Annual Report 2021
Short Version

Am richtigen Ort.ch

Aargauische Kantonalbank

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This unaudited short version of the annual report is not a complete annual report. It is a translation of select segments of the original German annual and the pillar 3 report 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 and pillar 3 report at www.akb.ch for additional information.

At a glance

in CHF million	2020	2021	Change in %
Income statement			
Operating income	408.7	419.2	2.6
Operating expenses	–203.3	–206.0	1.3
Operating result	192.9	200.8	4.1
Profit	138.2	171.4	24.0
Appropriation of profit			
Allocation to statutory retained earnings reserve	34.2	70.4	105.8
Allocation to voluntary retained earnings reserves	37.0	11.0	–70.3
Distribution to the canton	67.0	90.0	34.3

in CHF million	31.12.2020	31.12.2021	Change in %
Balance sheet			
Total assets	31 777.5	34 331.2	8.0
Loans to customers	23 598.2	24 265.6	2.8
Funds due to customers (inclusive cash bonds)	20 287.6	22 752.3	12.1
Net equity before distribution of net profit	2 586.0	2 653.8	2.6
Customer volumes			
Customer assets [1]	30 112.7	34 995.7	16.2
Net new money	2 530.3	4 274.3	68.9
Business volume [2]	56 873.4	62 611.0	10.1
Key figures in %			strategic targets
Return on equity (ROE) [3]	7.8	7.9	6–7
Total capital ratio excl. voluntary retained earnings reserves [4]	17.8	18.0	16–18
Total capital ratio according to Pillar 3	18.6	18.8	
Leverage ratio [5]	8.5	7.2	
Cost-income ratio	49.7	49.1	< 55
Personnel [6]	**Jobs**	**Jobs**	
FTE (full-time equivalent)	726.2	754.9	4.0
of which apprentices/trainees	44.0	44.4	0.9
Rating			
Standard & Poor's	AA	AA	

[1] Basis: Deposits and assets under management (exclusive corporate assets).
[2] Basis: Client assets, corporate assets and loans to customers.
[3] Calculation return on equity: Operating result / average net equity.
[4] To cushion the economic consequences caused by the Covid-19 pandemic, the sectoral countercyclical capital buffer has been deactivated in pursuance of the resolution of the Swiss Federal Council as per 27.3.2020. The Federal Council has decided to reactivate the sectoral countercyclical capital buffer as per end of September 2022.
[5] Calculation per 31.12.2020 in consideration of the granted temporary financial reliefs according to the FINMA-announcement as part of the Covid-19-crisis.
[6] FTE (full-time equivalent) is shown as part-time adjusted, apprentices, trainees and employees in the trainee pool are counted as 50 %.

Business performance

With an operating result of CHF 200.8 million and a profit of CHF 171.4 million, the Bank broke new records.

In consultation with the Executive Council, the Board of Directors proposes a profit distribution to the canton of Aargau of CHF 90.0 million (+34.3 %). Together with the compensation for the state guarantee in the amount of CHF 11.1 million, the canton of Aargau will receive total remuneration of CHF 101.1 million for the 2021 financial year. Client assets have performed very well. Due to the strong growth of CHF 4.9 billion, this amounted to CHF 35.0 billion (+16.2 %) as at the end of the year.

Controlled credit growth – AKB green mortgage a complete success

At the end of 2021, loans to customers totalled CHF 24.3 billion (+2.8 %). Mortgage loans, the most important item, rose by CHF 517.8 million to a total of CHF 22.7 billion (+2.3 %). At around CHF 450 million (+4.0 %), the lion's share of growth stemmed from owner-occupied mortgages, in line with the strategy.

Due to the strong demand for residential property, CHF 143.7 million has been used to finance climate-friendly projects since the launch of the AKB green mortgage in June 2020. The share of AKB green mortgages in mortgage growth paid out for home financing was 25 % in 2021. This prompted AKB to issue a second green bond in the amount of a further CHF 100 million. Due to positive client demand and the considerable CO_2 impact, the Bank has decided to expand the AKB green mortgage to other building types over the course of 2022.

A net 360 more SME clients have opened a business relationship with AKB. This is also reflected in the pleasing growth amounts due from customers, which increased by CHF 149.7 million or 10.8 %. AKB has thus confirmed its strong ties with the commercial sector.

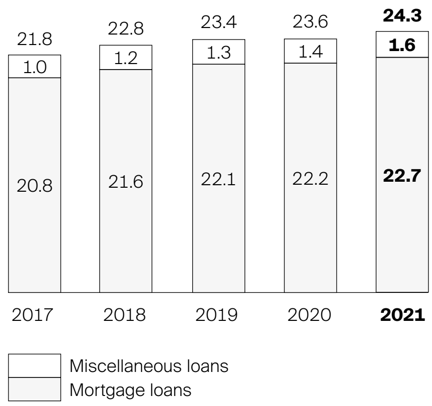
The number of outstanding Covid loans fell by 403 to 1,725 (–18.9 %) from its peak in August 2020. The utilised funds decreased from CHF 162.0 million to CHF 134.9 million (–16.7 %) and the suspended limits fell from CHF 299.8 million to CHF 214.8 million (–28.4 %).

Customers have great trust in AKB

Customer funds increased by CHF 2.5 billion to CHF 22.8 billion (+12.1 %) in the year under review. This growth was supported by the high exemption thresholds granted to clients, which meant that most people were protected from credit fees. Just under 0.2 % of all private clients received a corresponding charge.

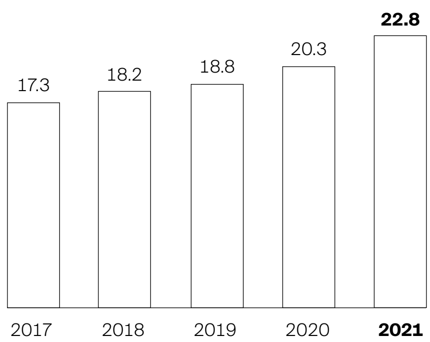
24.3 bn

Customer loans in CHF bn



22.8 bn

Customer funds in CHF bn



Customers assets increased by CHF 4.9 billion to CHF 35 billion (+16.2 %). This included customers deposits which rose by CHF 2.3 billion (+16.1 %). CHF 1.1 billion in new custody account assets are a testament to the high need for investment on the part of clients, with a further CHF 1.2 billion in added value. Business volume (client assets, corporate assets and loans) rose by CHF 5.7 billion to CHF 62.6 billion (+10.1 %). All figures thus reached a new record high and are a clear reflection of AKB's growth momentum.

Operating income up again
AKB's most important earnings pillars were higher compared with the previous year, and operating income rose by CHF 10.5 million year on year to a new record of CHF 419.2 million (+2.6 %).

At 73 %, interest operations accounted for the lion's share of operating income. At CHF 306.2 million, net income from interest operations was CHF 2.6 million or 0.9 % above the previous year's level despite continued pressure on margins. Optimal balance sheet management made a significant contribution to the good performance. Changes in impairments for default risks and losses on interest operations amounted to a small net surplus of CHF 0.1 million in the reporting year compared with CHF 1.1 million in 2020.

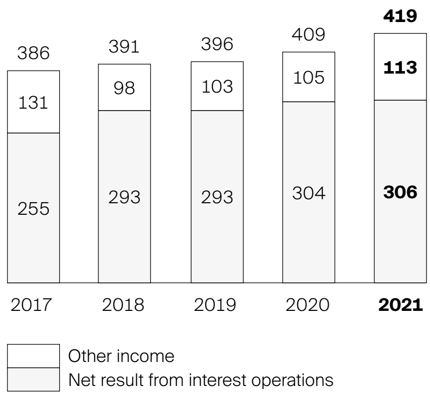
Income from commission business and services, the second most important pillar, increased by CHF 7.9 million to a very pleasing record CHF 83.2 million (+10.5 %). The main drivers in this business line were the AKB funds, which continued to perform very well, and successful asset management. This trend was supported by positive market performance and stronger trading activities of clients. Earnings from securities trading and investment activities rose accordingly by 17.1 % to CHF 69.4 million.

AKB continued to focus its trading activities on the client business. The pandemic-related lower revenues in the previous year were made good again in the reporting year, and net trading income amounted to CHF 24.2 million (+13.7 %) in the reporting year. Growth largely came from foreign exchange trading, which increased by CHF 3.0 million (+17.1 %).

Other result from ordinary activities fell to CHF 5.6 million (–33.9 %) due to lower income from the disposal of financial investments.

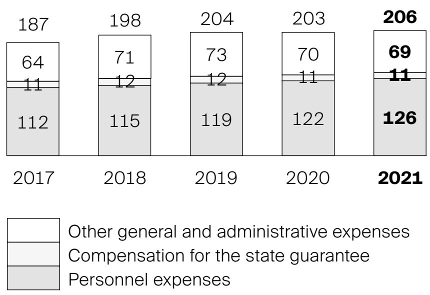
419 m

Operating income in CHF m



206 m

Operating expenses in CHF m



Low growth in operating expenses
Operating expenses rose by CHF 2.7 million (+1.3 %) to CHF 206.0 million. This was mainly due to higher personnel expenses, which increased by CHF 4.2 million (+3.4 %). The workforce increased by 4 % to 755 full-time equivalents.

Strict cost discipline helped reduce general and administrative expenses by CHF 1.5 million to CHF 80.2 million (–1.8 %). For the first time, the Bank allocated 1 % or CHF 1.7 million of the net profit to the LEBENSRAUM AARGAU foundation, which was set up in autumn 2021. Together with the initial contribution of CHF 5.0 million, this foundation therefore has the necessary funds to support charitable projects in the canton. In the fourth quarter of 2021, 28 projects with a total value of CHF 378,000 were approved.

AKB continues to focus on physical locations with modern consultation zones and, with the comprehensive refurbishment of the main building in Aarau and the conversion of the Brittnau branch, has, with some exceptions, finalised its conversion activities to become a two-zone concept of interactive branches.

Cost-income ratio still below 50 %

The higher growth in operating income compared with operating expenses resulted in a slightly lower cost-income ratio of 49.1%. Compared with the 2020 financial year, the strategic key figure improved by 0.6 percentage points and remained below the strategic maximum of 55 %. The low value reflects AKB's high economic efficiency.

Operating result exceeds CHF 200 million for the first time

Adjusted impairments on participations and amortisation/depreciation, AKB posted a record operating result. At CHF 200.8 million, this exceeded the all-time high of 2015, and corresponds to an increase of CHF 7.9 million or 4.1 % over the previous year. The return on equity increased by 0.1 percentage points to 7.9 % in 2021, exceeding the strategic target of 6.0–7.0 %.

New profit record

At the end of the year, the allocation to the reserves for general banking risks amounted to CHF 25.6 million (–45.1%). In the previous year, an additional allocation was made due to the pandemic situation, and a new risk provision was made for inherent default risks.

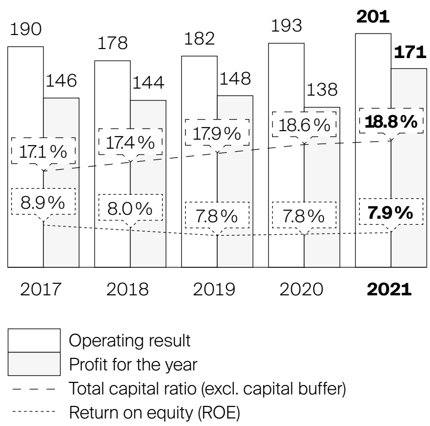
The tax expense of CHF 10.3 million (+28.2 %) included CHF 9.7 million (previous year: CHF 7.2 million) of income tax in favour of the communities where AKB is located in the canton of Aargau. The increase in taxes was a direct consequence of the proposed higher profit distribution to the canton of Aargau.

AKB achieved a record-high profit of CHF 171.4 million in the reporting year, a marked increase of CHF 33.2 million or 24.0 % compared with the previous year.

Appropriation of profits – own funds grow to CHF 2.6 billion

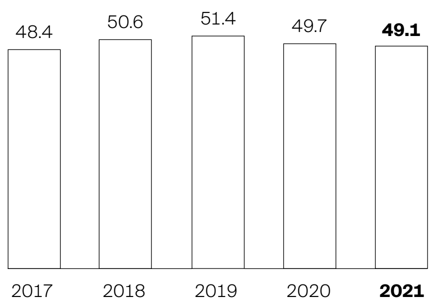
In consultation with the Executive Council, the Board of Directors proposes a profit distribution to the canton of Aargau of CHF 90.0 million (+34.3 %).

Operating result, profit for the year, total capital ratio and return on equity (ROE)
in CHF m



49.1 %

Cost-income ratio in percentage
(incl. compensation for the state guarantee)

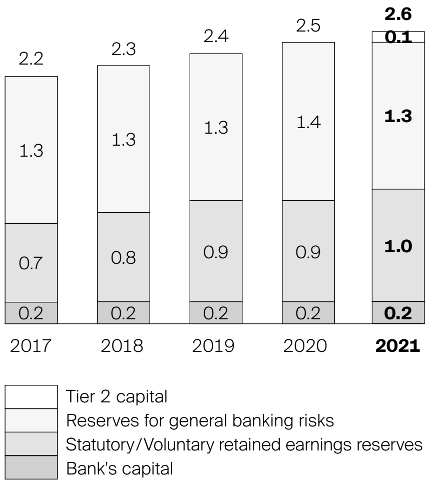


In view of the more stringent regulatory capital requirements (Basel III final), voluntary retained earnings reserves are projected to increase by CHF 11.0 million to the target value of CHF 120.0 million. This means that the increase may be completed one year earlier than originally planned.

The Bank's own funds (after the planned appropriation of profit) amounted to a record CHF 2.6 billion (+CHF 106.7 million) at the end of the year. Despite the growth in lending, this led to an increase in the total capital ratio from 18.6 % to 18.8 %. Excluding the voluntary retained earnings reserves, the total capital ratio was 18.0 % (previous year 17.8 %). With regard to the reactivation of the SNB's national, countercyclical capital buffer from September 2022, AKB is thus prepared and meets the strategic target range of 16–18 % even without raising additional capital.

2.6 bn

Total capital after distribution of net profit
in CHF bn



Balance sheet

before appropriation of profit

in CHF 1000	31.12.2020	31.12.2021	Change in %
Assets			
Liquid assets	5 609 449	7 462 936	33.0
Amounts due from banks	414 290	262 600	–36.6
Amounts due from customers	1 386 968	1 536 652	10.8
Mortgage loans	22 211 185	22 728 945	2.3
Trading portfolio assets	108 951	81 369	–25.3
Positive replacement values of derivative financial instruments	115 410	75 728	–34.4
Financial investments	1 823 184	2 064 669	13.2
Accrued income and prepaid expenses	24 413	30 423	24.6
Participations	15 705	19 238	22.5
Tangible fixed assets	54 584	55 558	1.8
Other assets	13 342	13 098	–1.8
Total assets	**31 777 481**	**34 331 216**	**8.0**
Total subordinated claims	7 594	5 747	–24.3
of which subject to mandatory conversion and/or debt waiver	–	–	n. a.
Liabilities			
Amounts due to banks	2 927 287	2 862 924	–2.2
Liabilities from securities financing transactions	383 583	287 035	–25.2
Amounts due in respect of customer deposits	20 267 905	22 737 562	12.2
Negative replacement values of derivative financial instruments	115 776	128 146	10.7
Liabilities from other financial instruments at fair value	101 801	76 099	–25.2
Cash bonds	19 713	14 773	–25.1
Bond issues and central mortgage institution loans	5 204 220	5 380 850	3.4
Accrued expenses and deferred income	96 785	92 664	–4.3
Other liabilities	41 446	51 229	23.6
Provisions	32 991	46 157	39.9
Reserves for general banking risks	1 376 200	1 339 600	–2.7
Bank's capital	200 000	200 000	–
Statutory retained earnings reserve	799 280	833 480	4.3
Voluntary retained earnings reserves	72 000	109 000	51.4
Profit carried forward	278	294	5.8
Profit	138 216	171 403	24.0
Total liabilities	**31 777 481**	**34 331 216**	**8.0**
Total subordinated liabilities	–	–	n. a.
of which subject to mandatory conversion and/or debt waiver	–	–	n. a.
Off-balance-sheet transactions			
Contingent liabilities	253 371	246 023	–2.9
Irrevocable commitments	1 178 132	1 158 757	–1.6
Obligations to pay up shares and make further contributions	48 458	66 350	36.9
Credit commitments	–	–	n. a.

Income statement

in CHF 1000	2020	2021	Change in %
Result from interest operations			
Interest and discount income	276 144	267 167	–3.3
Interest and dividend income from financial investments	6 741	5 949	–11.7
Interest expense	21 828	33 235	52.3
Gross result from interest operations	**304 713**	**306 351**	**0.5**
Changes in value adjustments for default risks and losses from interest operations	–1 114	–144	–87.1
Subtotal net result from interest operations	**303 599**	**306 207**	**0.9**
Result from commission business and services			
Commission income from securities trading and investment activities	59 286	69 404	17.1
Commission income from lending activities	5 048	5 121	1.4
Commission income from other services	17 327	19 773	14.1
Commission expense	–6 343	–11 087	74.8
Subtotal result from commission business and services	**75 318**	**83 211**	**10.5**
Result from trading activities and the fair value option	**21 283**	**24 189**	**13.7**
Other result from ordinary activities			
Result from the disposal of financial investments	4 142	1 858	–55.1
Income from participations	2 461	1 980	–19.5
Result from real estate	2 263	2 307	1.9
Other ordinary income	511	357	–30.1
Other ordinary expenses	–869	–874	0.6
Subtotal other result from ordinary activities	**8 508**	**5 628**	**–33.9**
Operating income	**408 708**	**419 235**	**2.6**
Operating expenses			
Personnel expenses	–121 592	–125 750	3.4
General and administrative expenses	–81 684	–80 200	–1.8
of which compensation for the state guarantee	–11 112	–11 094	–0.2
Subtotal operating expenses	**–203 276**	**–205 950**	**1.3**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–9 395	–8 077	–14.0
Changes to provisions and other value adjustments, and losses	–3 094	–4 414	42.7
Operating result	**192 943**	**200 794**	**4.1**
Extraordinary income	4	6 532	n. a.
Extraordinary expenses	–	–	n. a.
Changes in reserves for general banking risks	–46 700	–25 627	–45.1
Taxes	–8 031	–10 296	28.2
Profit	**138 216**	**171 403**	**24.0**

Appropriation of profit

in CHF 1000	2020	2021	Change in %
Appropriation of profit			
Profit	138 216	171 403	24.0
Profit carried forward	278	294	5.8
Distributable profit	**138 494**	**171 697**	**24.0**
Allocation to statutory retained earnings reserve	34 200	70 400	105.8
Allocation to voluntary retained earnings reserves	37 000	11 000	-70.3
Distribution to the canton	67 000	90 000	34.3
Profit carried forward	**294**	**297**	**1.0**

Risk management

In connection with its business model and its strategic orientation, AKB is largely exposed to credit risks, market risks, liquidity risks, operational risks (including IT risks) and compliance risks.

At AKB, climate-related financial risks are understood as “transverse risk”, i.e. risks that manifest themselves in the aforementioned traditional financial risk types. With regard to the disclosure of climate-related financial information, please see AKB’s Sustainability Report.

For AKB, risk management is a process in which all relevant risks with a potential negative impact on the Bank are systematically identified, analysed, assessed, managed and monitored. This process is supported by appropriate organisational structures as well as methods, tools, and guidelines. AKB also strives to manage the risks in a transparent and timely manner within the defined limits.

I. Risk governance structure

Ultimate responsibility for risk management rests with the Board of Directors. It is responsible for the regulation, establishment and monitoring of effective risk management and overall risk management. To this end, it establishes the framework for institution-wide risk management.

The Audit and Risk Committee of the Board of Directors assists the Board of Directors in assessing and monitoring the functionality and appropriateness of Bank-wide risk management and compliance.

The Executive Management is required to implement the operational business in accordance with the framework concept for Bank-wide risk management. It must specify, set up and implement appropriate processes for identifying, assessing, managing and monitoring the risks taken by the Bank.

The Bank’s risk governance is based on the concept of the three lines of defence.

1. Line of defence of risk responsibility, risk assumption and management:

The specific risk assumption is delegated by the Executive Management to the operational units by means of guidelines and instructions subject to clearly defined specifications and risk limits. In some significant types of risk, risk assumption is also delegated to defined internal committees.

As risk officers, these operational bodies or committees are responsible for the assessment, management, controlling and handling of risks.

2. Line of defence of risk monitoring and controlling:

The second line of defence is used to manage and monitor the risk management functions of the “first line of defence” for the best possible effectiveness. This includes defining methods and procedures for risk management, guidelines, monitoring of risks and reporting to the company’s management.

At AKB, the Risk/CRO and Compliance sectors form the second line of defence for risk management.

The Risk/CRO sector, headed by the Chief Risk Officer (CRO), which belongs to the Finance & Risk division, comprises the functions of risk controlling and IT security. They ensure the systematic monitoring and reporting of both individual and aggregated exposures. In addition to regular reports, a comprehensive and consolidated risk report for all material risk categories is prepared quarterly for the attention of the Executive Management, the Audit and Risk Committee and the Board of Directors.

In addition, the CRO immediately triggers the defined escalation and emergency procedures for significant risk-relevant developments. The CRO has direct access to the operational management, the Audit and Risk Committee and the Board of Directors.

3. Line of defence of independent “assurance”

The internal auditing department, which is independent of and organisationally separate from the Executive Management, assists the Board of Directors in the performance of its senior management function. In this role, it assesses the Bank’s risk management, controlling and governance processes.

II. Framework for Bank-wide risk management

The Bank has a framework for Bank-wide risk management specified by the Board of Directors.

This consists of the internal regulations on risk policy, the risk tolerance guidelines and the risk limits as well as the specific internal regulations and guidelines issued for the main types of risk.

The main risk types are limited by the Board of Directors through of the risk tolerance guidelines. Based on the risk appetite and risk-bearing capacity of the Bank, these limits define the risk tolerance of the Bank as a whole and the main types of risk to be complied with. Risk tolerance requirements are reviewed at least once a year and monitored on an ongoing basis. The defined risk tolerances are set up so that they do not compromise the continued existence of the Bank even if they are cumulatively utilised.

The specific implementation rules regarding the tasks, competencies and responsibilities as well as the principles of identification and evaluation, limitation and management, monitoring and reporting are contained in the specific internal regulations on the main types of risk.

A. Credit risks

The credit regulations establish the regulatory framework for all banking transactions that generate credit risks for the Bank. At the implementation level, the credit regulations are supplemented by credit guidelines as well as by directives and process descriptions. Depending on the current risk assessment of the market and economic environments, the credit guidelines specify the regulatory principles and guidelines in lending.

Credit risks are restricted by limits, quality requirements, fixed cover margins and guidelines on risk diversification. When granting loans and other exposures with default risks, creditworthiness is assessed according to uniform criteria. There is a multi-level, risk-oriented allocation of responsibilities, which governs both ordinary credit authority and special competences.

The units responsible for acquiring and servicing clients are completely separate from the loan processing and credit administration.

The credit risk monitoring at portfolio level is carried out by the Risk/CRO sector, which is independent of the sales organisation and monitors changes in the credit portfolio in a variety of ways. Appropriate methods and models are used to assess credit risks periodically and/or on an ad hoc basis.

The aim of credit monitoring at portfolio level is to identify at an early stage existing and/or potential credit risks due to concentrations, interdependencies or influences of significant market developments and to evaluate and demonstrate their effects on the risk tolerance, risk limits and/or thresholds of the Bank as a whole.

Monthly reports are sent to the senior credit approval department regarding changes in the credit portfolio. The Executive Management, the Audit and Risk Committee and the Board of Directors are each informed about the specific credit risk analyses. In addition, the risk assessment of the entire loan portfolio is reported in detail quarterly.

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 default risks and to determine the expected losses which the Bank faces when 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 impairments

Besides a comprehensive rating system, credit monitoring is based on defined early warning indicators (exceeded thresholds, outstanding interest, impairments, etc.), which can indicate a deterioration in credit quality as early as possible and ensure the timely introduction of corrective measures.

The Bank attaches great importance to the consistent management of problem exposures and loss positions. The Special Financing department in the credit management sector monitors in particular the “watch list” positions and provides support for positions that are impaired or non-performing, either on its own or together with the client advisor of the sales organisation. The sector, along with the Real Estate Management department is also responsible for the management and the rapid re-sale of properties foreclosed on by the Bank.

Receivables for which the Bank considers it unlikely that the borrower will be able to fully comply with its future obligations are considered at risk.

Loans at risk are valued individually and the impairment is covered by specific loss allowances. Impairments and provisions are made for non-impaired receivables where “inherent default risks” exist. These are calculated according to a parametric approach for existing credit positions and include:

→ Receivables from clients/mortgage loans/contingent liabilities/irrevocable commitments
→ Receivables from banks and debt instruments held by the Bank as financial assets to maturity.

The calculation is essentially based on the probability of default (PD) of the debtor or counterparty, the loss given default (LGD) and exposure at default (EAD). The assumptions underlying the calculation are based on internal and external historical data as well as expert assessments and are reviewed regularly.

In certain risk situations, clearly definable and distinguishable criteria make it possible to identify sub-portfolios that are exposed to specific risks and differ from the rest of the loan portfolio. Additional impairments and provisions for inherent default risks are made for such sub-portfolios. To take account of the increased default risks associated with the current coronavirus pandemic, an additional allocation was made in the reporting year.

In an extraordinary risk situation, the impairments and provisions for inherent default risks can be used to create specific loss allowances. For such a situation to be recognised, there needs to be a high volume of new additions and total amount of specific loss allowances, in addition the Bank must consider the economic situation to be adverse. In such an extraordinary risk situation, the creation of impairments and provisions for inherent default risks can be disregarded in accordance with the specified methodology and those previously created can be used in accordance with the intended purpose. The respective discarding or intended use may not exceed the gross amount of specific loss allowances in the respective reporting year.

The extraordinary risk situation must be reviewed no later than 36 months after recognition, thereafter at least once a year, and rectified if the defined criteria are no longer met. If the extraordinary risk situation is reversed, the existing shortfall in impairments and provisions for inherent default risks must be reduced again within five years.

In the reporting year 2021, no impairments or provisions were used for inherent default risks. The impairments and provisions for inherent default risks as of 31 December 2021 corresponded in full to the internal model calculations mentioned above.

Risk provisions are used to prevent future, unexpected losses from loans to clients. Their aim is to create additional, voluntary reserves for unexpected loan defaults depending on the provision situation and to use these reserves to cover losses when one-off events occur.

The calculation is based on internal stress scenarios. The allocation to the account “Risk provisioning” (under the balance sheet heading “Reserves for general banking risks”) is performed according to the “high water-mark method”, i.e. an allocation is performed only if the unexpected losses of the CVaR (Credit Value at Risk) calculated in the stress scenario are greater than the amount of risk provisions. The addition or release is made via the income statement item “Changes in reserves for general banking risks”.

The effects of losses incurred in the different stress scenarios are part of the document for capital planning, which is presented to the Board of Directors. The results show that even when experiencing a series of very high credit losses across the whole industry, the Bank itself would still have adequate equity ceiling, so the ordinary course of business could be safeguarded in compliance with the capital adequacy requirements.

1. Client 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: collateral values internally defined by the Bank for each property type, and the financial viability of the borrower and the compliance with amortisation rules. The criteria to be applied are set out in the credit guidelines.

For loans with securities as collateral, the credit guidelines define the assets accepted as collateral and their collateral values. The guidelines are restricted on the basis of riskbased criteria and are assessed periodically.

Besides the mortgage business and securities collateral-secured loans for private clients, the Bank's operations include commercial lending, primarily to companies primarily based in the market territory.

Valuation of collateral

To value property, AKB employs experts to support the client advisor and the approval entities in technical matters, decisions and judgements. The guidelines for valuing all kinds of property are subject to binding regulations. The client advisors can make decisions on standard transactions on their own authority using a set of estimation tools. Properties which do not meet the defined parameters for standard transactions are assessed exclusively by real estate experts. The real estate experts are based in a central unit independent from the front office. For the majority of standard transactions, one of two approaches is used: a hedonic approach (for owner-occupied homes and single-family homes), or a capitalised earnings approach (for multi-family homes and simple residential and commercial buildings). Both estimation tools are integrated into the lending process, which ensure 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 exposure amount, the outstanding amount needs to be reduced or additional collateral put up. In exceptional market conditions or in the case of an increasing cover deficit, the collateral is realised and the loan closed out.

For commercial loans, the relevant evaluation criteria are mainly future earnings outlook, market position, the assessment by management and financial ability to repay the loan on schedule. Unsecured major exposures are restricted by limits at individual and total exposure level. Additionally, guidelines and benchmarks exist at the overall portfolio level.

2. Credit risks from trading

Responsibilities and technical tasks related to credit risks from trading, including the internal standards for the application of risk mitigation techniques, are set out in the loan regulations, in the credit guidelines and at instruction level. The counterparty risks in the interbank business as well as in positions with central counterparties are limited by a limit system. Limits must be approved by the competent approval entities at the request of the operational units in the trading department in accordance with the allocation of authority. The approval entities are completely separate from the units making the request. The limits are reviewed for appropriateness at least once a year. To reduce wrong-way risks, care is taken to ensure appropriate diversification.

Compliance with limits is monitored daily by the Risk/CRO sector and reported on a monthly basis. Furthermore, each quarter the Audit and Risk Committee and the Board of Directors are informed about limit compliance, risk assessment and particular findings.

AKB conducts interbank business primarily for liquidity management and handling of client orders (international payments). This involves short-term money market deposits and transfers from domestic and foreign banks.

3. Country risk

Country risks are limited by the Board of Directors through pre-determined thresholds based on the rating category. Within these thresholds, the competent credit committee sets additional limits in the form of individual limits per country. The Risk/CRO sector monitors compliance with country limits. Exposures in risk countries are assessed at least twice a year for recoverability and impairments are made if necessary.

B. Market risk

Market risks describe the risk of losses which arise due to changes in market prices (equities,

exchange rates, interest and commodities) and factors influenced by market price (e.g. volatilities and correlations). The Bank differentiates between three sub-risk categories:
→ Market risks in the trading book,
→ Interest rate risks and
→ Other market risks.

1. Market risks in the trading book

Financial instruments that are held for the Bank's own account for resale in order to exploit short-term price and interest-rate volatility are assigned to the trading book and measured on a fair value basis using daily market prices. These positions are actively managed within the defined risk tolerance and risk limits exclusively by the trading desks "Forex", "Equity" and "Interest". The Bank also acts as an issuer of certificates. The underlying assets or securities of the certificates are held in the trading portfolio as a hedged item.

The specific tasks, competencies and responsibilities as well as the principles of identification and evaluation, limitation and management, monitoring and reporting of the Bank's trading activities are regulated in the internal trading regulations. Entering into risks as a result of proprietary trading is governed in detail by the internal trading guidelines and dealer-specific instructions. With the exception of self-issued certificates, AKB does not engage in any market making activities.

Derivative financial instruments may be used in currency, interest and securities trading for the Bank's own or a third-party account. Both standardised and OTC instruments are used.

Risk is limited by Value at Risk limits (VaR), position and daily loss limits.

The risk tolerance for the entire trading book (forex, equity and interest) is determined as VaR limits by the Board of Directors and its adequacy is verified at least annually. At Executive Management level, the risk tolerance is allocated as VaR risk limits to the individual "Forex", "Equity" and "Interest" trading desks. Daily monitoring of the VaR limit is carried out by the Risk/CRO sector, which is an independent unit of the trading department. Daily reports on the utilisation of the VaR limit are sent to the competent department manager and managers of each trading desk, on a monthly basis to the Executive Management and on a quarterly basis to the Audit and Risk Committee and the Board of Directors.

For the monitoring and reporting of market risks in the trading book, the Risk/CRO sector has a dedicated IT system that derives the trading book positions directly from the core banking system, evaluates them independently and calculates the limit utilisation.

The position and daily loss limits are allocated by the relevant department managers per trading desk or per trader and monitored by the respective manager of the corresponding trading desk. The position limits restrict the exposure for each dealer and are designed to protect to the Bank from excessive exposure. The daily loss limits are intended to restrict short-term losses due to major market volatility and prevent the Bank from exceeding its risk tolerance and/or VaR risk limits through an accumulation of realised and unrealised losses.

2. Interest rate risk

It is the aim of interest rate risk management to reduce any margin pressure from changes in market prices and client behaviour, strengthen the solvency of the Bank and thus safeguard the stability of its capital base through optimal balance sheet structure management. Asset and liability management (ALM) is based on the internal regulations for ALM and the corresponding guidelines.

The "Liquidity & ALM Board" (LAB) is the strategic decision-making committee for monitoring and managing interest rate risks, within the framework of the competencies and limits set by the Board of Directors. The LAB meets monthly and delegates certain well-defined tasks, competencies and responsibilities to the "Liquidity & ALM Committee" (LAC). The LAB comprises the members of the Executive Management and the advisory members of the LAC.

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

The management of interest rate risks is based on the present value method and focuses on limiting the negative impact in the net present value of the Bank's capital base and the income effect.

To calculate the present value of the Bank's capital base, fixed interest rate products are divided according to their maturity and variable interest rate products are replicated. The replication is reviewed annually for its effectiveness.

Interest rate risks are monitored on the basis of static (sensitivity, market value of the Bank's capital and VaR) and dynamic calculations (simulations of potential market scenarios). The Bank manages the interest rate risks through on-balance sheet measures. Hedging is conducted depending on the assessment of interest rate risk.

Interest rate risks are limited by the risk tolerance specified by the Board of Directors by limiting the maximum present value loss in the Bank's capital base. Simulations are carried out periodically to determine future trends in the Bank's earnings from interest operations. Both the value effect and income effect are measured here.

The market value of the Bank's capital base is stressed monthly by means of six different changes in the yield curve. The LAB is informed monthly of the scenarios used and the resulting changes in value.

Future potential changes in the interest balance (income effect) are stressed at regular intervals using various scenarios. These include both different changes in the yield curve and client behaviour, which can, depending on the interest rate environment, lead to massive shifts in capital. The interest balance calculated is based on a dynamic change in interest-bearing positions and the market environment. The results are discussed in the LAB and brought to the attention of the Audit and Risk Committee as part of the quarterly reporting.

For the monitoring and reporting of interest rate risks as well as for the calculation of key figures and the implementation of stress scenarios, the Risk/CRO sector has a dedicated IT system that derives the balance sheet data directly from the core banking system.

Business policy on the use of derivative financial instruments

The instruments used for balance sheet management serve mainly to hedge interest rate and foreign currency risks in the banking book. Interest rate swaps and cross-currency swaps are also primarily used. Credit derivatives are not used.

Micro-hedges are predominantly used for hedging. Selected and clearly identified, interest rate-sensitive client receivables or liabilities are hedged (either individually or grouped together) over the entire remaining period as hedged items here. Macro-hedges are also occasionally used alongside to hedge sensitivity in a specific time bucket.

The objectives and strategies of hedges between the hedging instrument and the hedged item are documented in each case upon conclusion of the derivative hedging transactions.

The effectiveness of the hedging relationship is reviewed periodically by the independent Risk/CRO sector. It monitors whether the sensitivity of the hedging transactions does not exceed the sensitivity of the allocated hedged items by more than 20 per cent. The hedging transaction must always reduce the sensitivity of the hedged items overall.

Hedges where the criteria of effectiveness are no longer met are compared with the non-effective portion of a commercial transaction and the effect from the ineffective portion is booked under income from trading activities. There were no such hedging relationships in the reporting year.

3. Other market risks

A VaR limit is in place to limit other market risks, which consist in particular of position risks from equity securities and from foreign currency positions.

C. Liquidity risk

The primary objective of liquidity management is to ensure the ongoing solvency of the Bank at all times, particularly during bank-specific and/or market-wide periods of stress.

The principles, responsibilities and competencies for managing liquidity risks are defined in the internal regulations and in the liquidity and balance sheet structure management guidelines.

The LAC is responsible for the central management of tactical liquidity. The LAC reports directly to the LAB committee. The LAC meets twice monthly and, among other duties, is responsible for developing and fleshing out strategies for managing liquidity risk and the liquidity reserves.

The Treasury central operational unit implements the tactical decisions of the LAC and safeguards and manages intraday or short-term liquidity. The Risk/CRO sector conducts the supervision and monitoring of the implementation of tactical decisions by the LAC and its compliance with the limits, independently from the operational units. It is also responsible for daily liquidity reporting to Treasury and monthly risk reporting to the LAC and the LAB. The Audit and Risk Committee and the Board of Directors are informed at least quarterly about changes in liquidity risks.

Operational measurement and management of liquidity risks is based on a daily liquidity schedule, which compares the expected cash inflows and outflows in a normal market phase.

The liquidity schedule therefore shows the time horizon over which the Bank is still liquid or viable.

Liquidity risks are monitored on the basis of both static and dynamic calculations (including simulations of possible stress scenarios).

Liquidity risks are limited by rules governing the maintenance of liquidity reserves (e.g. on quality and diversification) and guidelines on the financing structure (e.g. on counterparties, maturity bands and currencies). In addition, the Board of Directors limits liquidity risk by setting the liquidity risk tolerance.

The liquidity risk tolerance defines the minimum time horizon which must be continually maintained in a given stress scenario. Both institution-specific events and the effects of a global economic crisis are considered as stress scenarios.

To promptly detect risks in a liquidity position and potential funding options for the Bank, it has defined appropriate early warning indicators and set out potential emergency procedures with potential response measures. The defined early warning indicators are constantly monitored and improved on.

D. Operational risk

Operational risk management (OpRisk) is part of the independent risk controlling function within the Risk/CRO sector. The risk controlling function is responsible for the design, implementation and maintenance of an effective and efficient operational risk framework and ensures the comprehensive and systematic monitoring and reporting of operational risk.

AKB defines operational risks as the risk of losses arising as a result of inadequate or failed internal procedures, people or systems or as a result of external events. Included are all legal risks, including fines from regulators and settlements. The management of operational risks also includes issues of data quality, data protection and data security. In addition to digital data, paper-based information must also be taken into account in this context.

The term IT risks encompasses operational IT risks and information security risks, including the associated ICS controls. Strategic risks and reputational risks as secondary risks have an indirect effect on operational risks. These are an integral part of the operational risk management.

AKB defines operational risk management as a comprehensive process. The focus is on the risk-oriented protection of persons, services, information and assets of the individual areas of responsibility as well as the maintenance and restoration of critical business processes in an operational emergency.

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

The risk tolerance towards operational risks and information security risks is limited and monitored using early warning indicators and security standards.

Any breach are remedied promptly using targeted measures.

The basis for the management of operational risks is the inventory of inherent operational risks at the level of the Bank as a whole. For the identification and assessment of operational risks, AKB uses numerous instruments (including periodic risk and control assessments [RCA], continuous recording of loss events, and an approval process for the introduction of new or major changes to existing products, services, processes or systems). For example in connection with the Risk and control assessments the operational risks of each business unit are assessed on a bottom-up basis on the basis of a defined methodology. The operational risks identified are systematically categorised and prioritised.

Both internal and external operational risk events are systematically recorded, assessed and analysed in order to identify the reasons for their occurrence and to close potential gaps in the internal control system.

Operational risks are reduced by an effective and suitable internal control system.

The starting point for designing the internal control system is a systematic risk analysis. This is the result of a comprehensive and systematic process to assess the overall risks to which the Bank is exposed. By conducting the systematic risk analysis, the Board of Directors ensures that all significant risks in the Bank are recorded, limited and monitored.

It is also used as a basis for the regular review of the adequacy and effectiveness of the internal controls.

The Bank uses an ICS tool for documenting, monitoring and evaluating the adequacy and effectiveness of the internal control system.

Information security and cyber risks are managed on the basis of regular evaluations and depending on the current threat situation. It provides adequate and effective security measures to protect information and infrastructures in terms of confidentiality, integrity, availability and traceability.

The appropriateness and effectiveness of internal controls are documented by the division managers at least once a year. Another essential criterion of the assessment is how up to date the internal control system is. The assessment is also the basis for defining and carrying out any necessary corrective actions. To reduce risk, specific types of insurance are also used. The entire insurance portfolio of AKB is reviewed annually by an external insurance broker, discussed with the Bank and approved by the Executive Board.

For business-critical processes, precautions have been taken in the context of Business Continuity Management (BCM). In this context AKB takes recognised standards into account. The relevant principles, responsibilities and procedures for BCM are defined in a specific set of internal regulations.

The Audit and Risk Committee and the Board of Directors are informed quarterly about changes in early warning indicators, the assessment of operational risks and changes in the operational risk profile (including information security and cyber risks). Reporting includes the results of significant internal and relevant external operational risk events.

In addition, the CRO produces a yearly report for the Board of Directors, the Audit and Risk Committee and the Executive Management on the assessment of the internal control system of the Bank. This report also contains the findings and changes in the risk situation in the areas of operational risk and information security BCM.

E. Compliance 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. The principles, responsibilities and competencies for the compliance risks are defined in a specific set of internal regulations. Compliance with legal, regulatory, professional or internal regulations is monitored by the independent compliance function within the General Counsel – Legal & Compliance sector.

Compliance activities relate in particular to combating money laundering, preventing insider dealing, complying with banking and stock exchange law, observing product distribution rules, monitoring the risks from cross-border client transactions, avoiding conflicts of interest and ensuring the tax transparency of the client funds deposited with AKB.

Compliance annually reviews the compliance risk inventory, which it uses to draw up a plan of action. Compliance risks identified are managed and limited through the issue of directives, tailored operational systems and processes, employee training and downstream, independent monitoring and controls. The Compliance unit also advises the Executive Management and employees on compliance-related issues.

Significant events after the reporting date

No significant events occurred after the reporting date that had a significant influence on the financial position and financial performance of the Bank as at 31 December 2021.

Key prudential metrics (KM1)

		e	d	c	b	a
	in CHF 1000	31.12.2020	31.03.2021	30.06.2021	30.09.2021	31.12.2021
	Eligible Capital					
1	Common equity tier 1 (CET1)	2 518 974		2 456 747		2 563 777
2	Tier 1 capital	2 518 974		2 456 747		2 563 777
3	Total capital	2 518 974		2 520 627		2 625 679
	Risk-weighted assets (amounts)					
4	RWA	13 533 490		14 070 795		13 955 422
4a	**Minimum capital requirement**	**1 082 679**		**1 125 664**		**1 116 434**
	Risk-based capital ratios as a percentage of RWA					
5	Commen equity tier 1 ratio	18.6%		17.5%		18.4%
6	Tier 1 capital ratio	18.6%		17.5%		18.4%
7	Total capital ratio	18.6%		17.9%		18.8%
	Additional CET1 buffer requirements as a percentag of RWA					
8	Capital conservation buffer as per the Basel minimum standards (2.5% from 2019)	2.5%		2.5%		2.5%
9	Countercyclical capital buffer (Art. 44a CAO) in accordance with the Basel minimum standards					
10	Additional capital buffer due to international or national system relevance					
11	Total of bank CET 1 specific buffer requirements	2.5%		2.5%		2.5%
12	CET 1 available after meeting the bank's minimum capital requirements	10.6%		9.9%		10.8%
	Capital target ratios in accordance with Annex 8 of the CAO (in % of risk-weighted assets)					
12a	Capital conservation buffer in accordance with Annex 8 of the CAO	4.0%		4.0%		4.0%
12b	Countercyclical buffer in accordance with Art. 44 and 44a of the CAO	0.0%		0.0%		0.0%
12c	CET 1 target ratio in accordance with Annex 8 of the CAO plus the countercyclical buffer in accordance with Art. 44 and 44a of the CAO	7.8%		7.8%		7.8%
12d	T1 target ratio in accordance with Annex 8 of the CAO plus the countercyclical buffer in accordance with Art. 44 and 44a of the CAO	9.6%		9.6%		9.6%
12e	Total capital target ratio in accordance with Annex 8 of the CAO plus the countercyclical buffer in accordance with Art. 44 and 44a of the CAO	12.0%		12.0%		12.0%
	Basel III Leverage Ratio [1]					
13	Total Basel III leverage ratio exposure measure	29 486 134		34 573 254		35 427 066
14	Basel III leverage ratio (tier 1 capital in % of total exposures)	8.5%		7.1%		7.2%
14a	Basel III leverage ratio under the fully loaded ECL (expected credit loss) accounting model (tier 1 capital in % of total exposures)	8.5%		7.1%		7.2%
	Liquidity coverage ratio (LCR) [2]					
15	LCR Numerator: total high quality liquid assets	7 731 198	8 666 654	8 670 835	9 439 469	9 216 022
16	LCR Denominator: net cash outflows	4 496 122	4 798 321	4 596 994	4 604 632	4 804 797
17	Liquidity coverage ratio (LCR) %	172.0%	180.6%	188.6%	205.0%	191.8%
	Net stable funding ratio (NSFR) [3]					
18	Available stable refinancing					26 001 616
19	Required stable refinancing					17 394 501
20	Net stable funding ratio, NSFR					149.5%

[1] Calculation per 31.12.2020 in consideration of the granted temporary financial reliefs according to the FINMA-announcement as part of the Covid-19-crisis.
[2] The LCR values are shown as avarage values per quarter.
[3] The NSFR figures from the previous half-year periods will be reported as of the disclosures per 30.6.2022.

Sustainability report

Dear Reader,

In 2020, we set ourselves the goal of becoming the most sustainable financial services provider in our market area by 2024. This anchoring in our business strategy acted as a catalyst for AKB's existing sustainability efforts.

→ We issued a green bond for the second time in November 2021.
→ We continued to press ahead with the transition to sustainable positions in the investment business.
→ We launched the LEBENSRAUM AARGAU foundation to support local society and the environment.
→ We have defined sustainability criteria for responsible lending.
→ The ongoing training of our employees is required in order to meet regulatory requirements as well as safety requirements and, in particular, to provide our clients with the best possible advice.
→ Constant investments in our own building stock are reducing our own ecological footprint.
→ In 2022, we will launch a support programme that supports and promotes the local economy in achieving its sustainability goals.

With all these measures, we are achieving a tangible sustainability impact. On the following pages, you will find out in which areas AKB is committed as a sustainable bank and where the journey is heading. AKB is still providing separate information on its sustainability commitment using the applicable standards of the Global Reporting Initiative (GRI). You can find this report at www.akb.ch/nachhaltigkeit.

Sustainability is in our DNA and therefore a central component of our business activities. We want to be the partner for our clients when it comes to ecologically and socially responsible financial services and to accompany them all the way on the path towards sustainability. In 2021, we once again succeeded in making significant progress.

Kind regards
Dieter Widmer, CEO

Investing ecologically and socially

AKB enables its clients to use their assets to contribute to ecological and social development.

Transparency is an important component of AKB's sustainable investment policy. How do this manifest itself?

Regula Simsa, Sustainability Investment Specialist: We believe that, by applying sustainability criteria, we will optimise the investments for all clients in terms of risk, return and long-term impact on the environment and society. Accordingly, we apply our sustainability approach to all investments we manage and recommend. Transparency is of key importance to us in this regard. We openly communicate what sustainable investing means for AKB and how we implement this when managing and advising our client assets. As a signatory of the United Nations Principles for Responsible Investment (UNPRI), AKB has also undertaken to comply with detailed principles in the area of responsible investing.

From 2023, AKB will provide a publicly accessible report on this subject. FINMA has also reviewed the implementation of our sustainable investment approach in our AKB portfolio fund. With the addition of the name "ESG Fokus" approved by FINMA, we are proud to communicate our sustainability strategy to the outside world.

Advisory processes in the investment business were optimised in 2021. What has changed?

We have reviewed our investment recommendations with regard to their sustainability approach and can recommend a sustainable product for most investment categories. The underlyings of structured products also largely originate from our sustainable investment universe. The sustainability assessment for each item is shown in the statements of assets. This gives our clients the opportunity to gear their portfolios more towards sustainability.

How are the AKB funds and asset management mandates invested today?

Our sustainable investment concept has been largely implemented in all AKB portfolio funds and asset management mandates since mid-2021. This means that these portfolios only contain sustainable securities in the equities and bonds investment categories.

How does AKB define a "sustainable" investment?

Business activities that have a potential negative impact on the environment and society are excluded if the sector in question has no means of differentiation. Examples include the production of tobacco products or business models with major climate risks. We also exclude business conduct that violates the principles of the UN Global Compact. Our exclusion criteria are reviewed at least once a year to reflect current developments and can be viewed on our website at any time.

Likewise, we only invest in companies and issuers whose approach to key industry-specific sustainability topics is at least equivalent to the sector average. In doing so, we rely on the ESG analyses of our partner MSCI ESG and require our equity and bond investments to have an MSCI ESG rating from BBB as a minimum.

The impact of climate-related financial risks on our business operations

In line with our strategy period 2021–2024 and the Sustainable Development Goal SDG 13 (Climate action) of the United Nations, we are striving to implement the Task Force on Climate-Related Financial Disclosures (TCFD) disclosure recommendations by FINMA and risk in the coming years.

We took the first step towards implementing the TCFD disclosure recommendations in the 2021 financial year. The main focus of the work was on the TCFD dimensions of governance and strategy as well as, in some cases, the topics of risk management and metrics/targets. In the 2022 financial year we will continue to work on the areas of risk management and key figures/goals.

Two risk identification scenarios
To be able to estimate the impact of climate change on AKB's business activities, we define two simplified climate scenarios for the identification and assessment of climate-related financial risks:

→ Transitional climate scenario
In this scenario, we examine the framework conditions that will lead to climate-neutral Switzerland in the long term and help achieve the Paris climate targets. We define increased regulation by laws or rising costs as a result of market distortions and technological change as a transitory risk driver.

→ Physical climate scenario
In this scenario in contrast, our assumption is that there will be no serious efforts to reduce greenhouse gases – business as usual will continue. In the long term, this would lead to an increased incidence of extreme storms and/or droughts as a result of the global increase in temperature.

Information basis for the various climate risk analyses
The identification and (qualitative) assessment of climate-related financial risks in the context of transient and physical climate risks is primarily based on information from the PACTA Climate Compatibility Test 2020 (Paris Agreement Capital Transition Assessment) for our mortgage portfolio, on the effects of climate change for the canton of Aargau and on exposure analyses in climate-sensitive sectors – based on NOGA/Industry Codes – of our portfolio of entrepreneurial and financial investments.

Significance of climate risks for AKB
AKB's business activities are primarily focused on the mortgage and lending business. For this reason, the impact of climate change can primarily be seen in credit risk. Across all risk types, we do not consider the short-term impact of transitory or physical climate risks on AKB to be significant. In the medium to long term, we see growing importance, especially in the area of climate-related credit risks. The following sections show the details of our results.

Credit Risk
With regard to transition risks, we attach increasing importance to climate-related credit risks in the medium to long term. For example, more restrictive regulatory requirements with regard to greenhouse gas emissions or changes in market conditions could lead to losses in the value of older properties. However, it is also conceivable that companies in climate-sensitive sectors will have a higher probability of default as a result of higher operating or investment costs. With regard to climate-related, physical credit risks, we see growing importance in real estate properties (for example, losses in value due to more frequent extreme storms or higher insurance costs or a lack of insurability) and companies in climate-sensitive sectors (also increasing probability of default) as well as companies in climate-sensitive sectors (also increasing probabilities of default).

Interest Rate and liquditity risk
With regard to transitory and physical climate risks, we do not currently see any significant financial strains in the area of interest/liquidity risks. An analysis of the financial asset portfolio with regard to exposure to climate-sensitive sectors did not reveal any significant concentration risks. In addition, several positions related to sustainability risks were sold in the 2021 financial year. In the medium to long term, however, we are attaching increasing importance to climate-related interest/liquidity risks, which could take the form of stricter liquidity requirements from the Swiss National Bank (SNB) or losses in the value of (mortgage-backed) financial assets.

Market risk
We consider the potential loss in climate-related market risks to be low for both transitive and physical climate risks. The main reason for this is the small trading portfolio at AKB, which is managed on the basis of daily risk management.

Strategic and operational risk
In terms of strategic and operational risks arising from transient climate risks, we assign less influence in the short term. We see increasing importance in the medium to long term in the physical risks that could occur, for example, due to the failure of business-critical processes and infrastructure as a result of severe weather disasters. An increased absence of AKB employees, for example due to persistent heat waves, would also be possible.

A detailed report on the status of the TCFD work can be found at www.akb.ch/nachhaltigkeit.

AKB green mortgage

An ecological and economic success story.

In June 2020, AKB launched an innovative concept and issued a green bond of CHF 100 million. This bond met with great interest from environmentally conscious investors. We used the proceeds to finance the AKB green mortgage for home ownership directly. This is a win-win situation, as borrowers and lenders benefit – just like the environment and society.

For new buildings, individual measures and total refurbishments
With the AKB green mortgage, the Bank rewards environmentally conscious property owners who build or renovate their buildings in accordance with climate-friendly criteria. Despite great progress, building emissions still represent the second-largest group of energy consumers in Switzerland. In addition to new buildings, this sustainable financing product also supports individual energy measures or comprehensive refurbishments aimed at increasing energy efficiency or using renewable energies such as the installation of photovoltaic systems or panels for the preparation of hot water. Specific award criteria have been certified by the external testing agency ISS ESG for this innovative concept.

High CO_2 savings
In cooperation with the real estate consultancy IAZI, AKB publishes an annual impact report. This shows the climate effect of AKB green mortgage-financed new buildings and renovations on the energy consumption and CO_2 emissions of the buildings. Projections have shown that the total annual reduction in CO_2 emissions of around 232 tonnes was achieved after just six months in 2020. This corresponds to the annual CO_2 emissions of around 190 new commercially available passenger cars or the average annual consumption in Switzerland of 16 individuals. The next impact reporting will be published in the second quarter of 2022.

Strong demand and expansion in 2022
Due to strong demand, we have disbursed CHF 143.7 million for climate-friendly projects since its launch in July 2020. The share of AKB green mortgages in mortgage growth for home financing was 25 % in 2021. This prompted AKB to issue a second green bond in the amount of a further CHF 100 million. Due to positive client demand and the considerable CO_2 effect, the Bank decided to expand the AKB green mortgage in 2022. From now on, it's not just homeowners who can enjoy it. It is now possible to apply for a mortgage for all properties with building emissions (heating or cooling).

With the AKB green mortgage, we are proud to offer a sustainable mortgage instrument that provides direct incentives for green building and renovation. To this end, we have defined our own list of measures and award criteria, which we use to support any investments aimed at reducing building emissions.

Developing our employees

Well-qualified and motivated employees are our Bank's greatest asset. AKB promotes and encourages talented individuals and focuses on development-oriented management.

More female executives
Diversity in all forms and in all teams is an important success factor for AKB. We strive for a balanced mix of genders at all functional levels. In the current strategy period, we are therefore focusing particularly on increasing the proportion of women in management positions. In addition to targeted talent development, effective measures include attractiveness to families as an employer, openness to diversity at all levels, an unbiased promotion policy and a targeted approach to internal and external women.

Development-oriented leadership
AKB has been focusing on development-oriented management since 2020. In the year under review, the 160 managers were enabled to support and coach their employees in their development. It has been shown that the discussion of personal development goals is neglected in a traditional management-by-objectives discussion. It does not provide sufficient support for development-oriented leadership. In development discussions, however, the manager acts as a sparring partner with a coaching attitude. He/she supports and motivates employees to work towards goals and areas of development.

Separate service and development processes
To take greater account of the aspect of individual development, we have decided to separate the performance and development processes. The performance process includes agreeing qualitative and quantitative targets for the calendar year and assessing them at the end of the year. The aim of the development process is to help employees progress in their working environment and includes the assessment of their competences to act. The process also requires the definition of a personal development goal by the employees, including the recording of their career plans.

Fair salaries
AKB carried out the equal pay analysis again in the reporting year and received the certificate again after 2019 and with clear results. When it comes to remuneration, the focus is on the position held and its requirements. At a ratio of 1:10.8, the wage difference from the lowest to the highest in the Bank as a whole is below the ratio of 1:12.

Successful promotion of young talent
Training young professionals is of central importance to AKB. All graduates of apprenticeships and internships with good grades will be offered continued employment. AKB offers talented commercial and UAS graduates three different trainee programmes. AKB filled a total of 91 training places in the reporting year: 67 apprentices (commercial and mediamatician), six interns after finishing secondary school, and 18 trainees. 22 graduates successfully completed their vocational education and training in 2021.