Am richtigen Ort.ch

Aargauische Kantonalbank

Annual Report 2022 Short Version

This unaudited short version of the annual report is not a complete annual report. It is a translation of selected 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 report.akb.ch for additional information.

At a glance

in CHF million	2021	2022	Change in %
Income statement			
Operating income	419.2	425.5	1.5
Operating expenses	– 206.0	– 208.4	1.2
Operating result	200.8	209.5	4.3
Profit	171.4	179.0	4.4
Appropriation of profit			
Allocation to statutory retained earnings reserve	70.4	87.0	23.6
Allocation to voluntary retained earnings reserves	11.0	–	– 100.0
Distribution to the canton	90.0	92.0	2.2

in CHF million	31.12.2021	31.12.2022	Change in %
Balance sheet			
Total assets	34 331.2	38 145.2	11.1
Loans to customers	24 265.6	25 347.5	4.5
Funds due to customers (inclusive cash bonds)	22 752.3	24 283.8	6.7
Net equity before distribution of net profit	2 653.8	2 780.2	4.8
Customer volumes [1]			
Customer assets [2]	33 640.8	33 385.1	– 0.8
Net new money	3 070.1	2 749.6	– 10.4
Business volume [3]	61 256.1	62 427.4	1.9
Key figures in %			strategic targets
Return on equity (ROE) [4]	7.9	8.0	6-7
Total capital ratio incl. national countercyclical buffer, without voluntary retained earnings reserves [5]	18.0	16.5	16-18
Total capital ratio incl. national countercyclical buffer [5]	18.8	17.3	
National countercyclical buffer ratio [5]	–	1.2	
Total capital ratio according to Pillar 3	18.8	18.5	
Leverage ratio	7.2	6.9	
Cost-income ratio	49.1	49.0	< 55
Personnel [6]	**Jobs**	**Jobs**	
FTE (full-time equivalent)	754.9	764.3	1.2
of which apprentices/trainees	44.4	42.2	– 5.1
Rating			
Standard & Poor's	AA	AA+	

[1] The definition of the relevant segments for the calculation of the customer volumes figures have been slightly adjusted. For better comparability the previous year figures have also been adjusted accordingly.
[2] Basis: Deposits and assets under management (exclusive corporate assets).
[3] Basis: Client assets, corporate assets and loans to customers.
[4] Calculation return on equity: Operating result / average net equity.
[5] 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.
[6] FTE is shown as part-time adjusted, apprentices, trainees and employees in the trainee pool are counted as 50%.

Business performance

Clients place enormous trust in Aargauische Kantonalbank – top scores earned

Private individuals and SMEs are increasingly choosing Aargauische Kantonalbank as their local bank. AKB boasts more than 240,000 clients for the first time.

With an operating result of CHF 209.5 million and a profit of CHF 179.0 million, AKB earned top scores yet again.

The Board of Directors proposed to the Executive Council and for the attention of the Grand Council a profit distribution to the canton of Aargau of CHF 92.0 million (previous year: CHF 90.0 million). Together with the compensation for the state guarantee in the amount of CHF 11.9 million, the canton of Aargau will receive total remuneration of CHF 103.9 million for the 2022 financial year, CHF 2.8 million higher than in the previous year. In addition, AKB will pay CHF 10.5 million in taxes to the municipalities where AKB is located. A total of more than CHF 114 million will flow to the public sector as a result.

Solid growth in all client segments

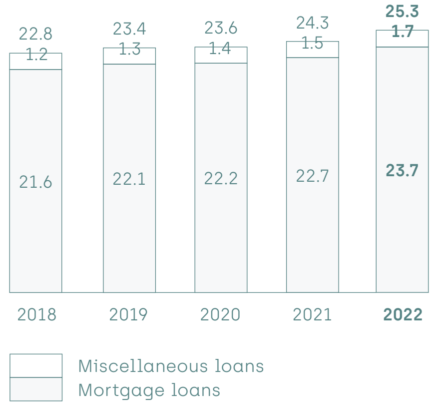
Persistently high demand for owner-occupied residential property, collaboration with businesses as partners as well as the momentum felt in the banking market have culminated in encouraging growth in all client segments. Other factors included the sustainable focus of the Bank's investment policy as well as the introduction of sustainable lending criteria.

Customer loans increased by CHF 1.1 billion to CHF 25.3 billion (+4.5%) in the year under review. Mortgage loans, the most important item, increased by CHF 939 million (+4.1%). Encouraging growth was seen in green mortgages, which were made available for all heated and air conditioned properties for the first time last year. They doubled to CHF 286.0 million. Strong demand for corporate loans resulted in a CHF 143 million (+9.3%) increase in receivables from clients.

Skyrocketing costs on energy markets resulted in greater demand from suppliers for reserve limits. AKB was able to offer additional support for the Aargau business community by approving the majority of credit applications received and will continue to do so.

25.3 bn

Customer loans in CHF bn



Marked decline in Covid loans
The number of outstanding Covid loans declined by around a third to 1,416 from their peak in August 2020. The utilised funds amounted to CHF 106 million at the end of the year and the suspended limits amounted to CHF 142 million; this corresponds to a year-on-year decline of −34% or −53% for the limits.

Large inflow of funds
Customer deposits (excluding the Treasury profit centre) experienced another substantial increase of CHF 1.7 billion (+8.3%) in the year under review, thereby confirming the large amount of trust placed in AKB and its employees. The Bank was once again able to refinance the loans itself thanks to high growth in net new money.

Customer assets declined by CHF 0.2 billion or −0.8% to CHF 33.4 billion. This includes portfolio holdings, which decreased by CHF 1.6 billion particularly due to the stock market slump of 2022. With net new money depot assets amounting to CHF 0.7 billion, clients once again exhibited a large amount of confidence in the Bank's investment advice and asset management services.

Operating income up again
AKB's most important earnings pillars were higher compared with the previous year, and operating income rose by CHF 6.2 million year on year to CHF 425.5 million (+1.5%).

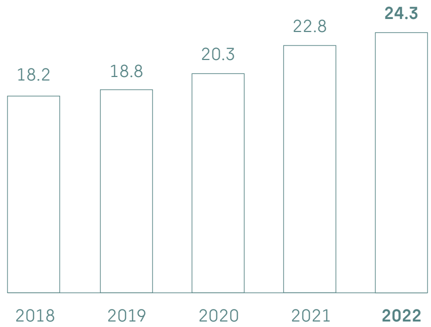
The elimination of negative interest rates, coupled with a substantial rise in money market rates, influenced clients in their choice of mortgage model and term as well as the Bank's revenues. Higher interest income, particularly from SARON money-market mortgages, was offset by higher costs for savings and pension fund assets. The more unstable environment, including the threat of electricity shortages and rising economic development risks, for example, have prompted the Bank to increase its risk provisions with an eye to the future. Overall, interest operations generated a net result of CHF 311.7 million, which is an increase of CHF 5.5 million or +1.8% over the previous year.

AKB could feel the weakness of the financial markets. Income from the commission business and services was only kept stable at CHF 83.7 million (+0.5%) thanks to growth in asset management. Given weak financial market development, that was a good result and evidence of the high-quality advice and comparatively good development of the assets entrusted to us for asset management. These currently amount to 53% of all custody account assets. Sustainability-related aspects are strongly factored into clients' decisions in the asset management business. AKB rates the securities held by clients receiving investment advice as follows: 55% as sustainable, 3% as not sustainable. Due to the lack of uniform assessment criteria, such as for indirect real estate investments, 42% of the securities cannot be assessed at this point in time.

Earnings from the trading activities declined by 4.9% to CHF 23.0 million. The growing number of active foreign exchange clients in the SME segment had a positive impact on this trend.

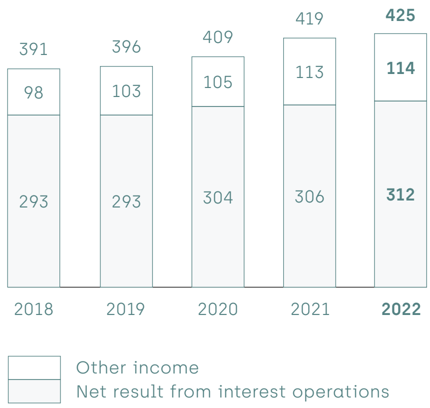
24.3 bn

Customer funds in CHF bn



425 m

Operating income in CHF m



Stable cost trend

Operating expenses rose by CHF 2.5 million (+1.2%) to CHF 208.4 million. This was mainly due to higher personnel expenses, which increased by CHF 1.7 million (+1.3%). As at year-end, AKB had a workforce of around 900 employees or 764 FTEs (full-time equivalents) (+9), 29% of which work part-time.

General and administrative expenses amounted to CHF 81.0 million, an increase of CHF 0.8 million or 1.0% on the figure for the comparable period. This increase was driven by the higher amount of CHF 0.8 million paid to the canton of Aargau for the state guarantee.

For the second time, AKB is allocating 1% or CHF 1.8 million (+CHF 0.1 million) of its profit to the LEBENSRAUM AARGAU foundation to support charitable projects in its market area. Founded in 2021, this foundation was endowed with a one-time contribution from AKB of CHF 5 million.

Operating result and profit above previous year

With operating result of CHF 209.5 million, the Bank improved on the previous year's result by CHF 8.7 million (+4.3%). It exceeded its strategic targets once again with a return on equity of 8.0% and a cost-income ratio of 49.0%.

Tax expense of CHF 10.5 million (+2.4%) includes CHF 9.9 million (previous year: CHF 9.7 million) in income tax for the municipalities where AKB has its branch offices.

At the end of the year, the allocation to the reserves for general banking risks amounted to CHF 37.4 million (+45.9%), which led to an increase in the Bank's own funds. This was attributable in part to a gain on the sale of an equity investment, which was no longer considered strategic.

AKB achieved its highest profit to date of CHF 179.0 million in the reporting year, an increase of CHF 7.6 million or 4.4% compared with the previous year.

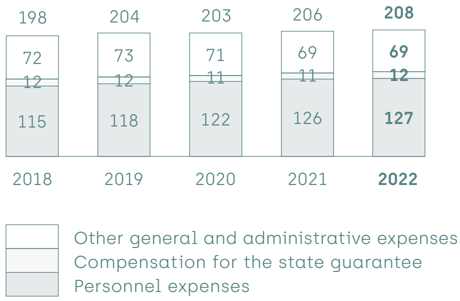
Appropriation of profits – own funds grow to CHF 2.8 billion

The Board of Directors proposed to the Executive Council and for the attention of the Grand Council a profit distribution to the canton of Aargau of CHF 92.0 million (+2.2%).

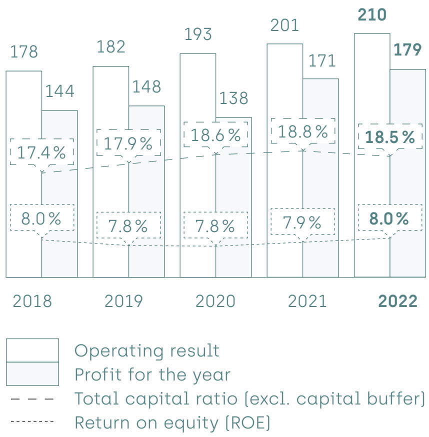
The Bank's own funds (after the planned appropriation of profit and including Tier 2 capital) amounted to a record CHF 2.8 billion (+CHF 135 million) at the end of the year. The

208 m

Operating expenses in CHF m

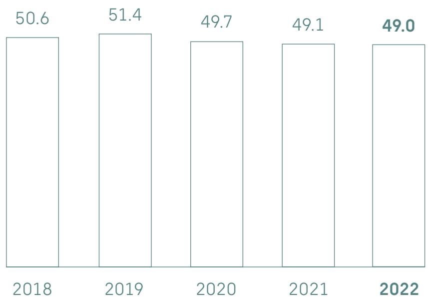


Operating result, profit for the year, total capital ratio and return on equity (ROE)
in CHF m



49.0%

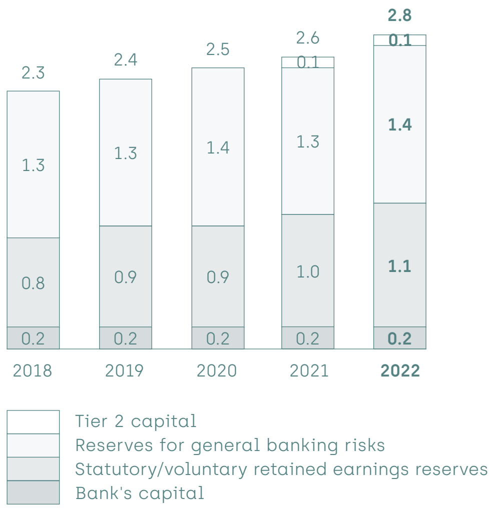
Cost-income ratio in percentage
(incl. compensation for the state guarantee)



total capital ratio declined slightly to 18.5% as a result of the expansion in the balance sheet. Excluding voluntary retained earnings reserves, which were created in anticipation of and to soften the financial impact of the Basel III regulations, and in consideration of the SNB's countercyclical capital buffer, which was reactivated at the end of September 2022, the ratio amounts to 16.5% and continues to fall within the strategic target range of 16-18%.

2.8 bn

Total capital after distribution of net profit in CHF bn



Balance sheet before appropriation of profit

in CHF 1000	31.12.2021	31.12.2022	Change in %
Assets			
Liquid assets	7 462 936	8 792 983	17.8
Amounts due from banks	262 600	1 220 245	364.7
Amounts due from customers	1 536 652	1 679 614	9.3
Mortgage loans	22 728 945	23 667 916	4.1
Trading portfolio assets	81 369	35 879	–55.9
Positive replacement values of derivative financial instruments	75 728	139 438	84.1
Financial investments	2 064 669	2 481 208	20.2
Accrued income and prepaid expenses	30 423	33 455	10.0
Participations	19 238	17 738	–7.8
Tangible fixed assets	55 558	59 146	6.5
Other assets	13 098	17 533	33.9
Total assets	**34 331 216**	**38 145 155**	**11.1**
Total subordinated claims	5 747	–	–100.0
of which subject to mandatory conversion and/or debt waiver	–	–	n. a.
Liabilities			
Amounts due to banks	2 862 924	4 254 364	48.6
Liabilities from securities financing transactions	287 035	1 523 485	430.8
Amounts due in respect of customer deposits	22 737 562	24 273 088	6.8
Negative replacement values of derivative financial instruments	128 146	92 967	–27.5
Liabilities from other financial instruments at fair value	76 099	35 721	–53.1
Cash bonds	14 773	10 735	–27.3
Bond issues and central mortgage institution loans	5 380 850	4 938 495	–8.2
Accrued expenses and deferred income	92 664	94 166	1.6
Other liabilities	51 229	100 119	95.4
Provisions	46 157	41 809	–9.4
Reserves for general banking risks	1 339 600	1 377 000	2.8
Bank's capital	200 000	200 000	–
Statutory retained earnings reserve	833 480	903 880	8.4
Voluntary retained earnings reserves	109 000	120 000	10.1
Profit carried forward	294	297	1.0
Profit	171 403	179 029	4.4
Total liabilities	**34 331 216**	**38 145 155**	**11.1**
Total subordinated liabilities	–	–	n. a.
of which subject to mandatory conversion and/or debt waiver	–	–	n. a.
Off-balance-sheet transactions			
Contingent liabilities	246 023	251 590	2.3
Irrevocable commitments	1 158 757	1 211 211	4.5
Obligations to pay up shares and make further contributions	66 350	66 350	–
Credit commitments	–	–	n. a.

Income statement

in CHF 1000	2021	2022	Change in %
Result from interest operations			
Interest and discount income	267 167	303 596	13.6
Interest and dividend income from financial investments	5 949	6 934	16.6
Interest expense	33 235	11 248	−66.2
Gross result from interest operations	**306 351**	**321 778**	**5.0**
Changes in value adjustments for default risks and losses from interest operations	−144	−10 074	6 895.8
Subtotal net result from interest operations	**306 207**	**311 704**	**1.8**
Result from commission business and services			
Commission income from securities trading and investment activities	69 404	67 437	−2.8
Commission income from lending activities	5 121	4 921	−3.9
Commission income from other services	19 773	24 132	22.0
Commission expense	−11 087	−12 824	15.7
Subtotal result from commission business and services	**83 211**	**83 666**	**0.5**
Result from trading activities and the fair value option	**24 189**	**23 001**	**−4.9**
Other result from ordinary activities			
Result from the disposal of financial investments	1 858	2 263	21.8
Income from participations	1 980	2 191	10.7
Result from real estate	2 307	2 510	8.8
Other ordinary income	357	830	132.5
Other ordinary expenses	−874	−693	−20.7
Subtotal other result from ordinary activities	**5 628**	**7 101**	**26.2**
Operating income	**419 235**	**425 472**	**1.5**
Operating expenses			
Personnel expenses	−125 750	−127 423	1.3
General and administrative expenses	−80 200	−81 026	1.0
of which compensation for the state guarantee	−11 094	−11 871	7.0
Subtotal operating expenses	**−205 950**	**−208 449**	**1.2**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	−8 077	−7 298	−9.6
Changes to provisions and other value adjustments, and losses	−4 414	−223	−94.9
Operating result	**200 794**	**209 502**	**4.3**
Extraordinary income	6 532	17 469	167.4
Extraordinary expenses	–	–	n. a.
Changes in reserves for general banking risks	−25 627	−37 400	45.9
Taxes	−10 296	−10 542	2.4
Profit	**171 403**	**179 029**	**4.4**

Appropriation of profit

in CHF 1000	2021	2022	Change in %
Appropriation of profit			
Profit	171 403	179 029	4.4
Profit carried forward	294	297	1.0
Distributable profit	**171 697**	**179 326**	**4.4**
Allocation to statutory retained earnings reserve	70 400	87 000	23.6
Allocation to voluntary retained earnings reserves	11 000	–	– 100.0
Distribution to the canton	90 000	92 000	2.2
Profit carried forward	**297**	**326**	**9.8**

Risk management

In connection with its business model and its strategic orientation, AKB is mainly exposed to credit risks, market risks, liquidity risks, operational risks (including information security and cyber risks) as well as compliance risks.

At AKB, climate-related financial risks are understood as horizontal risks, 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 risks within the defined limits in a transparent and timely manner.

I. Risk governance structure

The overall responsibility for risk management rests with the Board of Directors, which is responsible for the regulation, establishment and monitoring of effective risk management and overall risk control. 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 the bank-wide risk management and compliance.

The Executive Management is required to implement the operational business in accordance with the framework for the 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: Responsibility for risk, assumption and management of risk

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: 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, information security and cyber risks. 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: Independent auditing

The independent 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 by way of the risk tolerance guidelines. Based on the risk profile 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. The credit regulations are supplemented by credit guidelines as well as by directives and process descriptions. The credit guidelines specify the regulatory principles and guidelines in lending based on the current risk assessment of the market and economic environment.

Credit risks are restricted by means of limit systems, quality standards, coverage margins and guidelines on risk diversification. When granting loans and other exposures with default risks, creditworthiness and solvency are 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 separated 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. Suitable methods and models are used to assess credit risks periodically and/or on an ad-hoc basis. The aim of 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 provided 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 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, etc.), which point to a deterioration in credit quality as early as possible and ensure the timely introduction of corrective measures.

AKB differentiates between three types of credit risk prevention: specific loss allowances, impairments for inherent default risks (ordinary creation process and specific risk portfolio) and risk provisions.

Specific loss allowances

The Bank attaches great importance to the consistent management of problem exposures and loss positions. Support is provided by the Recovery department, either directly or together with the client advisor of the sales organisation, for positions that are impaired or non-performing. In addition, Recovery department monitors the "watchlist" positions and, 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 for inherent default risks

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 based on the probability of default (PD) of the debtor, the expected loss given default (LGD) and the credit exposure at default (EAD). The assumptions underlying the calculation are based on expert assessments as well as internal and external historical averages that represent an entire economic cycle.

When creating impairments and provisions for inherent default risks, a distinction is made between the ordinary creation process and the creation of a specific risk portfolio.

a) *Impairments and provisions for inherent default risks using the ordinary process*

The impairments and provisions for inherent default risks created in the ordinary process can be used for specific loss allowances in an extraordinary risk situation. For an extraordinary risk situation to be recognised, the Bank is required to be in an exceptional risk situation and the overall economic situation must be considered negative.

The Bank is considered to be in an exceptional risk situation if the cumulative specific loss allowances and provisions for default risks created during the last 12 months exceed a certain percentage of the total impairments and provisions for inherent default risks.

When evaluating a negative assessment of the overall economic situation, a variety of economic indicators are used including, for example, the Aargau Economic and Real Estate Barometer (Aargauer Konjunktur- und Immobilienbarometer), stock market trends, GDP growth and the Swiss unemployment rate.

In an extraordinary risk situation, the further creation of impairments and provisions for inherent default risks can be suspended and the impairments and provisions created to date can be used in accordance with the intended purpose and specified methodolgy. That means the new specific loss allowances are covered at the expense of impairments or provisions already created within the framework of inherent default risks concerned. The respective suspension 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 reversed if the defined criteria are no longer met. If the extraordinary risk situation is reversed, the shortfall in impairments and provisions for inherent default risks must be replenished within a maximum of five years. In reporting year 2022, no impairments or provisions for inherent default risks were used to create specific loss allowances.

The impairments and provisions for inherent default risks as at 31 December 2022 corresponded in full to the internal model calculations mentioned above.

b) *Specific risk portfolio for inherent default risks*

The creation or management of a specific risk portfolio for inherent default risks enables a timely response to adverse scenarios. In certain risk situations, sub-portfolios that are exposed to specific risks and differ from the rest of the credit portfolio can be identified on the basis of clearly definable and distinguishable criteria. These are, for example, negative developments - such as an economic crisis or pandemic, which impact the entire credit portfolio or certain sectors / segments or borrowers. In the event that such developments materialise, impairments and provisions created within the context of such a sub-portfolio can be used for the intended purpose without first having to recognise an extraordinary risk situation. The appropriateness and amount of the specific risk portfolio is reviewed and assessed every six months.

In order to take account of the current risk situation and the default risks expected to arise as a result of it, the Board of Directors made an additional allocation to the existing specific risk portfolio on 31 December 2022.

Risk provisions – reserves for general banking risks

Risk provisions are used to prevent future, unexpected losses from loans to clients. Its 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 separately disclosed 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 scenarios 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 the losses based on the stress scenarios on the capital situation are shown in capital planning. The results show that when experiencing very high credit losses which affect the entire banking industry equally, the Bank itself – thanks to the full array of risk prevention measures – would still have an intact 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 real estate financing, the following factors are decisive: load-to-value ratios internally defined by the Bank for each type of property, the financial viability of the borrower and the compliance with amortisation principles. The criteria to be applied are set out in the credit guidelines.

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

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

Valuation of collateral

To value real estate 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 real estate 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. Real estate 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 most standard transactions, either a hedonic model for owner-occupied homes and single-family homes, or a capitalised earnings method for multi-family homes and simple residential and commercial buildings is used. Both estimation tools are integrated into the lending process and 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 widening coverage gaps, the collateral is liquidated and the loan closed out.

For commercial loans, the relevant evaluation criteria are mainly future earnings outlook, market position, the assessment by management and the 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 risks

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 made if necessary.

B. Market risks

Market risks describe the risk of losses arising due to changes in market prices (equities, exchange rates, interest and commodities) and factors influenced by market prices (e.g. volatility 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 "Forex", "Equity" and "Interest" trading desks. 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 traded.

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 limits 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 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. Balance sheet structure management is based on the internal regulations for liquidity and balance sheet structure management (Liquiditäts- und Bilanzstrukturmanagement; LBSM) 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, present 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 net present 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- and macro-hedges are used for hedging, with micro-hedges used to hedge the interest rate sensitivity of specific positions and macro-hedges used to hedge the interest rate sensitivity of a specific time bucket.

Hedging relationships, objectives and the effectiveness of specific hedges of derivative financial instruments are documented monthly by Risk/CRO and reported to the LAC/LAB.

The effectiveness of the hedging relationship is reviewed periodically by the independent Risk/CRO sector. For micro-hedges, 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. The effectiveness of macro-hedges is considered to have been demonstrated if the overall sensitivity of the banking book portfolio, including the hedging transactions, is smaller than without the hedging transactions.

If a hedge is no longer considered effective, Risk/CRO reports this to the LAC, which then takes the necessary steps and ensures that the situation is handled correctly in accordance with the specifications of the FINMA Accounting Ordinance (RelV-FINMA). 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 regulations and in the liquidity and balance sheet structure management guidelines.

The LAC is responsible for the central management of tactical liquidity. The LAC is a committee that reports directly to the LAB. The LAC meets twice a month and, among other duties, is responsible for developing and specifying 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 are based on a daily liquidity schedule, which compares the expected cash inflows and outflows during 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 based on 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, time buckets 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 control function within the Risk/CRO sector. The risk control 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 subjects as data quality, data protection and data security. In addition to digital data, paper-based information must also be considered in this context.

The operational risks also encompass operational IT risks as well as information security and cyber risks, including associated ICS controls. Strategic risks and reputational risks as secondary risks have an indirect effect on operational risks. Responsibility for strategic risks and reputational risks lies with the Board of Directors and the Executive Management respectively.

AKB defines operational risk management as a comprehensive process. The focus is on the risk-oriented protection of people, services, information and assets of the individual areas of responsibility as well as the continuity 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 violations 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). Within the RCA, for example, the operational risks of each business unit are assessed bottom-up based on 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 adequate 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.

Furthermore, it is used as a basis for the periodic 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 periodic evaluations and depending on the current threat situation. It provides adequate and effective security measures to protect information and infrastructures with respect to the goals of protecting confidentiality, integrity, availability and traceability.

The adequacy and effectiveness of internal controls are assessed 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 performing 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 Management.

For business-critical processes, precautions have been taken in the context of Business Continuity Management (BCM). Therefore AKB uses recognised standards . 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 as a whole. This report also contains the findings and changes in the risk situation in the topics of operational risk, information security and 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 and specifications. 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, combating the financing of terrorism, implementing sanctions, 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 2022.

Key prudential metrics (KM1)

	in CHF 1000	e 31.12.2021	d 31.03.2022	c 30.06.2022	b 30.09.2022	a 31.12.2022
	Eligible Capital					
1	Common equity tier 1 (CET1)	2 563 777		2 563 777		2 688 206
2	Tier 1 capital	2 563 777		2 563 777		2 688 206
3	Total capital	2 625 679		2 625 679		2 760 424
	Risk-weighted assets (amounts)					
4	RWA	13 955 422		14 336 082		14 940 545
4a	**Minimum capital requirement**	**1 116 434**		**1 146 887**		**1 195 244**
	Risk-based capital ratios as a percentage of RWA					
5	Common equity tier 1 ratio	18.4%		17.9%		18.0%
6	Tier 1 capital ratio	18.4%		17.9%		18.0%
7	Total capital ratio	18.8%		18.3%		18.5%
	Additional CET1 buffer requirements as a percentage 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	10.8%		10.3%		10.5%
	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%		1.2%
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%		9.0%
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%		10.8%
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%		13.2%
	Basel III Leverage Ratio					
13	Total Basel III leverage ratio exposure measure	35 427 066		38 291 577		39 194 456
14	Basel III leverage ratio (tier 1 capital in % of total exposures)	7.2%		6.7%		6.9%
14a	Basel III leverage ratio under the fully loaded ECL (expected credit loss) accounting model (tier 1 capital in % of total exposures)	7.2%		6.7%		6.9%
	Liquidity coverage ratio (LCR) [1]					
15	LCR Numerator: total high-quality liquid assets	9 216 022	10 031 259	9 385 692	8 777 244	9 387 908
16	LCR Denominator: net cash outflows	4 804 797	5 111 060	4 946 782	5 621 140	6 378 835
17	Liquidity coverage ratio (LCR) %	191.8%	196.3%	189.7%	156.1%	147.2%
	Net stable funding ratio (NSFR)					
18	Available stable refinancing	26 001 616		26 306 407		27 019 982
19	Required stable refinancing	17 394 501		17 763 015		18 287 510
20	Net stable funding ratio, NSFR	149.5%		148.1%		147.8%

[1] The LCR values are shown as avarage values per quarter.

Sustainability report

Foreword

DEAR READER

We think sustainably. As the most sustainable bank in Aargau, we uphold our responsibilities in what we do and do not do. This core principle guides our everyday actions. We are mindful of our responsibility as a regional financial service provider operating within an extremely dynamic environment. We aim to live up to this responsibility and to make our contribution to achieving sustainable development.

We achieved a lot to be proud of in 2022. We were able to approve our Sustainability Strategy within AKB that applies to all AKB business, from our financial services through our social and economic engagement to additional measures to reduce the ecological footprint of our business.

We consciously focus on our own products and services as we are convinced that these can achieve the greatest leverage effect in terms of sustainable development. For instance, at the start of the year we put our investment business and lending guidelines on a sustainable footing.

We are committed to a strong region, for our society and for the economy. The foundation established by us, LEBENSRAUM AARGAU, paid out the first million francs to charitable projects in 2022. In addition, AKB launched the support programme in conjunction with the University of Applied Sciences and Arts Northwestern Switzerland, which assists local companies in achieving their sustainability goals.

Last but not least, we obtained unconditional certification straight away for the environmental management system under ISO 14001:2015, thus enabling us to pursue our sustainability efforts in a targeted manner also within our own business.

We achieved tangible outcomes by taking a large number of both small and large steps. We are aware that we are travelling along a route that still has many stages left to run. It is important for us to shoulder our share of responsibility for current and future generations. When doing so, current circumstances that have an effect on the long-term sustainable development of the economy and society, such as for instance secure energy supply, also need to be taken into account.

Kind regards
Dieter Widmer, CEO

The AKB Sustainability Strategy

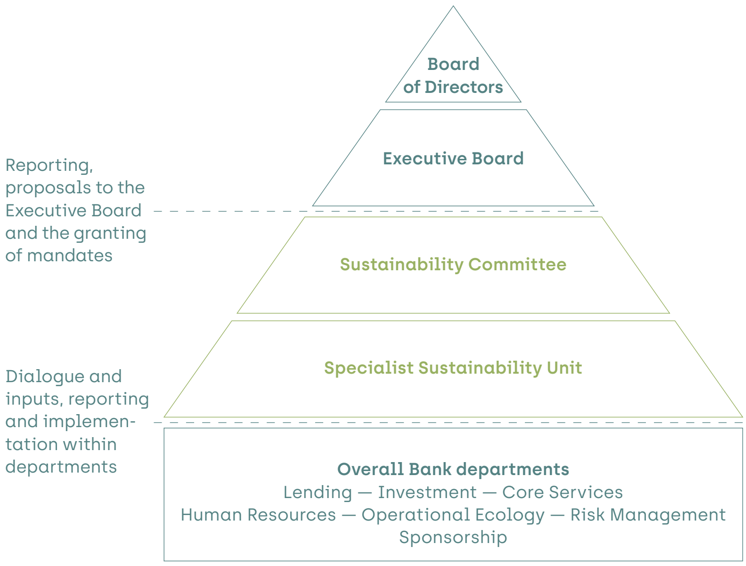
As a sustainable, regional financial service provider, Aargauische Kantonalbank accepts responsibility for what it does and what it does not do. As a financial service provider, AKB is able to use its influence to ensure that money is directed towards meaningful uses and to reduce negative effects on sustainable development. It aims to set an example for clients and for society. For AKB this means in particular that it:

— Is always secure and reliable for its clients.
— Proactively performs its role as a pioneer of sustainable transformation.
— Successfully directs financial flows over the long term in an environmentally friendly and socially responsible manner, acting in accordance with responsible governance processes, whilst also earning a profit.
— Consciously develops products and services with reference to sustainability aspects.
— Endeavours to achieve a socially and economically strong, attractive and resilient Canton of Aargau.
— Offers its employees an inspiring environment with which they can identify and acts as an attractive, trustworthy and reliable employer.

In 2022 AKB approved its own AKB Sustainability Strategy. The strategy is focused on the goals of the Paris Climate Agreement of 2015, the 17 UN Sustainable Development Goals (SDG) and well-established ESG criteria. ESG stands for Environment, Social and Governance. With reference to the dimensions of "Products and Services", "Organisation", "Social and Economic Engagement" and "Environmental Protection", the strategic guidelines embody the strategic sustainability targets to be achieved by the end of the strategy period in 2024. Sustainability is part of the DNA of AKB and its business operations are focused rigorously on it.

CORPORATE GOVERNANCE – SUSTAINABLE CORPORATE GOVERNANCE

Sustainability is firmly established within the corporate culture on all levels of the Bank's organisation as the core mission within the overall banking strategy for 2021–2024. This is based on the service mandate set out in the cantonal Banking Act requiring the promotion of economic and social development in the Canton of Aargau with reference to the three ESG goals (E–Environment, S–Social, G–Governance).



The Board of Directors
The Board of Directors is responsible for the management and supervision of the Executive Board. It is also responsible amongst other things for the strategic focus of AKB in the field of sustainability. Accordingly, it is represented on the Sustainability Committee by the Chair of the Audit and Risk Committee.

The Executive Board
The Executive Board is responsible for the Bank's operational business and thus for implementing sustainability throughout the various departments. It is also represented on the Sustainability Committee by the CEO.

The Sustainability Committee
The Sustainability Committee pursues the development of sustainability issues in accordance with the overall banking strategy for 2021–2024. This includes the designation of priority areas for action, the drafting of preparatory decisions for the Executive Board and the pre-emption of trends and developments. The Sustainability Committee currently has nine members. Further information is available at akb.ch/nachhaltigkeit.

The Specialist Sustainability Unit
The Specialist Sustainability Unit coordinates and promotes efforts relating to sustainability throughout the Bank as a whole. It acts as an interface with all stakeholders and reports regularly to the Sustainability Committee, the Executive Board and the Board of Directors. It implements the sustainability goals of AKB, acting in conjunction with the individual departments. The specialist unit directs the Sustainability Committee and draws up a sustainability report each year. It is comprised of the Head of Sustainability and, from 2023, an additional sustainability specialist.

Departments
The following sustainability issues are firmly established throughout the individual areas of the Bank as a whole:

- Lending: the Head of Credit Management is responsible for incorporating ESG targets into lending business (mortgage and corporate credit), with the aim of structuring financial flows in an environmentally friendly and socially responsible manner.
- Investment: the Sustainability Investment Specialist is responsible for incorporating ESG targets into investment business, and creates appropriate structures and processes in relation to investment advice.
- Human Resources: the Head of Human Resources Management ensures that AKB fulfils its responsibility for employees and ensures training and continued development, amongst other things concerning the issues of diversity and equality.

- Operational Ecology: the Head of Infrastructure and Security is responsible for implementing the ISO 14001 environmental management system. This provides for optimisations in terms of electricity and heating demand, travel and other environmental issues.
- Risk: Risk assesses transition and physical climate risks within the ambit of the Task Force on Climate-related Financial Disclosures (TCFD), issues disclosure recommendations and regularly reports to the Sustainability Committee.
- Core Services: the Head of Segment and Product Management develops sustainable basic products for clients.
- Sponsorships and Events: the Head of Sponsorships and Events ensures the sustainable focus of sponsorship activity and events at AKB and ensures that they make a contribution to social development.

Details concerning the composition and organisation of other bodies within the Bank are set out in the Corporate Governance Report from page 73* of the Annual Report, whilst the main features of the Bank's salary system as well as the rules for setting and disclosing the remuneration of the members of governance bodies are presented in the Remuneration Report from page 82* of the Annual Report.

MATERIAL TOPICS

AKB aims to gain an awareness of the topics of material importance for it that could have significant effects for the Bank where it exerts or could exert an influence on them itself. This is a goal of the Sustainability Strategy. AKB reports transparently on key issues.

The relevant stakeholder groups were also questioned in 2022 in the annual sustainability survey concerning the impact of various issues. The resulting assessment was subsequently discussed and consolidated by a specialist body comprised of the Sustainability Committee, Risk and two external experts. This gave rise to the following list of key issues. AKB reports comprehensively on the following issues in accordance with the requirements set forth in the GRI:

1. Engaging with digital responsibility
2. Economic development in the Canton of Aargau
3. Compliance with legal requirements
4. Attractive financing of sustainable real estate
5. Attractiveness as an employer
6. Offer of sustainable investment products
7. Definition of and compliance with an over-arching climate strategy for the core business and operations of AKB
8. Application of environmental and social criteria in relation to lending
9. Active promotion of a sustainable business model for corporate clients
10. Social engagement in the Canton of Aargau

Further issues have been discussed, although were not classified as significant. These are considered in a concluding chapter, although not with reference to GRI requirements.

* 2022 Annual Report available for download at report.akb.ch, only available in German.

Economic development in the Canton of Aargau

RELEVANCE OF THE MATERIAL TOPIC FOR AKB

The economy plays a key role in sustainable development. It is the driver and engine of social development – in both a positive and a negative sense. AKB is able to promote sustainable development in a targeted manner through projects and initiatives, which has a positive impact on the environment and society, establishing AKB as a committed partner. The economic engagement of AKB is directed at all operators. There is no need for there to be any business relationship with AKB. As such, AKB takes seriously the social responsibility aspect of its service mandate.

MANAGEMENT APPROACH

AKB contributes to the development of Aargau's society and economy in a supporting role. It promotes the accumulation and transfer of knowledge, inter-regional networking and the visibility of successful and innovative companies in various formats and at various events.

Various forms of engagement for the economy
Acting in partnership with the Aargau Trade Association, in 2022 AKB presented the Aargau Business Award (akb.ch/unternehmenspreis) for the 15th time to the best enterprises in Aargau. The awards made in the categories of small enterprises, medium-sized enterprises and large enterprises recognise successful businesses whose services and ideas influence and fuel the development of the regional economy.

Acting in partnership with the Wyrsch Business School, AKB holds the AKB Entrepreneur Workshop (akb.ch/unternehmerworkshop) once each year. The 3.5 day workshop deals with the most important aspects of corporate management in a simple and compact format, addresses all topical issues and focuses on practical action and an exchange of views with like-minded people. Each year, a specially designed training course is offered to members of foundation councils of occupational benefits schemes, which covers the various aspects of corporate responsibility and equips attendees to deal with upcoming challenges.

At the AKB Business Conference (akb.ch/wirtschaftskongress), each year AKB chooses a core topical issue in the field of sustainability as a focus for discussion. The aim of the Business Conference is to raise awareness, stimulate action, inspire and transparently present ideas and examples of other companies. In 2022, speakers from the world of politics and business engaged with the issue of "sustainability within the business" in the presence of around 800 participants.

SUCCESSFUL AKB SUPPORT PROGRAMME

Acting in partnership with the School of Economics at the University of Applied Sciences and Art Northwestern Switzerland (FHNW), in 2022 AKB launched the AKB Support Programme for regional companies for the first time, which accompanies and assists selected companies in their efforts to promote sustainability. The aim is to achieve results in the region that benefit people, the environment and the economy. Any companies operating in the market segment of AKB that aim to implement any of the following three projects can participate:

- development or enhancement of a sustainability strategy
- development or enhancement of a sustainability project within the ambit of an existing sustainability strategy
- development or enhancement of a sustainable innovation such as a new product or a business model

AKB and the FHNW support participating companies for six months with a tailor-made package of measures. This mainly involves a full review by two mentors, the arrangement of direct coaching by experts from the network of FHNW and AKB in all areas of sustainability management as well as the holding of various workshops. This promotes the transfer of knowledge to and among participating companies.

42 enterprises applied to participate in the initial programme, of which 10 were selected by a specialist jury comprised of representatives of AKB, the FHNW and the Aargau business community. Further information concerning the support programme, participating enterprises and the sustainability project is available for download at akb.ch/foerderprogramm. This first year of the programme was a resounding success. The support programme will be repeated over the coming years.

Promoting innovation with operating contributions

As a joint founder of innovAARE AG (parkinnovaare.ch) at the PSI Villigen and co-promoter of the Aargau Technopark (technopark-aargau.ch) in Brugg/Windisch, for a number of years AKB has been sustainably providing operating contributions to promote the innovation and start-up ecosystem in the Canton of Aargau.

Attractive financing of sustainable real estate

RELEVANCE OF THE MATERIAL TOPIC FOR AKB

AKB is a classic mortgage bank and earns most of its revenues from interest operations (73%). The building sector has a decisive influence on sustainable development in Switzerland. Within its mortgage business, AKB is able to create financial incentives for promoting environmentally friendly actions by clients. This has a direct impact on the sustainable development of the building sector. In addition, a mortgage portfolio with a sustainable focus represents a lower risk for AKB over the long term.

MANAGEMENT APPROACH

Having a long-term, sustainable focus to its mortgage portfolio is crucially important for AKB. It supports its clients in relation to transformations, primarily through incentive systems and corresponding financial services. This is already being implemented in the form of the AKB green mortgage, with the aim of steadily increasing its weight within the overall portfolio. Efforts are being made to improve data quality within the mortgage portfolio in order to draw up e.g. a CO_2 balance sheet for the overall portfolio and to identify corresponding measures.

AKB GREEN MORTGAGE

The doubling of the volume in AKB green mortgages paid out in 2022 shows that clients of AKB are completing new buildings according to environmental principles or are increasing the intrinsic value of their existing real estate through energy-efficient renovations.

With the AKB green mortgage AKB promotes the optimisation of energy efficiency within the Swiss building sector, which is the second-largest energy consumer in the country. The transformation to CO_2-neutral properties also has major potential as regards the conservation of resources and is therefore an outcome that needs to be promoted. In order to pursue this development, AKB has established its own award criteria to support energy measures of this type on buildings and which can be used for all types of property, i.e. both for owner-occupied homes as well as income-generating or commercial property. Whilst numerous other financing products on the market require a label or certificate, AKB relies on a bottom-up approach and rewards specific individual measures. These may include for instance changing energy source or windows, optimising the building envelope, improving building technology or installing renewable energy sources, such as e.g. a photovoltaic installation.

Promoting individual measures
AKB is convinced that each individual investment in energy efficiency pays out over the long term. Thanks to the combination of currently generous support, tax deductions and discounted AKB green mortgages, energy renovations are currently financially attractive. Since sustainable investments in real estate generally reduce operating and incidental costs, they are an important implementation criterion during times of sharply rising energy costs. Energy renovations not only help to achieve a lower CO_2 footprint but also offer financial benefits and help to make homes or workplaces more comfortable.

AKB creates incentives
AKB offers an attractive form of support with the AKB green mortgage as a sustainable financing product. At the same time, AKB considers it to be its task to raise client awareness in relation to increases in the energy efficiency of their buildings and to provide comprehensive support. In doing so, the Bank encourages and incentivises property owners to implement efficiency measures. As this often requires major investments, it is important to assess them from the perspective of the overall life cycle. In addition, since energy renovations are demanding both on a technical level and in terms of

planning, clients are advised to involve (and can be introduced to) professional specialists, especially on larger renovation projects. Thanks to their experience and specialist expertise, these professionals are best placed to assess multiple options, to draw up concrete renovation plans and to provide support during implementation.

Long-term increased intrinsic value

Alongside the short and medium-term aspects, sustainable real estate also has higher intrinsic value over the longer term. This is because nowadays owners and tenants expect higher quality housing and are not willing to pay high incidental costs for fossil fuel heating systems or poorly insulated buildings. At the same time, businesses are also increasingly selecting their office and working spaces according to sustainability criteria.

AKB Impact Report

Investments to reduce buildings' CO_2 footprints financed by AKB green mortgages make an important contribution to ensuring that a healthy environment is passed on to future generations. The AKB Impact Report published each year in conjunction with the real estate consulting firm IAZI (akb.ch/impact-reporting) documents the positive impact on the climate of investments financed by AKB green mortgages. Projections have shown that for instance energy renovations financed until the end of 2021 with green mortgages have cut CO_2 emissions by around 396 tonnes per year. This corresponds to the annual CO_2 emissions of around 317 new commercially available passenger cars or the average annual consumption in Switzerland of 28 individuals. The next impact reporting will be published in the second quarter of 2023. Further information is available at akb.ch/green.