avaloq core system, as well as the link for the new securities centre brought into the foreground.

Its practical use in the everyday work of client advisors and the background support services is particularly evident through various process improvements.

Training in Handling of Bank Data
Employees, handling of sensitive bank data, particularly client data, is one of to the operational risks of the bank. In implementing the partially revised FINMA Circular 2008/21 "Operational Risks – Banks", in 2015 we placed a focus on IT security with training and raising awareness among our employees. In October 2015, all employees completed web-based training with a mandatory final exam in handling client data. For employees who require more extensive access rights in core applications, additional training was provided in a second module. AKB thus ensured that the regulatory requirements regarding Client Identifying Data (CID) were duly implemented.

"Clients are increasingly using our banking services on their mobile devices."

Renewal of Network, Integration of Data Warehouse
In 2015 the phased renovation of the network was completed with the AKB project “newWAN”. After the commissioning of the new network, the bandwidth could be increased significantly, to some extent at a lower cost, causing an improvement in system response times throughout the sales departments.

At the same time, the new AKB network provides the capacity and potential for further improvements and innovations that we are planning for the coming years, for example, in telephony or in the field of digitisation. By in-sourcing our data warehouse (DWH) in 2015, we achieved significant cost savings and obtained not only substantial time-savings in data processing, but also a significantly higher level of flexibility.

Hardware and Software Replacement
In the course of life cycle management, around 120 PCs and laptops, 40 printers and 200 screens were replaced. In the field of software investment we have introduced solutions that simplify the authorisation process and allow a paperless verification of user permissions. In addition, we have developed different software tools with the aim of making the high complexity of IT more efficient and minimising risks of operation.

Implementation of New E-Banking
In autumn 2015 we introduced a new e-banking system for our private clients after intensive test phases. The benefits of the new application for our clients are simplified personalisation possibilities of the representation on the screen, an understandable navigation and a simple design. Even comprehensive market data for trading clients are provided in the application. Today, over 50,000 clients are using the new e-banking system.

Growth of Mobile Banking
Clients are increasingly using our banking services on their mobile devices and manage their banking regardless of time and place. Mobile Banking is the secure and convenient way to make payments, stock exchange orders or account inquiries at home or on the move. Our Mobile Banking system already has over 7000 regular users in total.

Client Event “5trade”
In 2015 our online trading platform “5trade” received a new market presence. To establish this further we held a trading event for the first time in Aarau in autumn 2015. The event welcomed many interested attendees who were informed in theory and practice of the advantages and risks that are opened up by direct online trading. Overall, the trading platform is enjoying increasing popularity among our clients, which contributes significantly to the quick and convenient settlement of stock-exchange transactions.

Construction and Maintenance
AKB operates a total of 31 offices in the canton of Aargau and in the bordering area Olten-Gösgen-Gäu. In the maintenance and upgrading of our branch network, we invest substantial financial resources and human resources each year. This was also the case in 2015. The renovation of our regional headquarters in Baden was completed, as was the construction of our new office in Seengen.

Risk and Financial Management

Operational Risks Reduced
Operational risks must be identified, managed, controlled and monitored. In 2015, with the revision of the entire OpRisk framework, we created a comprehensive set of rules, or completely revised and redefined existing instruments.

The monitored objects and processes are consistently oriented to the internal systematic risk analysis, which provides information on the dimensions of “potential damage”, “probability of occurrence” and “risk-reduction”.

For consistent and continuous monitoring of controls we have implemented a new IT tool which guarantees seamless documentation and provides information at all times about the current status of activities.

Simplified Home Process
Our home process should be simple, consistent and user-oriented. With this goal, we focussed on an internal project which was completed in the main areas during the reporting year. Via an optimisation of our core banking system Avaloq we were able to achieve a more efficient registration and make the processing of mortgage lending more streamlined.

Thus the internal processing time for loan applications could again be significantly reduced. This also has a beneficial effect on the response time to our clients.

Integration of Peripheral Systems
In the sphere of trade and risk monitoring we were able to replace the former separate peripheral system Kondor+ through the transfer of all functions into our core banking system Avaloq. The main advantage is that we can now dispense with the maintenance of complex and correspondingly costly interfaces. All trade, banking and country limits are seamlessly monitored and reported in the core banking application. In addition to an optimisation of the process, this detachment also brings substantial financial savings.

Annual Statements Converted

With the amendment to the Banking Ordinance on 30th April 2014, the Federal Council placed the accounting rules for banks on a new footing. This became valid on 1st January 2015. The change in accounting rules has also called for a comprehensive redesigning of the AKB chart of accounts.

Therefore, the regulatory reporting had to be adapted to the Swiss National Bank and the regulator FINMA as well as, to a large extent, the internal reporting system.

Along with the annual financial statements in 2015, various items were either reorganised (e.g. the offset of value adjustments with asset positions), moved (e.g. changes in value adjustment for default risks and losses from interest operations newly recognised from net result from interest operations) or renamed (e.g. the interim result has been newly named operating result). The annual financial statement is therefore more detailed and the tables in the notes have become correspondingly larger.

Personnel

AKB is a significant employer in the canton of Aargau – in 2015, we employed a total of 713 employees. We handle this responsibility accordingly carefully. We have built up our corporate culture over many years and maintain it very carefully. It is part of our DNA and is represented, among other things, in low staff turnover and high employee satisfaction.

Development of Staffing Levels

The personnel units are listed as FTE values (Full-Time Equivalents), which means that the jobs are converted to the corresponding full-time job performance (operating rate = 100%). The “employees in education” include apprentices and trainees.

Reporting date 31.12.	2007	2008	2009	2010	2011	2012	2013	2014	**2015**
Employees [1]	639	667	710	718	728	728	725	716	**713**
FTE [1]	586.4	599.2	639.4	649.4	662.2	657.8	658.8	647.0	**651.6**
Employees in education [2]	75	83	85	81	82	82	82	80	**76**

[1] AKB employees excl. employees in education
[2] incl. employees from the training pool

Employee Satisfaction

Employee satisfaction is key to AKB’s corporate success. On a bi-annual basis, we engage an independent, external institute to conduct surveys with our employees and to analyse the results in order to quickly detect indications of any dissatisfaction and areas for improvement.

Over 80% of all employees participated in our 2015 survey. The results show a very positive picture: overall satisfaction is 90%.

Employer Responsibility

Motivation, loyalty and commitment are the prerequisites to achieve ambitious goals. At the same time, all employees represent the values of AKB internally and externally, act entrepreneurially and participate in the success of the bank. Long-term professional development opportunities are ensured in the following ways:

- Personnel selection and promotion based on clearly defined, objective decision criteria
- Use of gradual equitable selection tools in the recruitment of new employees
- Conscious consideration of internal employees in filling vacancies
- Remuneration based on a neutral and analytical job evaluation
- Manager appraisal: Managers are appraised annually by employees
- Internal and external management and technical training for employees and managers

Marketing and Sponsorship

Branding

Aargauische Kantonalbank is a successful bank and a strong brand. Our external communication, marketing and sponsorship aim to support and positively enhance the perception of AKB in the public eye. Positioning and anchoring the AKB brand is one of the core tasks of corporate communication.

We therefore regard the internal and external brand management as incredibly important. Since 2010, the research institute GfS has conducted biannual representative surveys on behalf of AKB to measure our prominence, image and various other topics. The results from the 2014 survey flowed directly into the implementation of our marketing measures in 2015.

“Through sponsorship AKB actively participates in cultural, sporting and community life in its economic area.”

Engagements in Culture, Sport and Society
Through sponsorship, AKB actively participates in cultural, sporting and community life in its economic area. We commit to sporting events, support social and cultural institutions and since 2009 we have organised the "Lenzburgiade", a six-day Classical and Folk Festival. Since 2012 we have been the principal sponsor of the Argovia Philharmonic Orchestra. Each summer the "AKB Roadrunner" presents free concerts with established bands and emerging young talent. We carry out Economic and Construction Congresses, organise property fairs with regional partners and, along with the Aargau Trade Association, each year we also honour Aargau's best SMEs.

By awarding financial contributions to non-profit institutions, associations and organisations we support a variety of tasks and projects for the benefit of people, nature and the environment. Our commitments and events can be found at akb.ch/sponsoring

Outlook

The Economic Outlook
The economic outlook in 2016 is influenced by economic factors similar to those of the previous year. Current and future geopolitical events such as the persistently low raw material and energy prices, immigration and asylum policies in Europe and the continually increasing threat of terrorism exert an ever greater influence on economic development. We must also not underestimate the tense relationship with the USA on one side and with Russia on the other.

Major Economies Determine Global Growth
In 2016, it is again the major economies of the USA, China and India which are keeping the global economy going thanks to a high growth dynamic. In the United States the solid growth of recent years has ensured that the US Federal Reserve (Fed) was able to begin the cycle of interest rate increases as a result of their current full employment.

We expect the rates in the USA to continue to rise, albeit more slowly than past interest rate turnarounds.

Alongside the United States, the two largest Asian economies of China and India contribute significantly to global growth. China in particular is blossoming from a newly industrialising country into a developed industrial nation. The concomitant adjustment to an economic model focussed on consumer demand is in full swing and will, in our opinion, prove successful. This is also evidenced by the recent classification of the Chinese currency by the International Monetary Fund as a new global reserve currency.

Recession in Russia and Brazil
On the other hand, the input of formerly strong emerging markets such as Russia and Brazil has now even become a negative contribution to global growth. Capital outflows follow a lack of investor confidence, problems due to the low commodity prices, corruption and high inflation ensure that the two countries remain in recession in 2016. This year Europe will have to continue to be content with a growth rate still below potential.

The somewhat weaker global growth will ensure that export activity suffers a setback. In addition, various countries in the Eurozone continue to delay necessary structural reforms and adjustments. In Japan the extremely expansive monetary policy is also demonstrating a slow effect. Growth rates here remain below average.

Below-average Growth in Switzerland
A similar story is true for Switzerland. The country is only slowly processing the consequences of lifting the minimum Euro exchange rate. The export industry as well as tourism and retail trade continue to suffer under the resulting abrupt appreciation. The expected increase in unemployment rate, even if only small, may ensure a slowdown in consumer demand.

Investment activity remains modest despite record lows of interest rates. Due to the forecasted development of federal finances in the coming years government spending is not expected to increase. In 2016 we expect a growth in GDP of 1.2%.
The following year, this figure is expected to increase to around 1.5%. A return to the potential growth in Switzerland of around 2–2.5% is therefore unlikely to happen before 2018.

Prospects of AKB
We assess our economic prospects as intact, stable and viable in the long-term. Our client base is well diversified; it is solid and has a balanced and manageable risk structure. The corporate culture of AKB is based on respect and trust, which is manifested in our low staff turnover.

"We assess our economic prospects as intact, stable and viable in the long-term."

We are thus able to achieve a high consistency of personnel, which manifests itself in loyal and stable client relationships. The long-term nature of client relationships is a key factor for client satisfaction and thus an important indicator of our clients trust in AKB.

Business Outlook 2016

In 2016 we expect a lower result than that of 2015. As the interest rates remain very low, we do not expect an increase in 2016. We also assume that the interest margin will come under further pressure.

Overall, we are forecasting moderate economic growth for Switzerland, a slight increase in unemployment and a further deterioration of consumer sentiment.

AKB's annual financial statement for 2016 will obtain no significant supplemental income as that received in 2015 which positively influenced last year's result.

Balance Sheet as of 31. December 2015

before appropriation of profit

	[1] 31.12.2014 in CHF 1,000	**31.12.2015 in CHF 1,000**	Change in CHF 1,000	Change in %
Assets				
Liquid assets	1,865,044	**2,591,401**	726,357	38.9
Amounts due from banks	486,708	**468,178**	–18,530	–3.8
Amounts due from customers	1,434,290	**1,246,159**	–188,131	–13.1
Mortgage loans	17,486,300	**18,521,591**	1,035,291	5.9
Trading portfolio assets	90,319	**86,233**	–4,086	–4.5
Positive replacement values of derivative financial instruments	121,818	**124,494**	2,676	2.2
Financial investments	1,151,203	**1,113,885**	–37,318	–3.2
Accrued income and prepaid expenses	14,365	**18,338**	3,973	27.7
Participations	13,396	**11,337**	–2,059	–15.4
Tangible fixed assets	73,831	**69,365**	–4,466	–6.0
Other assets	17,704	**35,023**	17,319	97.8
Total assets	22,754,978	**24,286,004**	1,531,026	6.7
Total subordinated claims	12,642	**11,401**	–1,241	–9.8
of which subject to mandatory conversion and / or debt waiver	–	**–**	–	n. a.
Liabilities				
Amounts due to banks	2,530,798	**2,724,059**	193,261	7.6
Liabilities from securities financing transactions	120,248	**130,000**	9,752	8.1
Amounts due in respect of customers deposits	15,341,357	**15,648,485**	307,128	2.0
Negative replacement values of derivative financial instruments	129,251	**162,380**	33,129	25.6
Liabilities from other financial instruments at fair value	87,912	**89,345**	1,433	1.6
Cash bonds	117,281	**90,106**	–27,175	–23.2
Bond issues and central mortgage institution loans	2,328,000	**3,209,100**	881,100	37.8
Accrued expenses and deferred income	81,550	**88,768**	7,218	8.9
Other liabilities	6,561	**5,527**	–1,034	–15.8
Provisions	53,809	**44,263**	–9,546	–17.7
Reserves for general banking risks	1,136,161	**1,186,561**	50,400	4.4
Bank's capital	200,000	**200,000**	–	–
Statutory retained earnings reserve	516,480	**551,480**	35,000	6.8
Profit carried forward	101	**563**	462	457.4
Profit	105,469	**155,367**	49,898	47.3
Total liabilities	22,754,978	**24,286,004**	1,531,026	6.7
Total subordinated liabilities	–	**–**	–	n. a.
of which subject to mandatory conversion and / or debt waiver	–	**–**	–	n. a.
Off-balance-sheet transactions				
Contingent liabilities	186,561	**158,058**	–28,503	–15.3
Irrevocable commitments	753,905	**837,429**	83,524	11.1
Obligations to pay up shares and make further contributions	30,566	**30,566**	–	–
Credit commitments	–	**–**	–	n. a.

[1] The previous year's figures have been adjusted to the new accounting rules for banks (ARB), effective since 1st January 2015.

Income Statement 2015

	[1] 2014 in CHF 1,000	**2015 in CHF 1,000**	Change in CHF 1,000	Change in %
Result from interest operations				
Interest and discount income	325,722	**303,878**	–21,844	–6.7
Interest and dividend income from financial investments	10,945	**10,119**	–826	–7.5
Interest expense	–83,190	**–60,714**	22,476	–27.0
Gross result from interest operations	253,477	**253,283**	–194	–0.1
Changes in value adjustments for default risks and losses from interest operations	–222	**5,887**	6,109	–2,751.8
Subtotal net result from interest operations	253,255	**259,170**	5,915	2.3
Result from commission business and services				
Commission income from securities trading and investment activities [2]	58,212	**46,119**	–12,093	–20.8
Commission income from lending activities	4,421	**3,738**	–683	–15.4
Commission income from other services	15,612	**16,095**	483	3.1
Commission expense [2]	–5,669	**–5,227**	442	–7.8
Subtotal result from commission business and services [2]	72,576	**60,725**	–11,851	–16.3
Result from trading activities and the fair value option	32,196	**49,078**	16,882	52.4
Other result from ordinary activities				
Result from the disposal of financial investments	3,423	**838**	–2,585	–75.5
Income from participations	1,508	**2,399**	891	59.1
Result from real estate	2,405	**2,425**	20	0.8
Other ordinary income	1,190	**1,156**	–34	–2.9
Other ordinary expenses	–114	**–681**	–567	497.4
Subtotal other result from ordinary activities	8,412	**6,137**	–2,275	–27.0
Operating income	366,439	**375,110**	8,671	2.4
Operating expenses				
Personnel expenses	–105,444	**–107,025**	–1,581	1.5
General and administrative expenses	–67,966	**–66,756**	1,210	–1.8
of which compensation for the state guarantee	–9,766	**–10,272**	–506	5.2
Subtotal operating expenses	–173,410	**–173,781**	–371	0.2
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–11,810	**–11,448**	362	–3.1
Changes to provisions and other value adjustments, and losses	–11,355	**7,977**	19,332	–170.3
Operating result	169,864	**197,858**	27,994	16.5
Extraordinary income	2,581	**17,784**	15,203	589.0
Extraordinary expenses	–	**–**	–	n. a.
Changes in reserves for general banking risks	–58,655	**–50,400**	8,255	–14.1
Taxes	–8,321	**–9,875**	–1,554	18.7
Profit	105,469	**155,367**	49,898	47.3

[1] The previous year's figures have been adjusted to the new accounting rules for banks (ARB), effective since 1st January 2015.
[2] 2014: including special items in regards to the adjustment of accrual methodology due to new fees model in investment business.

Appropriation of Profit 2015

	2014 in CHF 1,000	**2015 in CHF 1,000**	Change in CHF 1,000	Change in %
Appropriation of profit				
Profit	105,469	**155,367**	49,898	47.3
Profit carried forward	101	**563**	462	457.4
Distributable profit	105,570	**155,930**	50,360	47.7
Allocation to statutory retained earnings reserve	35,000	**77,000**	42,000	120.0
Interest on endowment capital	4,007	**3,362**	–645	–16.1
Distribution to the canton	66,000	**68,000**	2,000	3.0
Additional distribution to the canton	–	**7,000**	7,000	n. a.
Profit carried forward	563	**568**	5	0.9

Appropriation of Profit

The Board of Directors suggests the following appropriation of profit:

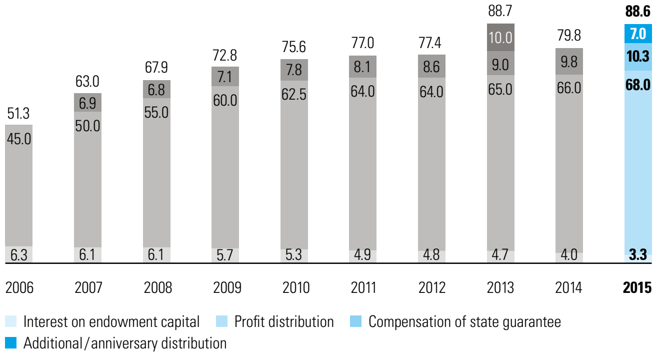
in CHF 1,000	
Profit	**155,367**
Profit carried forward	**563**
Distributable profit	**155,930**
Interest on endowment capital	**3,362**
Distribution to the canton	**68,000**
Additional distribution to the canton	**7,000**
Allocation to statutory retained earnings reserve	**77,000**
Profit carried forward	**568**

As owner of Aargauische Kantonalbank, the canton receives a profit distribution of CHF 68 million, an increase on the previous year of over CHF 2.0 million. In addition to the ordinary profit distribution it receives an additional distribution of CHF 7.0 million. This allows the canton to benefit from the extraordinary capital gain from the sale of the Swisscanto shares. In total, including the interest on the endowment capital and compensation for the state guarantee, the canton receives CHF 88.6 million, compared with CHF 79.8 million in the previous year.

Total Compensation to the Canton of Aargau

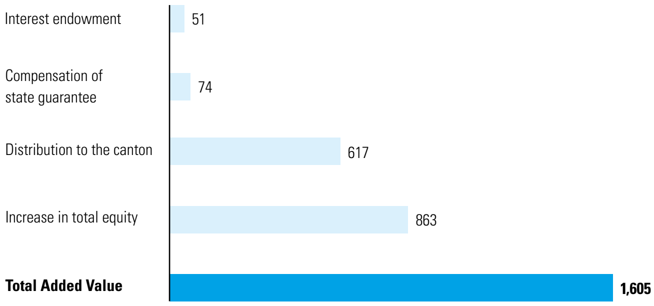
in CHF 1,000	Value 2014	**Value 2015**
Interest on endowment capital	4,007	**3,362**
Distribution to the canton	66,000	**68,000**
Additional distribution to the canton		**7,000**
Compensation of the state guarantee	9,766	**10,272**
Total compensation	79,773	**88,634**

Total Distribution to the Canton 88.6 m
in CHF m



Taking into consideration the interest on the endowment capital, the compensation for the state guarantee, the profit distribution and the increase in the Bank's equity, AKB created an added value for the canton of around CHF 1.6 billion in the last 10 years.

Added Value for Canton 1,605 m
2006–2015 in CHF m



Cash Flow Statement 2015

	2015	
	Cash in-flow in CHF 1,000	Cash out-flow in CHF 1,000
Cash flow from operating activities (internal financing)	135,411	
Result of the period	155,367	
Change in reserves for general banking risks	50,703	303
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	10,270	
Provisions and other value adjustments		7,977
Change in value adjustments for default risks and losses		5,887
Accrued income and prepaid expenses		3,973
Accrued expenses and deferred income	7,218	
Previous year's interest on endowment capital		4,007
Previous year's distribution to the canton		66,000
Cash flow from shareholder's equity transactions		
Endowment capital		
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets		3,745
Participations	3,423	1,081
Real estate		262
Other tangible fixed assets		5,825
Cash flow from banking operations	594,691	
Medium and long-term business (> 1 year)		1,128,712
Amounts due to banks	163,816	
Amounts due in respect of customer deposits		89,709
Cash bonds	7,632	34,807
Bonds	935,100	250,000
Central mortgage institution loans	243,000	47,000
Amounts due from banks	11,266	
Amounts due from customers		16,065
Mortgage loans		2,068,148
Financial investments	16,203	
Short-term business	1,723,403	
Amounts due to banks	29,445	
Liabilities from securities financing transactions	9,752	
Amounts due in respect of customer deposits	396,837	
Negative replacement values of derivative financial instruments	33,129	
Liabilities from other financial instruments at fair value	1,433	
Other liabilities		1,034
Amounts due from banks	7,264	
Amounts due from customers	204,196	
Mortgage loans	1,032,857	
Trading portfolio assets	4,086	
Positive replacement values of derivative financial instruments		2,676
Financial investments	21,115	
Other accounts receivable		13,001
Liquidity		726,357
Liquid assets		726,357
Total	730,102	730,102

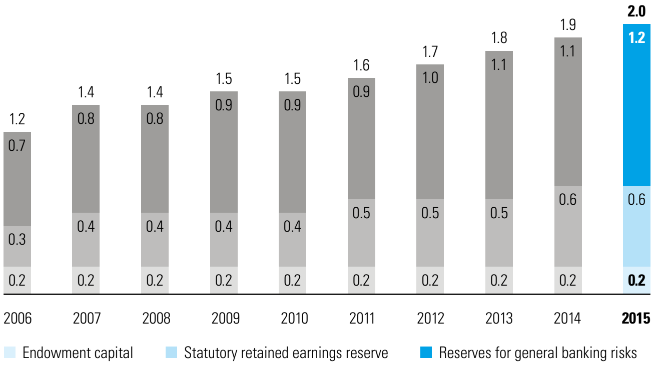
Statement of Changes in Equity

	Bank's capital in CHF 1,000	Statutory retained earnings reserve in CHF 1,000	Reserve for general banking risks in CHF 1,000	Profit carried forward in CHF 1,000	Profit in CHF 1,000	Total in CHF 1,000
Equity as of 31.12.2014 [1)]	**200,000**	**516,480**	**1,136,161**	**101**	**105,469**	**1,958,211**
Dividends and other distributions						
Interest on endowment capital					–4,007	–4,007
Distribution to the canton					–66,000	–66,000
Other allocations to (transfers from) the reserves for general banking risks			50,400			50,400
Other allocations to (transfers from) the other reserves		35,000		462	–35,462	–
Profit					155,367	155,367
Equity as of 31.12.2015	**200,000**	**551,480**	**1,186,561**	**563**	**155,367**	**2,093,971**

[1)] The previous year's figures have been adjusted to the new accounting rules for banks (ARB), effective since 1st January 2015.

The development of equity after the appropriation of profit is presented for the last ten years as follows:

Equity in Accordance with Appropriation of Profit CHF 2.0 bn
in CHF bn



Risk Management

In connection with its strategic business units, AKB is exposed to default and credit risks, market risks, liquidity risks, operational risks as well as compliance and legal risks. The management of these risks, which are inextricably linked to banking operations, plays a central role in AKB. For AKB risk management is a process in which all relevant risks with a potential negative impact on the bank are systematically identified, assessed, managed and monitored. This process is supported by appropriate tools, guidelines, organisational units and competencies. With the primary objective the securing of equity and therefore long-term viability, the bank strives to achieve a balance between risk and return and to maintain a first-class reputation.

The bank has internal regulations which determine the overall risk policy and provide detailed guidelines for the identification, assessment, management and monitoring of the individual identified relevant types of risk. These also regulate the duties, competencies and responsibilities for the assumption and control of risk in the risk management process.

The risk policy forms the framework for all regulations and directives in the area of financial risks, which are differentiated from the strategic and reputational risks by the following risk types: default and credit risk, market risk, liquidity risk and operational risk. The financial risk types are limited in the risk policy parameters by the Board of Directors. Based on the risk tolerance, these specifications define binding risk limits and thresholds, which are reviewed annually and are continuously monitored. These limits are set up so that even in the case of a cumulative exhaustion they do not compromise the continued existence of the bank.

The annual reassessment of risk policies (most recently on 20th August 2015), the final assessment and approval of systematic risk analysis and ensuring the internal monitoring are the responsibility of the Board of Directors. It's responsible for the overall risk management of AKB. The Executive Management is responsible for the implementation of risk policies. They report quarterly, and in exceptional situations immediately, to the Board of Directors on the limit and risk situation and give an annual assessment of the adequacy and effectiveness of internal monitoring. The independent and central Risk sector is responsible for ongoing risk monitoring and risk control of all the financial risk types.

A. Default and Credit Risk

Subordinate to the risk policy are the credit regulations, which establish the regulatory framework for all banking transactions that generate default and credit risks for the bank. At the implementation level, the credit regulations are supplemented by various directives and process descriptions, which act on both the process and product levels. The regulatory principles and guidelines in lending and the market area are detailed further in the credit policy and are restricted further dependent on the current risk assessment of the market and economic environments.

Default risks are restricted by limits, quality requirements (e.g. minimum rating), fixed cover margins (reductions on eligible collateral) and guidelines for risk diversification. For the granting of loans and other exposures to credit risk, the creditworthiness and solvency of uniform criteria is assessed. There is a multi-level, risk-based allocation of responsibilities, which regulates both ordinary credit competencies and special and tolerance competencies. Individual competency exists only within defined loan-to-value and income limits on standardised mortgage lending for owner-occupied properties. All remaining credit transactions must be substantively assessed and approved by the central credit committee, which is separate from the market-oriented units.

Client advisory and sales are completely separate entities from loan processing and administration. Credit risk controlling is carried by Risk, an entity independent of the sales organisation, which monitors the performance of the portfolio in various ways. The Executive Management, the Audit and Risk Committee and the Board of Directors receive a detailed report each quarter.

To measure and manage default risk, the bank classifies its loans according to a rating system. The system is used to ensure the uniform assessment of credit risk and to determine the expected losses which the bank will incur in lending. This component is used for the risk-based definition of credit conditions and thereby directly influences the conclusion of credit transactions.

Methods used to identify default risks and to determine value adjustment requirements:

Additionaly to the IT-based rating system the credit monitoring is based on defined early warning indicators (maturing resubmissions, overruns, interest arrears, value adjustments, etc.), which point to a deterioration in credit quality as early as possible and ensure the timely introduction of corrective measures.

The bank attributes great importance to the consistent management of problem exposures and loss positions. The centralized Customer Risk Monitoring controls in particular the "watch list" positions and either on its own or together with the account manager of the sales organisation, supports the items with value adjustments and the non-performing items. A central team is responsible for the Executive Management and the rapid re-sale of foreclosed properties. Receivables for which the bank considers it unlikely that the debtor will be able to fully comply with his future obligations, are considered at risk. Customer commitments are classified as impaired at the latest when the contractual payments (principal, interest and/or commissions) are 90 days or more overdue or when there is evidence that the debtor cannot comply, or cannot fully comply with future obligations.

Impaired loans are valued individually and the impairment is covered by specific valuation allowances. The depreciation is measured by the difference between the asset's carrying amount and the estimated recoverable amount, taking into account the counterparty risk and the net proceeds from the sale of any collateral. In determining the net proceeds of collateral, all holding costs such as interest, maintenance and sales costs etc. up until the estimated time of sale, as well as any applicable taxes and fees, are deducted.

Justified by the well-developed tools for the early detection of impaired claims, AKB omits the formation of additional value adjustments to cover existing latent default risks in the client portfolio on the date of valuation. However, at the overall portfolio level it estimates future unexpected losses. This serves as the basis for the calculation of capital allocation to reserves for general banking risks in the lending business in accordance with the concept of "risk prevention".

The concept "risk prevention" is used to refer to risk prevention and anticipation of future unexpected losses from the trade receivables. The aim of the concept "risk prevention" is, depending on the provision situation, to form additional, voluntary reserves for future incoming loan losses or to use these reserves to cover losses in the case of special events. The calculation is based on the average of the effectively suffered credit loss ratios over the past decade. The difference between the calculated loss ratios to the effectively recorded specific allowances for the year under review is credited or debited to the separately reported account "risk provisions" under the balance sheet item "Reserves for general banking risks". The annual allocation or removal occurs via the income statement item "Changes in reserves for general banking risks". After the allocation of CHF 17 million in the year under review, the risk prevention amounts to an end-of-year total of CHF 202 million.

During the annual capital planning, according to defined failure scenarios, stress losses were calculated in the loan portfolio. The losses, based on economic dislocation, are compared with a similarly stressed, simulated income statement and the current capital situation. The results show that when entering a series of very high credit losses which affect the entire banking industry equally, the bank itself would still have an intact equity ceiling, so the ordinary course of business could be guaranteed in compliance with the capital adequacy requirements.

1. Customer Loans

The core business of AKB is the granting of mortgages and other mortgage-backed loans.

To determine the maximum amount of property financing, the following factors are decisive: on the one hand, collateral values internally defined by the bank for each object type and on the other hand, the financial viability of the debtor and the observance of amortization principles. The criteria to be applied in each case, also taking into account the assessment of the property market, are determined in the current credit policies.

For loans with securities, specifications exist within the internal loan regulations on the values accepted as securities and their collateral values. The specifications are further restricted based on risk-based criteria, and additionally by currencies, issuer domicile, exchanges, liquidity and diversification and are evaluated periodically.

Alongside the mortgage business and collateral-secured loans for private customers, commercial lending, primarily to companies based in the canton, also forms part of the Bank's operations.

Evaluation of collaterals:

For the evaluation of property, AKB employs experts to support the customer advisor and the granting authorities in technical matters, decisions and judgments. The guidelines for the evaluation of all kinds of property are subject to binding internal regulations. The customer advisor can determine so-called standard transactions under their own authority using a set of estimation tools. Objects which do not meet the defined parameters for standard transactions are assessed exclusively by property experts. Centralized property experts are independent from the front office.

For the great majority of standard business, either a hedonic model for condominiums and family houses, or a capitalization rate model for simple residential and commercial buildings is used. Both estimation tools integrated into the lending process, which guarantee an efficient and consistent evaluation. In the case of poor creditworthiness an additional liquidation value is calculated.

The value of securities collateral is monitored daily. If the collateral values fall below the loan amount, a reduction of the outstanding amount or additional collateral are demanded. In exceptional market conditions or in the case of increasing cover deficit, the collateral shall be realised and the loan closed out.

For commercial loans in particular, the relevant evaluation criteria are the future earnings prospects, the market position, assessment of the Executive Management and the financial ability to complete the scheduled repayment of the loan. Unsecured major exposures are restricted by limits at the level of individual and total exposure. Additionally, guidelines and benchmarks exist at the overall portfolio level.

2. Counterparty Risk in Interbank Business

Responsibilities and technical tasks related to banking relationships are defined by internal instructions at the transfer stage. The counterparty risk in the interbank market is restricted and monitored by a limit system. Limits have to be approved in accordance with the allocation of authority, at the request of the operational units in the trade, by the competent granting authorities which are completely separate from the applicant. The adequacy of the bank limits are checked at least once per year or in the case of particular events.

Limits are monitored daily by the independent risk control and is reported on a monthly basis.

Furthermore, each quarter the Audit and Risk Committee and the Board of Directors are informed on limit compliance, risk assessment and particular findings.

AKB operates interbank business primarily in the context of liquidity management and the handling of customer orders (international payments). In this context, short-term money market deposits and transfers from domestic and foreign banks take place.

3. Country Risk

Country risks are restricted by the Board of Directors through predetermined limits according to the rating category. Within these limits, these are further limited by the appropriate Credit Committee through individual limits per country. The monitoring of compliance with country limits done by Risk via an IT-based monitoring system.

Exposures in risk countries are assessed at least twice a year with regard appropriate traceability and value adjustments.

B. Market Risk

Market risks describe the risk of losses which arise due to changes in market prices (stocks, exchange rates, interest, commodities, property) and factors influenced by market price (e.g. volatilities and correlations).

We differentiate between three sub-risk categories:
- Market risk in the trading book,
- Interest-change risk and
- Other market risks

1. Market Risk in the Trading Book

Financial instruments, which are held on their own account with the intention of reselling in order to exploit short-term price and interest rate fluctuations are assigned to the trading book and assessed on a fair value basis with daily market prices. These positions are administered solely by the trading department within the defined risk limits. Furthermore, the bank acts as issuer on certificates. The underlying assets or securities of the certificates are held for trading as a hedged item until the final maturity.

The permitted trading activities of the bank are laid out in Trading and Organisational Regulations. Entering into risks from proprietary trading is detailed and regulated by the internal trading regulations and further dealer-specific instructions. With the exception of the self-issued certificates AKB does not practise any market maker activities.

Derivative financial instruments are used in foreign exchange, interest rates and securities trading for own and third party account. Both standardised and OTC instruments are used.

Risk is limited by a Value at Risk limit (VaR), nominal limit and daily loss limit.

The VaR limit for the entire trading book (equities, interest rates and currencies) is determined by the Board of Directors and its adequacy is verified at least on an annual basis. The daily monitoring of the VaR limit is carried out by Risk which is an independent unit of the trading department trading departement . Daily reports on the utilisation of the VaR limit are sent to the department manager, on a monthly basis to the Executive Management and on a quarterly basis to the Audit and Risk Committee and the Board of Directors.

The nominal and maximum daily loss limits are allocated and monitored per dealer by the department manager. The nominal limits restrict the exposure for each dealer and protect to the bank from excessive exposure. The daily loss limits should restrict short-term losses due to large market fluctuations and prevent the bank from exceeding its risk tolerance through an accumulation of realised and unrealised losses.

2. Interest-change Risk

Given the dynamics of changes in market rates, it is critical that the interest-change risk taken by the bank is measured, monitored and brought to an acceptable level. It is the aim of the asset and liability management to reduce possible margin pressure from market price fluctuations, strengthen the solvency of the bank and thus safeguard independence by protecting equity.

The basis of the asset and liability management are the internal regulations for the liquidity and the asset and liability management. The regulations define principles, responsibilities and competencies.

The strategic decision-making group for the control and management of interest-change risks, within the framework of the competencies and limits passed by the Board of Directors, is the "Liquidity & ALM Board" (LAB). The LAB meets monthly and delegates certain well-defined tasks, competencies and responsibilities to the "Liquidity & ALM Committee" (LAC). The LAB includes the members of the Executive Management and the advisory members of the LAC.

The implementation of the strategic decisions of the LAB is carried out by the operational unit "Treasury & Trading". The supervision / monitoring of the implementation of strategic decisions by the LAB and their compliance with the limits is carried out by Risk, independently from the operational units. It is also responsible for the monthly risk reporting to the LAC and LAB, and quarterly to the Audit and Risk Committee and the Board of Directors.

The management of interest-change risk is based on the net present value method, focusing on limiting negative impact on the net present value of equity and the income effect.

To calculate the market value, fixed interest rate products are divided according to their maturity and variable interest rate products are replicated on the basis of their remaining lifetime. The replication is based on the entitlement to reproduce, insofar as is possible, the development of the customer interest rate via the development of market interest rate, to achieve an stable relationship between risk (interest-change risk) and income (margin). The optimum ratio is calculated based on the Efficient Frontier Method, which originates from the Portfolio Theory. The entire equity complex is treated as non-interest sensitive and is not replicated. The replication is reviewed annually for its effectiveness.

The bank uses an IT system for performing static (sensitivity, market value of equity, VaR) as well as dynamic calculations (simulations of possible market scenarios) to monitor the interest-change risk.

The bank manages interest-change risks controls the bank through balance-sheet measures. According to the evaluation of the interest-change risk, hedging measures are also carried out by the LAB.

The interest-change risks are restricted by a sensitivity limit and a VaR limit.

Simulations are carried out periodically, which permit statements about the future developments of the bank's success in relation to interest income. Here both the value effect and the income effect are measured.

The net present value of equity is stressed monthly by means of five different interest curve variations. The LAB is informed of the applied scenarios and the resulting changes in value.

Future potential changes in the interest balance (income effect) are stressed several times a year with various scenarios. These include on the one hand different interest curve variations and on the other hand customer behaviour, which can, depending on the interest rate environment, lead to massive recapitalisations. The interest expense calculated in this way is, unlike the net present value of equity, not based on a reporting date, but on a dynamic development of the interest-rate items and the market environment.

Business policy concerning the use of derivative financial instruments:
The instruments used for balance sheet management serve mainly to hedge interest-change and foreign currency risks in the banking book. Additionally, interest rate swaps and cross-currency are primarily used. No loan derivatives are used.

It is predominantly micro-hedges which are used to safeguard. As the underlying transaction, selected and clearly identified, interest-sensitive customer receivables or liabilities, either individually or grouped together, are secured over the entire remaining period. Macro-hedges are also occasionally used alongside to hedge the sensitivity in a specific maturity bracket.

Objectives and strategies of hedging relationships between the hedging instrument and the hedged item are each documented upon conclusion of the derivative hedging transactions.

The effectiveness of the hedging relationship is independently checked on a monthly basis by Risk. It is hereby monitored whether the sensitivity of the hedge transactions exceeds the sensitivity of the allocated underlying transaction by more than 20 percent. Overall, the hedge transaction must always reduce the sensitivity of the underlying transaction.

Hedging relationships, in which the criteria of effectiveness are no longer met, are equated to the non-effective section of a commercial transaction and the impact of the ineffective section is recorded as result from trading activities. In the reporting year there were non-effective or rather no longer fully non-effective hedging relationships recorded.

3. Other Market Risk
Limits are in place to restrict the remaining market risks, which consist in particular of item risks from equity securities and from foreign currency items.

C. Liquidity Risk
The bank is continuously exposed to liquidity risks in the normal course of business. The primary objective of liquidity management is therefore to ensure the ongoing solvency of the bank at all times, particularly institution-specific and/or market-wide stress periods.

The principles, responsibilities and competencies for the management of liquidity risks are defined in a specific set of internal regulations.

The LAC is responsible for the central control of tactical liquidity. The LAC is reports directly to the LAB committee. The LAC meets twice monthly and among other duties, is responsible for the development and specification of strategies for the management of the liquidity risk and the liquidity reserves. The central operational unit “Treasury & Trading” implements the tactical decisions of the LAC and ensures and manages daily or short-term liquidity. The monitoring/control of the implementation of the tactical decisions of the LAC and compliance with the limits is carried out independently of the operating units by Risk, which is also responsible for the daily liquidity reporting to the “Treasury & Trading” and monthly risk reporting to the LAC and the LAB. The Audit and Risk Committee and the Board of Directors is informed on a quarterly basis about the development of the liquidity risk.

The operational measurement and management of liquidity risks are based on a daily liquidity progress review, which contrasts the expected cash inflows and outflows in a normal market phase. The liquidity progress review therefore demonstrates the time horizon over which the bank is still liquid or viable (so-called “Survival Horizon”).

The bank uses an IT system for performing static and dynamic calculations (e.g. simulations of possible stress scenarios) to monitor the liquidity risks.

The liquidity risks are limited by conditions on maintaining the liquidity reserves (e.g. quality and diversification) and guidelines on the financing structure (e.g. counterparties, maturity bands and currencies). In addition, the Board of Directors determines the liquidity risk tolerance and thus limits the liquidity risk.

The liquidity risk tolerance defines the minimum to time horizon (“Survival Horizon”) to be observed, which, under consideration of a given stress scenario, must be continually ensured.

In order to promptly detect risks in the liquidity position and potential funding opportunities of the bank, appropriate early warning indicators have been defined and the possible emergency procedure and potential response measures have been set out. The pre-defined early warning indicators are continuously monitored.

D. Operational Risk
AKB defines operational risks as the risk of losses which come into play in consequence of inadequate or failed internal processes, people or systems or as a result of external events. Included within these are all legal risks including fines from regulators and comparisons.

At AKB, operational risk management is defined as a comprehensive process, with the aim of managing and monitoring identified operational risks. The principles, responsibilities and competencies for the management of operational risks is defined in a specific set of internal regulations.

AKB uses a variety of instruments to identity and assess operational risk (e.g. regularly conducted workshops, maintaining a loss database, a clear method for the introduction of new products, activities, processes or systems). The operational risks identified through these methods are systematically categorised and prioritised.

The identified relevant operational risks constitute the starting point for the development of appropriate early warning indicators. Based on this, the Executive Management and Board of Directors have specified appropriate threshold levels or limits to restrict the risk tolerance of the given operational risks.

The development of early warning indicators and compliance with the threshold levels and limits are each monitored periodically.

The Audit and Risk Committee and the Board of Directors are informed quarterly on the development of early warning indicators and the assessment of the operational risks. In addition, the operational risks are reduced by an effective and suitable internal monitoring system.

The starting point for the guidelines for the design of the internal monitoring system is a systematic risk analysis. Through the systematic risk analysis, the Board of Directors ensures that all significant risks are recorded, limited and monitored and it serves as a basis for the regular review of the adequacy and effectiveness of internal monitoring. The systematic risk analysis is the result of a comprehensive and systematic assessment process of the risks to which the bank is exposed.

Tiered according to the level of risk relevance, AKB's internal monitoring system differentiates between key, managerial and other controls.

The key controls are thus of high risk relevance and are geared to cover risks which are significant from the perspective of the entire company. The bank uses an ICS tool for the documentation, monitoring and evaluation of the adequacy and effectiveness of the internal monitoring system.

The area head must annually assess and report on the adequacy and effectiveness of internal monitoring in their department. This also includes an assessment of the timeliness of the internal monitoring system.

Among other things, the evaluation of the controls carried out and documented by the ICS tool serve as a basis for the area head, assessment.

In addition, the head of the risk sector produces an annual report for the Board of Directors, the Audit and Risk Committee and the Executive Management on the assessment of the internal monitoring system of the bank (most recently on 25th September 2015).

This report also includes the findings and developments of the risk situation in the areas of operational risk and Business Continuity Management (BCM). The individual assessments of the department manager and risk manager use to a periodical assessment, for the Board of Directors and Executive Management of the adequacy, effectiveness and timeliness of the internal monitoring system of the entire bank. They are also the basis for defining and carrying out any necessary corrective actions.

The principles, responsibilities and competencies for ensuring that the critical business processes are maintained or promptly restored in the event of massive, drastic internal or external events are defined in the regulations for the BCM.

Among other things, the regulations define the objectives and strategies of the BCM as well as the terminology regarding the categorisation of critical incidents and escalation behaviour at a strategic level.

The internal regulations are subject to compliance with all BCM documentation. In addition to the definition of business-critical processes, this included detailed information for a crisis situation (avoidance systems and processes, plans, working instructions, communication lists, etc.) and serves the crisis unit set up in such an event and aids the work and decision-making of the IT departments. Furthermore, the Board of Directors and the Executive Management are conscious of the risks which exist but are not directly quantifiable in monetary terms, such as strategic, reputational and business risks. These risks are monitored through the periodical scrutiny of the existing strategic orientation and permanent market observation.

E. Compliance and Legal Risk

Compliance risk refers to any legal, reputational and loss risks which may arise from the violation of legal or professional standards or ethical principles. AKB maintains an independent compliance unit which monitors compliance with statutory, regulatory, professional and internal regulations and thus contributes to irreproachable business conduct. These activities relate in particular to combatting money laundering, the prevention of insider trading, compliance with the banking and stock exchange law, ensuring product distribution rules, monitoring the risks arising from cross-border banking, avoiding conflicts of interest and ensuring the fiscal transparency of the customer funds deposited with AKB.

The compliance function shall annually review the compliance risk inventory and from this shall develop a scheme of operations. The identified compliance risks are managed and limited through the issuing directives, an adapted design of operational systems and processes, training and instruction of employees and downstream, independent monitoring and controls. Moreover, the compliance unit advises the Executive Management and the employees on the topic of compliance-related issues.

The compliance function is also regularly involved in various bank projects. In the reporting year these were predominantly in the US tax programme and the implementation of the processes and systems required by FATCA (Foreign Account Tax Compliance Act of USA).

AKB has made adequate provisions for legal cases (incl. those in connection with cross-border banking).

Although the Bank's business volume with US persons (i.e. with those who are subject to US tax liability due to their nationality, domicile/residence or other reasons) in relation to total client assets is only one-tenth of a percent, this cannot rule out the possibility that that US tax law has been violated by these customers. Based on a careful consideration of risk and reputation, the bank took part in the US tax programme in category 2 and, at the end of the year, reached a so-called ‚non-prosecution agreement, with the US Department of Justice (DOJ) and paid a fine of USD 1,983,000. The DOJ acknowledged the reformation of customer relationships with US persons by the bank and waived criminal proceedings. The bank was able to offset all fees and costs related to the legal proceedings with provisions made in previous years.

Significant Events after the Balance Sheet Date

No significant events occurred after the balance sheet date which have a significant influence on the asset, financial and profit position of the bank as of 31st December 2015.

Capital Ratio under Basel III

	Comments	31.12.2014	**31.12.2015**
Common equity Tier 1 ratio (CET1)	in % of risk-weighted assets	16.5 %	**17.3 %**
Core capital ratio (Tier 1)	in % of risk-weighted assets	16.5 %	**17.3 %**
Total capital ratio	in % of risk-weighted assets	16.5 %	**17.3 %**
CET1 requirements pursuant to CAO	minimum requirements + capital buffer + countercyclical buffer	4.9 %	**5.4 %**
of which capital buffer pursuant to CAO (CET1) [1]	in % of risk-weighted assets	0.0 %	**0.0 %**
of which national countercyclical buffer [2]	in % of risk-weighted assets	0.9 %	**0.9 %**
Available CET1 to meet minimum and buffer requirements after deduction of AT1 and Tier 2 requirements, which are met through CET1	in % of risk-weighted assets	11.0 %	**11.3 %**
CET1 requirements according to FINMA-circular 11/2 plus countercyclical buffer	in % of risk-weighted assets	8.7 %	**8.7 %**
Available CET1	in % of risk-weighted assets	12.3 %	**13.1 %**
T1 target according to FINMA-circular 11/2 plus countercyclical buffer	in % of risk-weighted assets	10.5 %	**10.5 %**
Available T1	in % of risk-weighted assets	14.1 %	**14.9 %**
Regulatory capital target according to FINMA-circular 11/2 plus countercyclical buffer	in % of risk-weighted assets	12.9 %	**12.9 %**
Available regulatory capital	in % of risk-weighted assets	16.5 %	**17.3 %**
Amounts below threshold for deductions (before risk weighting)		in CHF 1,000	**in CHF 1,000**
Not qualified participations in finance sector	threshold 1	11,987	**9,304**
Other qualified participations in finance sector (CET1)	threshold 2 and 3	1,400	**1,501**

[1] Based on the transitional provisions, the capital buffer specified in Art. 43 CAO for years 2013 to 2015 is 0 %.

[2] Based on Art. 44 CAO the swiss federal council has been requested by the swiss national bank, to activate the countercyclical buffer. It was set at 2 % as of 30th June 2014 for the risk-weighted assets on mortgage lending for the financing of residential property in Switzerland.

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