

20 Annual Report · Short Version 16



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 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 report at www.akb.ch for additional information.



CEO Dr. Pascal Koradi (l.)
Chairman of the Board of Directors Dieter Egloff (r.)

FOREWORD

Company, Legal Status and Bank Headquarters

Aargauische Kantonalbank (AKB) was founded in 1913 as an autonomous institution under public cantonal law and is protected by law. The canton guarantees all debts of the Bank. AKB provides comprehensive banking services for private individuals, companies and communities. The Bank's headquarters are located in Aarau and the business area is predominantly limited to the canton of Aargau and the bordering regions with 31 branch offices located across the canton. There is a branch in Olten for the Olten-Gösgen-Gäu region, in addition to an ATM in Egerkingen.

A Look Back at the Financial Year

Many of Aargauische Kantonalbank's clients expanded and deepened their relationship with our company in 2016. AKB posted a profit for the year of CHF 142.2 million, an excellent result in a challenging economic and financial environment. After a record beating 2015, our operating result was the second best we have ever achieved. At the same time we bolstered our equity base by around CHF 100 million, giving us a total capital ratio of 16.2% as of 31st December 2016. Our solid capital base will help secure the stability and security of the Bank for the economic challenges expected in the coming years. This positive performance means that for financial year 2016 we can distribute profit of CHF 99.0 million to the canton of Aargau, subject to final approval by the Council of the canton Aargau.

Retirements and New Appointments

2016 saw the retirements of Rudolf Dellenbach, our CEO since 2006, and Urs Bosisio, Head of Investment and Trading, Member of the Executive Management from 1999 and Deputy CEO since 2013. Both made

very valuable contributions, and the Bank is very grateful for their many years of dedicated service and achievements. The Board of Directors appointed to succeed them Dr Pascal Koradi, 44, CEO and Dieter Widmer, 50, Head of Investment and Trading and Member of the Executive Management. René Chopard, Head of Private and Corporate Clients, was named Deputy CEO.

Healthy Growth

It is in the interests of AKB and thus in the interests of the Argovians, as the owners of the cantonal bank, that we continue to achieve healthy and sustained growth over the long term. We took a large step in this direction in 2016: our balance sheet grew by CHF 1 billion to CHF 25.2 billion. This increase was the direct result of the CHF 1.1 billion growth we achieved in loans to customers. Most of this (around 1 billion) was with mortgage loans.

High Net Inflow of New Money

Our clients entrusted us with a lot of money in 2016. Net inflow of new money (NNM) amounted to CHF 1.1 billion. The main reasons for the significant increase were the trust placed in our Bank and our decision not to pass on negative interest rates to our clients.

Our Vision: AKB - Setting Standards.

This is our guiding vision for the 2016 to 2020 strategy. For us this vision is a beacon which will show us how to improve our appeal to our clients even more and make our internal processes better. We are one of the leading banks in Aargau with over 230,000 clients. We are already well ahead in some areas such as the mortgage business. But there are also areas we will be getting even more involved in. For example, we intend up to 2020 to signifi-

cantly expand our footprint in the private and corporate client business in our Aargau commercial area. We have said in our strategy that we want to evolve from a client-oriented to a client-centric bank. Our clients are now increasingly at the centre of all strategic and operational measures and processes. In 2017 we will create the necessary basis for this and rigorously press ahead with the implementation of our targets.

Thank You

We would like to thank our clients, our stakeholders from the economy and politics, and our business partners for the trust they have placed in us over the past year. A big thank you must also go to our employees for their passion and dedication which has been decisive for the success of Aargauische Kantonalbank.



Dieter Egloff
Chairman of the
Board of Directors



Dr. Pascal Koradi
CEO

2016 AT A GLANCE

	2015 in CHF million	2016 in CHF million	Change in CHF million	Change in %
Income statement				
Net result from interest operations	259.2	268.9	9.7	3.7
Result from commission business and services	60.7	59.0	-1.7	-2.9
Result from trading activities and the fair value option	49.1	51.0	1.9	3.9
Other result from ordinary activities	6.1	5.1	-1.1	-17.7
Operating income	375.1	383.9	8.8	2.3
Personnel expenses	-107.0	-106.7	0.4	-0.3
General and administrative expenses	-66.8	-70.2	-3.5	5.2
of which compensation for the state guarantee	-10.3	-10.7	-0.4	4.2
Operating expenses	-173.8	-176.9	-3.1	1.8
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-11.4	-10.5	1.0	-8.4
Changes to provisions and other value adjustments, and losses	8.0	-1.5	-9.4	-118.3
Operating result	197.9	195.1	-2.8	- 1.4
Extraordinary income	17.8	7.5	-10.3	-57.7
Extraordinary expenses	-	-	-	n. a.
Changes in reserves for general banking risks	-50.4	-45.9	4.5	-8.9
Taxes	-9.9	-14.5	-4.6	46.8
Profit	155.4	142.2	-13.2	-8.5
Appropriation of profit				
Allocation to statutory retained earnings reserve ¹⁾	59.0	45.5	-13.5	-22.9
Interest on endowment capital ²⁾	3.4	-	-3.4	-100.0
Distribution to the canton ¹⁾	91.0	99.0	8.0	8.8

¹⁾ Corresponding to the resolution of the Council of the canton Aargau from the 28th June 2016, the distribution to the canton for 2015 has been raised by CHF 16 m to total CHF 91 m.

²⁾ Based on the amended § 4 of the Aargauische Kantonbank law (AKBG) there will be no longer a separate interest component on endowment capital from 2016.

	31.12.2015 in CHF million	31.12.2016 in CHF million	Change in CHF million	Change in %
Balance sheet				
Total assets	24 286.0	25 245.5	959.5	4.0
Loans to customers	19 767.8	20 842.8	1 075.1	5.4
Amounts due from customers	1 246.2	1 282.3	36.2	2.9
Mortgage loans	18 521.6	19 560.5	1 038.9	5.6
Funds due to customers	15 738.6	16 310.5	571.9	3.6
Amounts due in respect of customer deposits	15 648.5	16 250.7	602.3	3.8
Cash bonds	90.1	59.7	-30.4	-33.7
Net equity before distribution of net profit	2 094.0	2 187.7	93.7	4.5
Client Assets				
Total managed assets ¹⁾	24 286.3	25 309.8	1 023.5	4.2
Net new money	-37.0	1 126.0	1 163.0	n. a.
Personnel ²⁾				
	Jobs	Jobs	Jobs	
FTE (full-time equivalent)	689.6	676.3	-13.3	-1.9
of which apprentices/trainees	38.0	40.2	2.2	5.8
Key figures				
	2014 in %	2015 in %	2016 in %	strategic targets in %
Return on Equity (ROE) ³⁾	9.2	10.2	9.5	7 – 8
Total Capital Ratio ⁴⁾	15.6	16.2	16.2	15.8 – 16.2
Leverage Ratio ⁵⁾	8.1	8.0	8.1	
Cost-income Ratio ⁶⁾	47.3	46.3	46.1	50 – 55
	in CHF 1000	in CHF 1000	in CHF 1000	
Assets per employee	33 132	35 218	37 329	
Operating income per employee	534	544	568	
Operating expenses per employee	252	252	262	
Operating result per employee	247	287	288	

¹⁾ Basis: deposits and assets under management.

²⁾ FTE (full-time equivalent) is shown as part-time adjusted, apprentices, trainees and employees in the trainee pool are counted as 50%.

³⁾ Calculation Return on Equity: Operating result / Average net equity.

⁴⁾ Eligible capital to risk-weighted assets ratio according to Art. 42 para. 2 CAO.

⁵⁾ Ratio of core capital (Tier 1) to total engagement for the leverage ratio (assets, derivative engagements, securities financing transactions engagements and other off-balance-sheet positions).

⁶⁾ Calculation of cost-income Ratio: Operating expenses (incl. compensation for the state guarantee) / Operating income (incl. changes in value adjustments for default risks and losses from interest operations).

COMMENTARY ON BUSINESS PERFORMANCE 2016

Aargauische Kantonalbank (AKB) once again unveiled an extremely good operating profit for 2016. Total assets increased by 4.0% and amounted to CHF 25.2 billion at the end of 2016. The Bank almost broke its record of 2015 with an operating result of CHF 195.1 million (previous year: CHF 197.9 million). Profit distribution to the canton of Aargau of CHF 99.0 million proposed by the Board of Directors was CHF 8.0 million or 8.8% higher than in the previous year.

Balance Sheet

At the end of 2016, total assets stood at CHF 25.2 billion, up CHF 1.0 billion or 4.0% on the previous year. The main driver for the growth on the assets side of the balance sheet was the granting of mortgages. On the liabilities side, amounts due in respect of customer deposits, bond issues and central mortgage institution loans accordingly.

Assets

There was a marked increase in the volume of loans to customers of CHF 1.1 billion or 5.4%. With a total volume of CHF 20.8 billion of customer loans, the cantonal bank made a sustainable contribution to the economy in its business area.

Mortgage loans, the most important area of lending with a share of 77.5% of total assets, posted a net gain of CHF 1038.9 million or 5.6% to a total of CHF 19.5 billion. With this growth AKB was able to further strengthen its strong market position which has been continuously expanded in recent years. The continued low interest rates during the reporting year prompted clients to take out mainly fixed-rate and money-market mortgages. At the end of the year the breakdown of mortgage

loans was as follows: 69% fixed-rate mortgages, 30% money-market mortgages and 1% variable rate mortgages.

Besides the mortgage business, AKB's core business areas are loans to SMEs and the public sector and issuing construction loans. The balance sheet item "Amounts due from customers" rose by the net amount of CHF 36.2 million or 2.9% to CHF 1.3 billion during the reporting year.

Liabilities

A significant proportion of the growth in customer loans could be funded with new funds due to customers. The balance sheet item "Amounts due in respect of customer deposits" increased by the net amount of CHF 602.3 million or 3.8% to CHF 16.3 billion during the reporting year. This growth was mainly in customer deposits in the form of savings and investments (including salary accounts). One reason for this pleasing increase in the funds entrusted to us is likely to be in the decision by AKB not to pass on negative interest rates to savings and universal accounts.

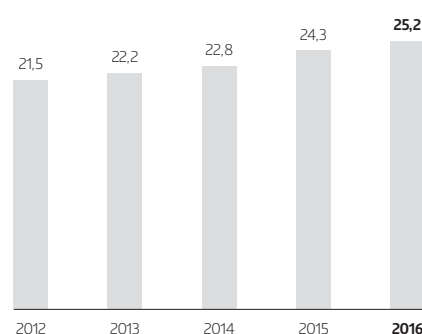
Commitments from amounts due in respect of customer deposits made up 64.4% of total assets as at the end of 2016.

As our clients did not want to lock themselves in for the long term with interest rates at persistently low levels, the volume of cash bonds fell once again by CHF 30.4 million or 33.7% to CHF 59.7 million in the reporting year.

There was an increase in assets managed (deposits from customers and custody assets) in the reporting year of CHF 1.0 billion or 4.2% to CHF 25.3 billion. This pleasing increase also had an impact on

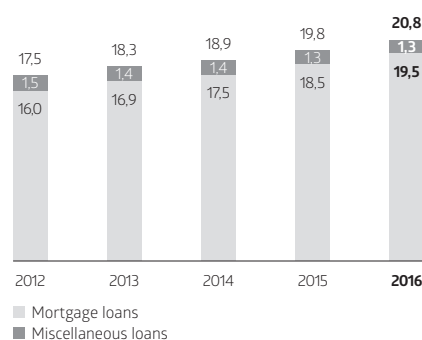
25,2 bn

Balance Sheet Total
in CHF bn



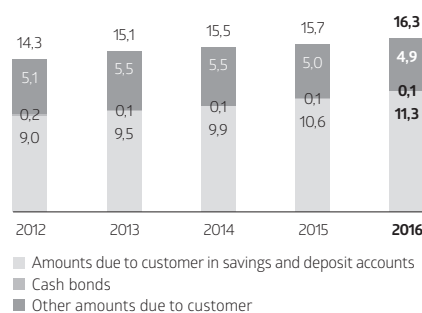
20,8 bn

Customer Loans
in CHF bn



16,3 bn

Customer Funds
in CHF bn



net new money adjusted for performance, which in the year under review posted an inflow of CHF 1.1 billion.

AKB took advantage of this period of low interest rates to increase its long-term funding in the form of bond issues and central mortgage institution loans. These items under liabilities increased by CHF 578.3 million to CHF 3.8 billion (previous year: +CHF 881.1 million).

Income Statement

AKB improved its performance in its interest operations (which are its strongest earnings pillar with a share of around 70%) by increasing income by CHF 9.7 million or 3.7% to CHF 268.9 million. This increase was due to a rise in releases of CHF 20.3 million (previous year: CHF 5.9 million) of impairments due to defaults. Gross result from interest operations was once again weighed on by the current low interest rate environment and stood at CHF 248.6 million, CHF 4.7 million or 1.9% lower than in the previous year despite the expansion in the balance sheet.

Earnings from the commission business and services fell slightly by CHF 1.7 million or 2.9% to a total of CHF 59.0 million. This change was mainly due to the securities trading and investment activities. Earnings from the trading activities enjoyed another rise in the reporting year of 3.9% to CHF 51.0 million. The increase is based on higher client sales and systematic use of the opportunities arising from the large interest rate differential between the Swiss franc and major currencies.

The earnings item "Other result from ordinary activities" decreased from

CHF 6.1 million to CHF 5.1 million, largely due to lower income from participations.

Total operating income of CHF 383.9 million was produced, a drop of CHF 8.8 million or 2.3% on the previous year.

Operating expenses rose in the reporting year by CHF 3.1 million to CHF 176.9 million. Although personnel expenses fell slightly from CHF 107.0 million to CHF 106.7 million or 0.3%, general and administrative expenses rose by 5.2% or CHF 3.5 million to CHF 70.2 million. The increase is due to capital expenditure in connection with the modernisation of our branch network and the digitalisation of the Bank's processes.

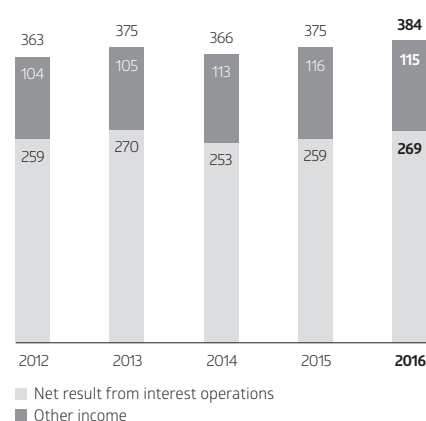
The compensation for the state guarantee to the canton of Aargau is also an integral part of the general and administrative expenses. This levy is governed under § 5 paragraph 2 of the Aargauische Kantonalbank Act. It amounts to 1% of the required capital according to the banking and stock exchange regulations, which for the reporting year results in a payment of CHF 10.7 million (previous year: CHF 10.3 million).

The changes in operating income and expenses was also reflected in the cost-income ratio, which in the reporting year improved from 46.3% to 46.1%, the lowest figure of the past few years.

Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets amounted to CHF 10.5 million, 8.4% or CHF 1.0 million less than in the previous year. This item comprises CHF 0.5 million of impairments on participations and CHF 10.0 million of writedowns on tangible fixed assets, of which CHF 3.5 million

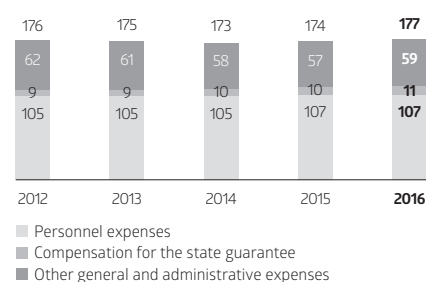
384 m

Operating Income
in CHF m



177 m

Costs
in CHF m



were incurred on bank premises, CHF 0.8 million on other premises and CHF 5.7 million on other tangible fixed assets (predominantly furnishings, equipment, hardware and software).

The earnings item "Changes to provisions and other value adjustments, and losses" produced an expense of CHF 1.4 million in the reporting year. As this income statement item produced a positive figure of CHF 8.0 million in the previous year, there was a negative change in performance of CHF 9.4 million, which ultimately also impacted the net change in operating result.

Earnings from operating activities are shown under the income statement item "Operating result". This came in at CHF 195.1 million, only CHF 2.8 million or 1.4% below the record result of CHF 197.9 million in 2015. Return on equity based on the operating result was 9.5% (previous year: 10.2%) and so significantly higher than the strategic target of 7.0–8.0%.

Extraordinary income stood at CHF 7.5 million, compared with the CHF 17.8 million of the previous year. This earnings item was very strongly affected in the previous year by the sale of the holding in Swiss-canto Holding AG to Zürcher Kantonalbank, whereas in the year under review, the main driver was the first earn-out payment from the same sale and a book profit from the sale of a property in the fixed assets.

To further increase risk-bearing own funds, the net amount of CHF 45.9 million (previous year: CHF 50.4 million) was transferred from the income statement to the reserves for general banking risks. This allocation helped maintain the total capital ratio at the 16.2% of the previous year.

The tax expenses of CHF 14.5 million includes CHF 12.7 million (previous year: CHF 8.0 million) of income taxes in favour of the local communities of AKB in the canton of Aargau. These taxes arose on the profit distribution to the canton of Aargau. Due to the higher profit distribution, the tax expense in the income statement rose by 46.8% in 2016.

AKB reported a profit for the year of CHF 142.2 million, a fall of CHF 13.2 million or 8.5% on the previous year (CHF 155.4 million). The lower extraordinary income, the smaller allocation of reserves for general banking risks and rise in tax expenditure, along with the fall in operating result of CHF 2.8 million, contributed to this decline.

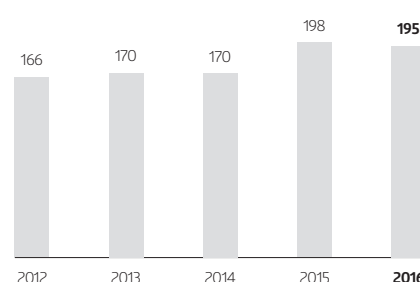
The company's profit before a change in the reserves for general banking risks was CHF 188.1 million compared to CHF 205.8 million in the previous year, which is CHF 17.7 million or 8.6% less.

Appropriation of Profit

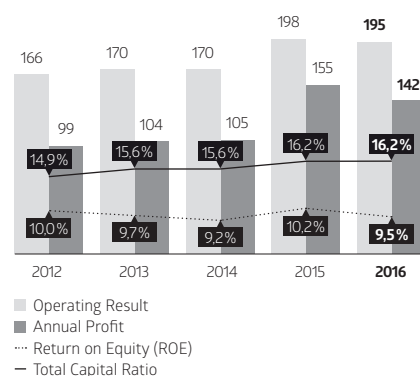
The Board of Directors proposed to the Executive Council a profit distribution to the canton of Aargau of CHF 99 million and an allocation to the statutory retained earnings reserve of CHF 45.5 million.

195 m

Operating Result
in CHF m



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



MANAGEMENT REPORT

BUSINESS ENVIRONMENT

The Swiss economy was also heavily affected in the past year by the massive appreciation in the Swiss currency after the minimum rate of 1.20 Swiss francs per euro was lifted. The Swiss franc failed to give ground against the euro in 2016 and settled in a range of between 1.07 and 1.11 francs per euro. The pressure to appreciate did not ease over the entire year, and the Swiss National Bank supported this level with massive interventions. It was a similar picture for the domestic interest rate environment which was mostly stuck in negative territory. The nadir was reached in the middle of the year immediately following the decision by the British to leave the European Union. Since then, however, a steady, albeit moderate increase in long-term interest rates took place. The domestic yield curve then became even steeper following the surprise outcome of the US presidential election and the long expected rate hike by the US Federal Reserve. Short-term money market rates remained at their low negative levels.

Impact on the Real Economy

Not surprisingly this environment also influenced the real economy. Although the massive decline in import prices was gradually reduced by baseline effects in the previous year, the rate of inflation on a consumer price basis stayed in negative territory throughout the year. The franc, which in terms of purchasing power parity against the euro is still around 20% overvalued, continued to negatively affect the competitiveness of exports-oriented companies. Fortunately it was evident once again that Swiss exporter companies are very resistant and they were able to face up to these adverse conditions. In

particular exports from sectors with typical distinguishing features and high quality standards such as medical technology, the pharmaceutical industry and specialty chemicals boomed in the second quarter of 2016. Traditional export goods from the watchmaking, machinery, metal and electrical industries ran into more difficulties due to the continuing negative impact from the strong rise in unit labour costs relative to direct competitors. Tourism also suffered from fewer visitors and the retail trade recorded losses as a result of sustained shopping tourism in the border regions and the decrease of migration into Switzerland.

Negative Interest Rates Proving a Challenge

In the second half of the year the financial industry was confronted with the challenging situation from negative interest rates, so that the pricing in the mortgage business was severely affected by the lack of funds that can be physically raised and the difficult conditions for hedging using interest rate derivatives. Pensions felt the initial consequences of a negative risk-free interest rate in the form of a further decline in interest on pension assets and falls in conversion rates. As a result of negative returns, flows of capital into global stock markets remained high. As a consequence of Brexit and the US presidential elections, however, there was pronounced volatility and heterogeneous movements in prices in different countries. The still strong demand for real estate funds experienced higher fluctuations in an environment of rising interest rates.

Consolidation on the Real Estate Market

The real estate market started to consolidate. The continuing high level of

construction activity ran up against a slight decrease in demand. The trend towards less dynamic increases in prices of single-family homes and owner-occupied homes (slightly less pronounced in the latter case), which was sustained over the preceding two years, continued. Vacancies of commercial real estate rose. Retail space in particular was less in demand due to the transfer of sales activities to the online arena.

STRATEGIC PRIORITIES/ACTIVITIES

Key figures

For AKB's strategic orientation in 2016–2020, the Board of Directors and the Executive Management defined the following strategic targets:

Strategic targets	Target values	2015	2016
Return on Equity (ROE)	7–8%	10,2%	9,5%
Cost-income Ratio	50–55%	46,3%	46,1%
Total Capital Ratio ¹⁾	15,8–16,2%	16,2%	16,2%

¹⁾ Eligible capital to risk-weighted assets ratio according to Art. 42 para. 2 CAO.

New qualitative metrics

AKB set new qualitative metrics in the overall bank strategy for 2016–2020 which take into consideration changes in the number of main bank relationships. This underlines its desire to significantly expand its footprint in the canton of Aargau.

Over the previous ten years, Aargauische Kantonalbank increased its nominal equity by around CHF 850 million and

thereby its equity ratio from 13% to 16.2% despite increased capital requirements due to the additional required capital buffer of 2%. Measured in terms of an equity ratio of 12% required by the regulator, the Bank thus has a very solid capital base which is approximately 35% over the minimum requirement.

The results of the ordinary capital planning and stress scenarios show that Aargauische Kantonalbank, even taking into account a substantial economic downturn, would still have intact capital adequacy and could ensure compliance with capital requirements at all times.

Government Defines Owner Strategy

In November 2016, as part of its strategic objectives, the Executive Council revealed the interests of the canton as owners of the Aargauischen Kantonalbank. In the owner strategy, the Council has formulated the targets with regards to own funds, growth and earnings.

New CEO

In mid August 2016, Dr Pascal Koradi took over as Aargauische Kantonalbank's CEO from Rudolf Dellenbach, who retired after 10 years in office. Before his election as CEO by the Board of Directors, Dr Pascal Koradi was Head of Finance and Member of the Executive Management of Swiss Post in Berne and previously Chief Financial Officer and Member of the Executive Management of Neue Aargauer Bank.

The focus for the new CEO in 2017 will be on the implementation of the bank strategy for 2016–2020, the sub-strategies and the process to digitalise AKB.

Development of the Overall Bank Strategy

The Board of Directors adopted the overall bank strategy for the strategy period 2016–2020 on 8th December 2016.

Our overall bank strategy is based on two strategic directions:

- Client centricity: Clients with their needs and desires are at the centre of what we do.
- Digitalisation: We will make use of the possibilities offered by digitalisation to expand our services and to increase the efficiency of our business processes.

Further strategic objectives of the overall bank strategy are sustainably increasing the value of the company taking into account our mandate and our goal to remain an attractive employer to work for in Aargau.

"AKB – Setting Standards"

In a wide-ranging communication campaign we familiarised our employees with the content of the overall bank strategy, the vision, the mission and the strategic objectives. With our new vision of "AKB – Setting Standards" we have laid the foundations within the overall bank strategy for developing our sub-strategies for the various business areas.

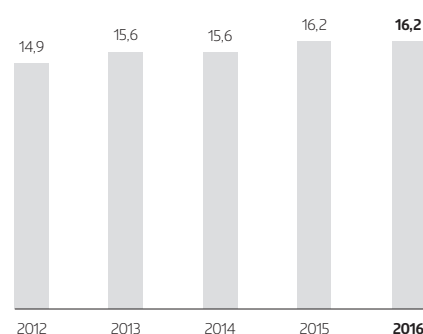
Key Strategic Projects

We launched two key projects in 2016:

1. Analyse client behaviour and client satisfaction

In a wide-ranging study we carried out a comprehensive analysis in the second half of 2016 of client behaviour and client satisfaction. This took account of the experiences of our clients in the past as well as their future expectations of AKB. The analysis has given us important

16,2% Total Capital Ratio in percent



information on the implementation of the overall bank strategy and a better understanding of the point of view of our clients (outside-in perspective).

2. Corporate culture

AKB's outstanding corporate culture is critical to its attractiveness as an employer and the achievement of our objectives. We have oriented ourselves for many years on our fundamental values of trust, respect and responsibility. In 2016 we added two others: flexibility and openness. This demonstrates that we are also meeting the future requirements in an ever more dynamically evolving market and human environment. Through targeted activities and measures, we addressed the topic of corporate culture throughout the year and so ensured it not only exists as a theory in writing, but it is also being actively put into practice.

Digitalisation – a Key Focus of AKB

One of the challenges we are working very hard on is to smartly link up the analogue and the digital worlds in our client support, service offering and processes.

It is our goal to transform today's mainly transaction-oriented channels into communication and service-oriented client interfaces through digitalisation. For AKB we take an omni-channel approach. Our clients access AKB in different ways and can change their selected physical or digital channel at any time.

In 2016, the focus of the implementation of our digitalisation strategy was on building the required basic infrastructure. Also work was carried out on creating the

content and the design of our new portal, which we will launch in 2017 for our clients. With its new presence on YouTube, AKB has taken its first step towards utilising social media.

INVESTMENT AND TRADING

Caution was the Order of the Day in the Trading Business

The impact of the lifting of the minimum euro rate and the negative interest rate environment dominated trading in 2016 as well. Market fluctuations were in some cases considerable and they peaked when the British voted unexpectedly to leave the European Union. The uncertainty on the markets was reflected in noticeable restraint among investors, especially in securities trading. Our earnings from traditional brokerage in the reporting year were therefore below average in the reporting year.

Foreign Exchange Trading at Full Throttle

However, trading with foreign exchange was all the more positive as a result. High market volatility in FX rates fuelled rising demand for forex products. Our many years of experience and expertise, combined with an attractive pricing, attracted ever increasing numbers of clients to trade with foreign exchange products.

Growth in Investing

In the investment business, despite uncertainty and large fluctuations in the markets, we posted attractive growth in custody account volumes, which we attribute to the positive performance of our asset management mandates. Our investment business achieved a pleasing and significant increase in client deposits

despite a targeted reduction of clients domiciled abroad.

Restructuring of the Cross-border Business

In the reporting year, we carried out a substantial restructuring of our cross-border business. For strategic considerations, AKB divested itself from clients predominantly in non-European countries. In addition it made intensive preparations for implementing the Automatic Exchange of Information (AEOI), under which data will be exchanged from 2018 for the first time for the year 2017.

Strong Demand for Advice in Bancassurance

Services in bancassurance in the areas of taxes, finance and estate planning and occupational pensions were in high demand. With comprehensive analyses of clients' individual financial situations, our specialised staff were able to meet the demands of their clients to meet and drive up the volume of business in the bancassurance area.

Partnerships with Leonteq

AKB and Leonteq Securities AG announced the definitive "go-live" in November 2016 of a partnership for joint launches of structured products. In a newly developed guarantee model, AKB acts as a guarantor. As an issuer Leonteq handles the structuring of its leading technology platform and the management of the products covering the entire value chain. Structuring, documentation, market-making and lifecycle management are conducted under a single roof. This benefits our clients as well as third-party purchasers of comprehensive protection: even in the event of an unexpected default by Leonteq, investors are protected by

AKB, which has an AA+ rating from Standard & Poor's. The risk of default by Leonteq is minimised by first-class collateral and overcollateralisation.

Launch of the AKB Real Estate Funds Basket

In the field of real estate, AKB has successfully managed its own fund for almost ten years, which until recently was only open to institutional clients with asset management mandates.

"The private and corporate client segment can look back on a very successful 2016."

In order to meet the needs of our advisory service clients, we launched a new certificate in 2016, which includes a selection of exchange-listed Swiss real estate funds and is actively managed. With the AKB Real Estate Fund Basket Switzerland, we offer broad diversification in Swiss real estate funds in a single complete investment solution and implement our investment process in a targeted manner.

PRIVATE AND CORPORATE CLIENTS

The private and corporate client segment can look back on a very successful 2016. The financial year was marked by continued low interest rates and a difficult investment environment. Coupled with political uncertainty, this made it particularly challenging for our private and corporate client business to anticipate developments and market events.

Increase in Volumes in the Lending Business

All locations posted high volume growth in the lending business in the private and corporate client segment. Performance was particularly positive in the regional corporate client business and the large national and international corporate segment.

Demand for residential property and mortgage financing remained high. Together with stable demand in commercial loans, there was growth in the lending business of more than CHF 1 billion. Thanks to this result we were able to further consolidate our leading role in the lending business in Aargau. By holding steadfast to our conservative risk policy, we ensured we did not expose ourselves unduly to the risk of losses despite the large increases in volumes.

Growth also in the Deposit Business

Aargauische Kantonalbank proved once more to be a powerful magnet for deposits in 2016. When choosing their local bank, our clients place a premium on consistency, stability and security, and we achieved very strong growth in the deposit business in both savings accounts and call accounts in all segments and at all locations. Pleasing as this growth was, the Bank also faces great challenges in the current low interest rate environment.

Private Clients Reluctant to Invest

Throughout the reporting year, our clients were very reluctant to venture into stock markets. The uncertainties in politics and the economy lurking in the background kept them from investing. Nevertheless, we managed in the private client business to post a slight increase in custody account assets in 2016.

Investment in the Branch Network

We firmly believe that proximity to clients is an important factor in our success. In 2016 we therefore invested in client proximity and service by adapting our offices to the changing needs and increasing expectations of our clients. You can find details under "Services and Logistics".

Withdrawal of Package Solutions

The decision to withdraw product packages was reconfirmed as the correct one in 2016. Our clients appreciate the flexibility and the opportunity to decide for themselves which products and services they want to use. They can, for example, set their own budget.

The easy-to-follow and clearly structured range of products covers all the needs of our clients. Thanks to the good value account products and customised conditions in financing, we provide a fair pricing model which is tailored to the particular circumstances and needs of the clients.

High Demand for "SME Services"

Our services for small and medium-sized enterprises, which go far beyond normal banking advisory, remained in high demand. Under the "SME Services" banner, Aargauische Kantonalbank offers, among other things, advice for business start-ups, support in the search for alternative financing options in the start-up area, and coaching for succession arrangements.

Expansion of e-services

With the newly developed tool "Hypothekaranfrage" (mortgage enquiries), we have been meeting another need of our

clients since the end of 2016. Mortgage enquiries can be sent to us 24/7. This means that the contract can be signed and the mortgage paid out within the shortest time possible. Our e-banking and online trading platform 5trade allows clients to stay constantly in contact with us and arrange their financial affairs quickly and inexpensively themselves.

System-based Advice and Support

The needs of our clients are at the centre of all our decisions and activities. We focus on identifying and respecting their plans and wishes and then setting the appropriate objectives for them. To achieve this we have been using a proven and successful consulting and support concept for many years.

Investing in Training and Continued Development

Once again we invested a huge amount of resources in training our client advisors in 2016. They completed a total of 900 internal and external training days. Our sales staff must complete an internal certification process. This process is repeated every three years. The training courses are tailored precisely to our needs and guarantee targeted continued development. Providing internal specialist and management training and promoting young cadre has proven to be particularly valuable. We also attach great importance to team events. They promote team behaviour, cohesion and interdisciplinary understanding.

Our Promise for 2017

Aargauische Kantonalbank's clients can rest assured that we will be working hard to meet their needs in the future too. It is

our avowed intention to continue winning them over with expert advice and support, a clear and simple product range, fair conditions, locations across the whole canton and our long-term-oriented business policy.

SERVICES AND LOGISTICS

Developing the Core Banking System

Our Avaloq core banking system was completely updated in 2016 with a new data model. With this step we are now able to view and manage companies, individuals and their connections in our systems transparently. Systematic adjustments were also made to meet future regulatory requirements, such as the Automatic Exchange Of Information (AEol).

Replacement of the Telephone System

We have been working flat out in a project to replace the telephone system, which is over 10 years old. The pilot phase is currently running and the productive deployment of Skype for Business (the name for the new solution) is planned for spring 2017. New functions and headsets replacing conventional telephone systems will facilitate communication and support collaboration across devices.

Infrastructure Optimisation

To optimise our IT infrastructure, we are also continuing to systematically virtualise our systems. Thanks to this consolidation technology, we added 40 system servers without the need for physical expansion, improved processes and increased reliability in the reporting year. The introduction of the corporate WLAN was an important milestone on the way to creating the mobile digital workplace of the future. As part of life

cycle management, 250 PCs and notebooks, 50 printers and 180 screens were replaced. Moving the "Avaloq core banking" environment onto flash memory has had two major advantages: first, it put the break on rapidly growing storage costs from the steady growth of data. Second, the technology changeover has led to significant performance improvements, such as considerably shorter processing times in end of day processing.

Business Intelligence

Our goal in the Business Intelligence division through the systematic analysis of our data material is to generate information from data and use it to optimise our service offering and further expand client services. On this path we have critically reviewed existing solutions, developed a new target architecture, and then evaluated a new platform, which will be implemented in the course of 2017.

Strategy for Handling Cyber Risks

Cyber risks have increased worldwide and their danger has reached threatening proportions. The challenge for us is, despite increased malware traffic, ensuring stable operations while adapting our security infrastructure immediately to each current threat. Also in 2016, we examined in great detail the aspect of Data Loss Prevention (DLP) and implemented the necessary measures.

Client Benefits in e-banking

Over the course of 2016 we moved our corporate clients and independent asset managers over to our e-banking 2.0. We also now offer our clients an EBICS interface via which ISO 20022 formats in payment transactions can also be submitted. The advantage of this EBICS

interface is that clients, who may, for instance, work in an international group, can use one and the same interface and no longer need to make specific adjustments in the group software (e.g. SAP) per country or bank.

Branches: New Openings and Renovations

At the beginning of the year AKB employees, clients and interested members of the public celebrated the opening of our Suhr branch in its new location directly by the train station. The regional office in Brugg was completely renovated in the course of the reporting year and various events held there in the summer of 2016. Our business locations in Sins and Döttingen also underwent a comprehensive renovation and were fully modernised for clients and employees. All of these locations bear the new corporate design and thus form part of AKB's uniform image. Additional transformation/redesigns of offices are in planning and implementation is ongoing.

Data Cleansing for Higher Data Quality

Existing data and information about client relations in the systems of our Bank are a key asset for AKB. Maintaining and updating this data is therefore a high priority for us. For this reason we implemented various data cleansing actions in the Service Centre in 2016 resulting in a significant improvement in quality and processing efficiency. We also ensure appropriate permanent monitoring via a quality framework.

RISK AND FINANCIAL MANAGEMENT

Since the financial crisis of 2008 the financial sector has been one of the most heavily regulated sectors of the

economy. The importance of banking and financial market regulation is accordingly high. The regulations and circulars of the Swiss Financial Market Supervisory Authority (FINMA), the guidelines and recommendations of the financial sector and the individual rules applied by each bank, including their monitoring and control mechanisms, need to be implemented.

In 2016 the constantly changing and new regulatory requirements dealt in large measure with AKB's risk and financial management. For example, we were involved in various hearings on new legislation in the field of own funds requirements and the FINMA circular "Credit risks – banks", analysed the necessary steps and made preparations for timely implementation at AKB.

Analysis and Implementation of Regulatory Requirements

Based on international developments in accounting, FINMA intends to introduce an approach for creating impairments on the basis of expected losses. The recognised international standards pursue different approaches. To be in a position to choose a standard that is tailored as close as possible to Swiss conditions, FINMA carried out a quantitative analysis in 2016 of the effects on selected banks known as the Quantitative Impact Study (QIS). The QIS was intended to establish decision criteria for implementing an approach to create impairments on the basis of expected losses in Swiss accounting for banks. The quantitative data were supplemented with qualitative information. We took part in this QIS and submitted comprehensive quantitative and qualitative information in line with FINMA requirements.

We also made changes in the year under review following further international regulatory amendments with implications for Switzerland. They relate to the measurement and monitoring of interest rate risks in the banking book, which are set out in the interpretive document "Standards - Interest Rate Risk in the Banking Book" by the Basel Committee on Banking Supervision.

We also carried out the first review of the impact of the new regulatory requirements on calculating own funds requirements for positions in the trading book/market price risks.

We have already begun implementing the new requirements of the Financial Market Infrastructure Act (FinfraG), mainly regarding the regulation of trade in over-the-counter (OTC) derivatives. Other relevant regulatory issues were the two key ratios for measuring liquidity risks: the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), the new disclosure requirements for banks and various modifications and innovations in reporting to the Financial Market Authority and the Swiss National Bank.

Streamlining of Real Estate Lien Transactions

Terravis is the electronic information portal developed by SIX for land registry data and data from the official cadastral survey in Switzerland. This opened up cross-system and cross-canton access to property information. The platform permits the processing of mortgage, land and trade registry transactions via a single interface. Other services are built on the information portal, such as electronic business transactions between

land registry offices, banks and notaries. The canton of Aargau is already connected to the system.

In the spring of 2016, AKB processed the first electronic transactions via the Terravis platform. This was a first milestone in the processing of real estate lien transactions via the new interface.

PERSONNEL

An Attractive Employer

AKB was a significant employer in the canton of Aargau in 2016 with 778 employees. Of this figure, 80 were trainee positions. We are conscientious in how we shoulder this responsibility. We have given the corporate culture values that evolved over time a subtle upgrade and built in guiding principles.

“AKB was a significant employer in the canton of Aargau with 778 employees, of which 80 were trainee positions.”

We added two new values to the tried-and-tested basic values of responsibility, trust and respect, which will accompany us on our path to a sustained successful future: openness and flexibility. The low employee turnover of 6.4% (net turnover) for 2016 shows that our employees consider us an attractive employer.

Changes in Staffing Levels

Headcount is listed as an FTE value (full-time equivalent), which means that employment relationships are converted to the corresponding full-time level of employment (i.e. 100%). “Employees in training” includes apprentices and trainees.

2016

Employees	698
FTE	676,3
Employees in training	80

Employer Responsibility

Our basic values of trust, respect, responsibility, openness and flexibility are the prerequisites to achieving our ambitious goals. The employees represent the values of AKB internally and externally, act entrepreneurially and participate in the success of the bank.

The leadership principles for our managers were revised. They are to set an example, involve employees, communicate respectfully, act to achieve results and encourage willingness to change.

We ensure long-term professional development opportunities are available at AKB as follows:

- Internal and external management and technical training for employees and managers
- Individual development via access to the getAbstract database for all employees
- Personnel selection and promotion based on clearly defined, objective decision criteria
- Use of gradual equitable selection tools in the recruitment of new employees and the development of internal employees
- Ensure internal employees are considered for filling vacancies

- Remuneration based on a neutral and analytical job evaluation
- Manager appraisal: managers receive structured feedback from employees annually.

MARKETING AND SPONSORSHIP

Brand Awareness Further Expanded

Aargauische Kantonalbank further expanded its brand awareness. Since 2010 the institute gfs zürich für Markt und Sozialforschung has been commissioned by AKB to conduct representative surveys every two years on brand awareness, specific concerns of private and corporate clients, sponsorship and various other issues. For the fourth time in row, Argovians chose AKB first in response to the question “Which bank automatically comes into your head?”. Since 2010 AKB has raised its brand awareness from 74% to 83%. All of the results from the 2016 survey are included in the market cultivation for 2017. In this way we ensure that our marketing and sponsorship expenditure follows the strategic guidelines and we support our front office areas with the targeted measures.

Commitments to Culture, Sport and Society

Through sponsorship, AKB actively participates in cultural, sporting and community life in its economic area. We took part in a wide range of events in 2016: for example the Aargauer cantonal Swiss wrestling festival in Lenzburg, the “orientation run world cup final” in Aarau, the Lenzburgiade music festival in Lenzburg, the awarding of the Aargauer corporate prize, the AKB road runner tournament across Aargau, the investor

conference for start-ups in Safenwil, the construction and real estate congress in Windisch, and the Naturama wetlands trips on the River Aare. One of the highlights of the events in 2016 was the management round table: 600 visitors at the "Trafo" in Baden listened to speeches by former German Federal President Christian Wulff, Aargau National Councillor Thierry Burkart and Head of the Department for the Interior and Economic Affairs and Executive Councillor Urs Hofmann on the topic "Where's Europe headed?".

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

OUTLOOK

The Economic Outlook

The current year was strongly impacted by the surprise political developments of the preceding year and the uncertainty in society, which increased particularly towards the end of the year, from the renewed rise in the risk of terrorism and geopolitical events. The upcoming elections in the Netherlands, France and Germany also have the potential (which should not be underestimated) to cause an upset, similar to the Brexit decision in the UK or the US presidential elections.

A Range of Economic Indicators

The US economy will continue to play an important role economically, even if the future direction set by the new President, Donald Trump, is not yet entirely clear.

The US labour market is almost in full employment and growth rates are solid and steadily rising. This will give the Federal Reserve room to hike interest rates further.

However, monetary policy in Europe will remain highly expansionary. The European Central Bank will thus support the efforts of the economically weaker countries to restructure their household finances and make cheap funds available to them. In addition, the problems in Europe will further accentuate due to the forthcoming EU exit negotiations with the United Kingdom and the upcoming elections in the two largest economies in the eurozone.

Positive Signals from Japan, Russia and Brazil

In Japan increasingly positive economic stimuli from its highly expansionary monetary policy emerged in the previous year. This trend will continue with active support from the significantly devalued currency. In the emerging countries, the serious problems in Russia and Brazil appear to have eased in certain areas thanks to the renewed rise in energy prices. Both economies will be in a position to haul themselves out of recession in the course of 2017.

Global Growth Stimuli from China and India

China will continue to account for a higher overall share of global growth, although somewhat less dynamically than in recent years. India will also enjoy strong growth thanks to a significant appetite for reform and low food prices. This is in spite of the recently introduced surprise currency reform, which at least in the short term will scale down some of the current growth potential.

The Swiss economy will continue to be shaped by monetary developments and the low interest rate environment due to increasing uncertainty in the European Union in 2017. Domestic demand will be dampened by the fall in migration figures, the rise of online shopping and shopping tourism. Tourism will also struggle to recover from its currency-related competitive disadvantages. On the other hand, domestic businesses are becoming more optimistic again about the economy so they will be more willing to invest in themselves. Together with the continuing high level of government expenditure and slowly but steadily increasing exports this should push growth in Switzerland to above 1.5% (based on gross domestic product in 2017).

Outlook for AKB

We consider our economic outlook to be very robust. This was highlighted not just by our good business performance, but also by the positive results of our stress tests, which we conducted in 2016 with the simulation involving various risk factors for earnings and thus the equity situation.

"We consider our economic outlook to be very robust."

Our client portfolio is broadly diversified and has posted healthy growth in both the private client and corporate client businesses, with risk exposure at a manageable level. The strategic guidelines, which will secure the dynamic growth of the Bank, have been enshrined in the corporate strategy for 2016–2020.

BALANCE SHEET AS OF 31 DECEMBER 2016

before appropriation of profit

	31.12.2015 in CHF 1000	31.12.2016 in CHF 1000	Change in CHF 1000	Change in %
Assets				
Liquid assets	2 591 401	2 607 560	16 159	0.6
Amounts due from banks	468 178	344 008	-124 170	-26.5
Amounts due from customers	1 246 159	1 282 315	36 156	2.9
Mortgage loans	18 521 591	19 560 492	1 038 901	5.6
Trading portfolio assets	86 233	111 267	25 034	29.0
Positive replacement values of derivative financial instruments	124 494	122 099	-2 395	-1.9
Financial investments	1 113 885	1 087 780	-26 105	-2.3
Accrued income and prepaid expenses	18 338	20 887	2 549	13.9
Participations	11 337	15 669	4 332	38.2
Tangible fixed assets	69 365	64 306	-5 059	-7.3
Other assets	35 023	29 151	-5 872	-16.8
Total assets	24 286 004	25 245 534	959 530	4.0
Total subordinated claims	11 401	11 182	-219	-1.9
of which subject to mandatory conversion and / or debt waiver	-	-	-	n. a.
Liabilities				
Amounts due to banks	2 724 059	2 461 195	-262 864	-9.6
Liabilities from securities financing transactions	130 000	130 000	-	-
Amounts due in respect of customer deposits	15 648 485	16 250 737	602 252	3.8
Negative replacement values of derivative financial instruments	162 380	127 299	-35 081	-21.6
Liabilities from other financial instruments at fair value	89 345	114 155	24 810	27.8
Cash bonds	90 106	59 732	-30 374	-33.7
Bond issues and central mortgage institution loans	3 209 100	3 787 373	578 273	18.0
Accrued expenses and deferred income	88 768	83 477	-5 291	-6.0
Other liabilities	5 527	5 321	-206	-3.7
Provisions	44 263	38 526	-5 737	-13.0
Reserves for general banking risks	1 186 561	1 232 500	45 939	3.9
Bank's capital	200 000	200 000	-	-
Statutory retained earnings reserve	551 480	610 480	59 000	10.7
Profit carried forward	563	2 568	2 005	356.1
Profit	155 367	142 171	-13 196	-8.5
Total liabilities	24 286 004	25 245 534	959 530	4.0
Total subordinated liabilities	-	-	-	n. a.
of which subject to mandatory conversion and / or debt waiver	-	-	-	n. a.
Off-balance-sheet transactions				
Contingent liabilities	158 058	180 015	21 957	13.9
Irrevocable commitments	837 429	815 237	-22 192	-2.7
Obligations to pay up shares and make further contributions	30 566	48 458	17 892	58.5
Credit commitments	-	-	-	n. a.

INCOME STATEMENT 2016

	2015 in CHF 1000	2016 in CHF 1000	Change in CHF 1000	Change in %
Result from interest operations				
Interest and discount income	303 878	292 044	-11 834	- 3.9
Interest and dividend income from financial investments	10 119	9 271	-848	- 8.4
Interest expense	-60 714	-52 723	7 991	-13.2
Gross result from interest operations	253 283	248 592	-4 691	-1.9
Changes in value adjustments for default risks and losses from interest operations	5 887	20 281	14 394	244.5
Subtotal net result from interest operations	259 170	268 873	9 703	3.7
Result from commission business and services				
Commission income from securities trading and investment activities	46 119	44 207	-1 912	- 4.1
Commission income from lending activities	3 738	3 839	101	2.7
Commission income from other services	16 095	15 490	-605	- 3.8
Commission expense	-5 227	-4 555	672	-12.9
Subtotal result from commission business and services	60 725	58 981	-1 744	- 2.9
Result from trading activities and the fair value option	49 078	50 997	1 919	3.9
Other result from ordinary activities				
Result from the disposal of financial investments	838	983	145	17.3
Income from participations	2 399	1 386	-1 013	-42.2
Result from real estate	2 425	1 977	-448	-18.5
Other ordinary income	1 156	1 018	-138	-11.9
Other ordinary expenses	-681	-314	367	-53.9
Subtotal other result from ordinary activities	6 137	5 050	-1 087	-17.7
Operating income	375 110	383 901	8 791	2.3
Operating expenses				
Personnel expenses	-107 025	-106 654	371	-0.3
General and administrative expenses	-66 756	-70 222	-3 466	5.2
of which compensation for the state guarantee	-10 272	-10 707	-435	4.2
Subtotal operating expenses	-173 781	-176 876	-3 095	1.8
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-11 448	-10 491	957	- 8.4
Changes to provisions and other value adjustments, and losses	7 977	-1 459	-9 436	-118.3
Operating result	197 858	195 075	-2 783	-1.4
Extraordinary income	17 784	7 529	-10 255	-57.7
Extraordinary expenses	-	-	-	n. a.
Changes in reserves for general banking risks	-50 400	-45 939	4 461	- 8.9
Taxes	-9 875	-14 494	-4 619	46.8
Profit	155 367	142 171	-13 196	- 8.5

APPROPRIATION OF PROFIT 2016

	2015 in CHF 1000	2016 in CHF 1000	Change in CHF 1000	Change in %
Appropriation of profit				
Profit	155 367	142 171	-13 196	-8.5
Profit carried forward	563	2 568	2 005	356.1
Distributable profit	155 930	144 739	-11 191	-7.2
Allocation to statutory retained earnings reserve ¹⁾	59 000	45 500	-13 500	-22.9
Interest on endowment capital ²⁾	3 362	-	-3 362	-100.0
Distribution to the canton	68 000	99 000	31 000	45.6
Additional distribution to the canton	7 000	-	-7 000	-100.0
Further Additional distribution to the canton ¹⁾	16 000	-	-16 000	-100.0
Profit carried forward	2 568	239	-2 329	-90.7

¹⁾ Corresponding to the resolution of the Council of the canton Aargau from the 28th June 2016, the distribution to the canton for 2015 has been raised by CHF 16 m to total CHF 91 m.

²⁾ Based on the amended § 4 of the Aargauische Kantonalbank law (AKBG) there will be no longer a separate interest component on endowment capital from 2016.

Appropriation of Profit

The Board of Directors propose the following appropriation of profit:

in CHF 1000	
Profit	142 171
Profit carried forward	2 568
Distributable profit	144 739
Allocation to statutory retained earnings reserve	45 500
Distribution to the canton	99 000
Profit carried forward	239

As owner of Aargauische Kantonalbank, the canton would receive a profit distribution of CHF 99.0 million, an increase on the previous year of CHF 8.0 million.

Pursuant to § 4, paragraph 3 of the Aargauische Kantonalbank Act (AKBG) as amended on 1 January 2016, the share capital (endowment capital) counts as the capital of the Bank and therefore interest no longer accrues on this component separately.

Inclusive of the payment of the state guarantee of CHF 10.7 million, the canton of Aargau receives from the 2016 annual accounts total compensation of CHF 109.7 million, compared to CHF 104.6 million in the previous year.

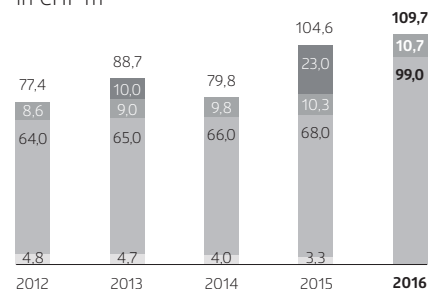
Total Compensation to the Canton of Aargau

in CHF 1000	Value 2015	Value 2016
Interest on endowment capital	3 362	-
Distribution to the canton	91 000	99 000
Compensation of the state guarantee	10 272	10 707
Total compensation	104 634	109 707

Taking into consideration the interest on the endowment capital, the compensation for the state guarantee, the profit distribution and the increase in the Bank's equity, AKB has created added value for the canton of around CHF 1.7 billion in the last 10 years.

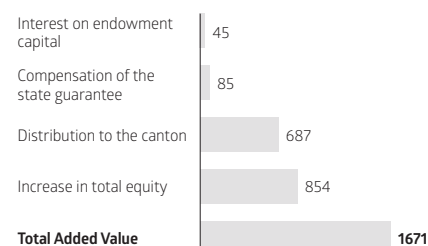
109,7 m

Total Compensation to the Canton
in CHF m



1671 m

Added Value for Canton (2007–2016)
in CHF m



CASH FLOW STATEMENT 2016

	2015		2016	
	Cash in-flow in CHF 1000	Cash out-flow in CHF 1000	Cash in-flow in CHF 1000	Cash out-flow in CHF 1000
Cash flow from operating activities (internal financing)	135 411		77 577	
Result of the period	155 367		142 171	
Change in reserves for general banking risks	50 703	303	45 939	
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	10 270		10 491	
Provisions and other value adjustments		7 977	1 459	
Change in value adjustments for default risks and losses		5 887		20 281
Accrued income and prepaid expenses		3 973		2 549
Accrued expenses and deferred income	7 218			5 291
Previous year's interest on endowment capital		4 007		3 362
Previous year's distribution to the canton		66 000		91 000
Cash flow from shareholder's equity transactions				
Endowment capital				
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets		3 745		9 764
Participations	3 423	1 081	141	4 979
Real estate		262	780	408
Other tangible fixed assets		5 825		5 298
Cash flow from banking operations	594 691			51 654
Medium and long-term business (> 1 year)		1 128 712		101 974
Amounts due to banks	163 816			136 306
Amounts due in respect of customer deposits		89 709		31 851
Cash bonds	7 632	34 807	140	30 514
Bonds	935 100	250 000	766 273	450 000
Central mortgage institution loans	243 000	47 000	272 000	10 000
Amounts due from banks	11 266		20 750	
Amounts due from customers		16 065		15 728
Mortgage loans		2 068 148		554 579
Financial investments	16 203		67 841	
Short-term business	1 723 403		50 320	
Amounts due to banks	29 445			126 558
Liabilities from securities financing transactions	9 752			
Amounts due in respect of customer deposits	396 837		634 103	
Negative replacement values of derivative financial instruments	33 129			35 081
Liabilities from other financial instruments at fair value	1 433		24 810	
Other liabilities		1 034		206
Amounts due from banks	7 264		103 420	
Amounts due from customers	204 196			20 428
Mortgage loans	1 032 857			484 322
Trading portfolio assets	4 086			25 034
Positive replacement values of derivative financial instruments		2 676	2 395	
Financial investments	21 115			41 736
Other accounts receivable		13 001	18 957	
Liquidity		726 357		16 159
Liquid assets		726 357		16 159
Total	730 102	730 102	77 577	77 577

STATEMENT OF CHANGES IN EQUITY 2016

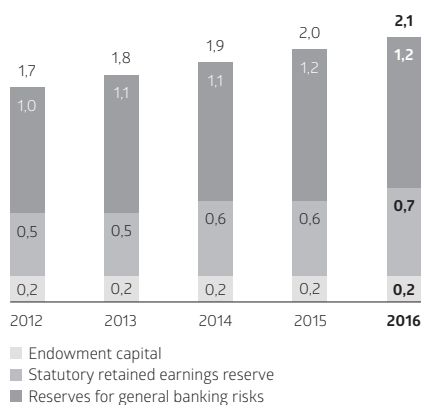
	Bank's capital in CHF 1000	Statutory retained earnings reserve in CHF 1000	Reserve for general banking risks in CHF 1000	Profit carried forward in CHF 1000	Profit in CHF 1000	Total in CHF 1000
Equity as of 31.12.2015	200 000	551 480	1 186 561	563	155 367	2 093 971
Dividends and other distributions						
Interest on endowment capital					-3 362	-3 362
Distribution to the canton requested by bank council					-75 000	-75 000
Additional Distribution to the canton ¹⁾					-16 000	-16 000
Other allocations to (transfers from) the reserves for general banking risks			45 939			45 939
Other allocations to (transfers from) the other reserves		59 000		2 005	-61 005	-
Profit					142 171	142 171
Equity as of 31.12.2016	200 000	610 480	1 232 500	2 568	142 171	2 187 719

¹⁾ Corresponding to the resolution of the Council of the canton Aargau from the 28th June 2016, the distribution to the canton for 2015 has been raised by CHF 16 m to total CHF 91 m.

The change in equity after the appropriation of profit is presented for the last five years as follows:

2,1 bn

Equity in Accordance with Appropriation
of Profit
in CHF bn



RISK MANAGEMENT

In connection with its strategic business units, AKB is exposed to default and credit risks, market risks, liquidity risks, operational risks as well as compliance and legal risks. The management of these risks, which are inextricably linked to banking operations, plays a central role in AKB. Risk management is a process in which all relevant risks with a potential negative impact on the Bank are systematically identified, assessed, managed and monitored. This process is supported by appropriate tools, guidelines, organisational units and competencies.

With the primary objective the securing of equity and therefore long-term viability, the Bank strives to achieve a balance between risk and return and to maintain a first-class reputation. The Bank has internal regulations which determine the overall risk policy and provide detailed guidelines for the identification, assessment, management and monitoring of the individual identified relevant types of risk. These also regulate the duties, competencies and responsibilities for the assumption and control of risk in the overall risk management process.

The risk policy forms the framework for all regulations and directives in the area of financial risks, which are differentiated from the strategic and reputational risks by the following risk types: default and credit risk, market risk, liquidity risk and operational risk. The financial risk types are limited in the risk policy parameters by the Board of Directors. Based on the risk tolerance, these specifications define binding risk limits and thresholds, which are reviewed annually and are continuously moni-

tored. These limits are set up so that even in the case of a cumulative exhaustion the continued existence of the bank is not compromised.

The annual reassessment of risk policies (most recently on 22nd September 2016), the final assessment and approval of systematic risk analysis and ensuring the internal controlling are the responsibility of the Board of Directors. It is responsible for the overall risk management of AKB. The Executive Management is responsible for the implementation of risk policies. They report quarterly, and in exceptional situations immediately, to the Board of Directors on the limit and risk situation and give an annual assessment of the adequacy and effectiveness of internal monitoring. The independent and central RISK sector is responsible for ongoing risk monitoring and risk control of all the financial risk types.

A.Default and Credit Risk

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

Default risks are restricted by limits, quality requirements (e.g. minimum rating), fixed cover margins (reductions

on eligible collateral) and guidelines for risk diversification. When granting loans and other exposures with default risk, creditworthiness and solvency are assessed using uniform criteria. There is a multi-level, risk-based allocation of responsibilities, which regulates both ordinary credit competencies as well as special and tolerance competencies. Individual competency exists only within defined loan-to-value and income limits on standardised mortgage lending for owner-occupied properties. All remaining credit transactions are substantively assessed and approved by the central credit committee, which is separate from the market-oriented units.

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

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

Methods used to identify default risks and to determine impairment requirements: Additionally to the IT-based rating system, credit monitoring is based on defined early warning indicators

(maturing resubmissions, overruns, interest arrears, impairments, etc.), which point to 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 centralised client Risk Monitoring 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 account manager of the sales organisation. A central team is 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. Client commitments are classified as at risk at the latest when the contractual payments (principal, interest and/or commission) are 90 days or more overdue or when there is evidence that the borrower cannot comply at all or in full with its future obligations.

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

As it uses a well-developed range of tools for the early detection of receivables at risk, AKB does not create additional impairments to cover existing latent default risks in the client portfolio on the date of valuation. However, it estimates future unexpected losses at overall portfolio level. This serves as the basis for the calculation of capital allocation to reserves for general banking risks in the lending business in accordance with the concept of "risk provisioning".

The concept of "risk provisioning" is used for risk prevention and anticipation of future unexpected losses from the customer loans. Depending on the provision situation, the aim of "risk provisioning" is to create additional, voluntary reserves for future loan defaults or to use these reserves to cover losses in the case of special events. The calculation is based on the average of the actual credit loss ratios incurred over the past 10 years. The difference between the calculated loss ratios and the actual specific valuation allowances booked in the year under review is credited to or debited from the separately reported "risk provisioning" account under the balance sheet item "Reserves for general banking risks". The annual addition or release is made via the income statement item "Changes in reserves for general banking risks". After the addition of CHF 11 million in the reporting year, risk provisioning stood at CHF 213 million as at the end of the year.

As part of the annual capital planning, stress losses were calculated in the loan portfolio according to defined default scenarios. The losses, based on economic turmoil, are compared with a similarly

stressed, simulated income statement and the current capital situation. The results show that when exposed to a series of very high credit losses affecting the entire banking industry equally, the Bank itself would still have an intact equity ceiling, so that the ordinary course of business could be ensured and capital adequacy requirements complied with.

1. Customer Loans

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

To determine the maximum amount of property financing, the following factors are decisive: collateral values internally defined by the Bank for each property type and the financial viability of the borrower and the observance of amortisation principles. The criteria to be applied in each case are set out in the current credit policies and also take into account the assessment of the property market.

For loans with securities as collateral, the internal loan regulations contain guidelines on the assets accepted as securities and their collateral values. The guidelines are further restricted using risk-based criteria by currency, issuer domicile, stock exchange, tradeability and diversification and are reviewed 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 canton.

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. A client advisor can determine "standard transactions" under 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 the great majority of standard transactions, either a hedonic model for owner-occupied homes and single-family homes, or a capitalisation rate model for simple residential and commercial buildings is used. Both estimation tools are integrated into the lending process, which guarantee an efficient and consistent evaluation. In the case of poor creditworthiness an additional liquidation value is calculated.

The value of securities collateral is monitored daily. If the collateral values fall below the loan exposure amount, the outstanding amount needs to be reduced or additional collateral put up. In exceptional market conditions or in the case of 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. Counterparty Risk in Interbank Business

Responsibilities and technical tasks related to banking relationships are governed at instruction level. Counterparty risks in the interbank business are restricted and monitored 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 adequacy of the Bank limits is checked at least once per year or if particular events occur.

Compliance with limits is monitored daily by the independent risk control and is reported on a monthly basis. Furthermore, each quarter the Audit and Risk Committee and the Board of Directors are informed 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 predetermined thresholds based on rating category. Within these thresholds, the competent credit committee places additional limits in the form of individual limits per country. Risk Controlling monitors compliance with country limits. Exposures in risk countries are assessed at least twice a year for traceability and impairments made if necessary.

B. Market Risk

Market risks describe the risk of losses arising due to changes in market prices (equities, exchange rates, interest, commodities and property) and factors influenced by market prices (e.g. volatility and correlations). We differentiate between three sub-risk categories:

- Market risk in the trading book
- Interest rate risk
- Other market risks

1. Market Risk 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 fluctuations are assigned to the trading book and measured on a fair value basis using daily market prices. These positions are managed solely by the trading department within the defined risk limits. The Bank also acts as issuer of certificates. The underlying assets or securities of the certificates are held in the trading portfolio as a hedged item until maturity.

The Bank's permitted trading activities are set out in the business and organisational guidelines. Entering into risks from proprietary trading is specified in detail in and regulated by the internal trading regulations 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 a Value at Risk limit (VaR), nominal limits and daily loss limits.

The VaR limit for the entire trading book (equities, interest rates and currencies) is determined by the Board of Directors and its adequacy is verified at least annually. Daily monitoring of the VaR limit is carried out by Risk Controlling 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, on a monthly basis to the Executive Management and on a quarterly basis to the Audit and Risk Committee and the Board of Directors.

The nominal and daily loss limits are allocated and monitored per dealer by the "Investment and Trading" department manager. The nominal 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 large market fluctuations and prevent the Bank from exceeding its risk tolerance through an accumulation of realised and unrealised losses.

2. Interest Rate Risk

Given the challenging trends in market rates and changes in client needs, it is very important for the interest rate risk taken on by the Bank to be measured, monitored and kept within an acceptable level. It is the aim of asset and liability 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 the equity.

Asset and liability management is based on the internal regulations for liquidity and the asset and liability management. The regulations define principles, responsibilities and competencies.

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 includes the members of the Executive Management and the advisory members of the LAC.

The operational unit "Treasury & Trading" implements the strategic decisions of the LAB. Risk Controlling 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 equity and the income effect. To calculate the market value, fixed interest rate products are broken down according to their maturity and variable interest rate products are replicated in maturity bands. Replication is based on the need to reproduce, as accurately as possible, changes in client interest rates using changes in market interest rates, i.e. to achieve an optimum ratio between risk (interest rate risk) and income (margin). The optimum ratio is calculated with the aid of the efficient frontier method, which originates from portfolio theory. The entire equity complex is treated as

non-interest sensitive and is not replicated. Replication is reviewed annually for its effectiveness.

Interest rate risks are monitored on the basis of static (sensitivity, market value of equity, VaR) and dynamic calculations (simulations of possible market scenarios). The Bank manages interest rate risks through on-balance sheet measures. The LAB conducts hedging depending on the assessment of interest rate risk.

Interest rate risks are limited by a sensitivity limit and a VaR limit.

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 equity is stressed monthly by means of five different changes in the yield curve. The LAB is informed of the scenarios used and the resulting changes in value.

Future potential changes in the interest balance (income effect) are stressed several times a year 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.

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 underlying assets here. Macro-hedges are also occasionally used alongside to hedge sensitivity in a specific maturity bracket.

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.

Risk Controlling checks the effectiveness of the hedge independently on a monthly basis. It monitors whether the sensitivity of the hedging transactions exceeds the sensitivity of the allocated underlying assets by more than 20 percent. The hedging transaction must always reduce the sensitivity of the underlying assets 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. In the reporting year there were no hedges that were not effective or not fully effective.

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

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

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

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

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 ("survival horizon").

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 ("survival horizon"), which must be continually maintained in a given stress scenario.

In order 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 continuously monitored.

D. 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.

AKB defines operational risk management as a comprehensive process aimed at managing and monitoring identified

operational risks. The principles, responsibilities and competencies for the management of operational risks are defined in a specific set of internal regulations. AKB uses a variety of instruments to identify and assess operational risks (e.g. regular workshops, a loss database, a transparent process for launching new products, activities, processes and systems). The operational risks identified through these methods are systematically categorised and prioritised.

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

The development of early warning indicators and compliance with the threshold levels and limits are each monitored periodically. The Audit and Risk Committee and the Board of Directors are updated quarterly on the development of early warning indicators and the assessment of the operational risks. In addition, operational risks are reduced by an effective and suitable internal control system (ICS).

The starting point for designing the internal control system is a systematic risk analysis. By conducting 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. Systematic risk analysis is the result of a

comprehensive and systematic process to assess the overall risks to which the Bank is exposed.

Tiered according to the level of risk relevance, AKB's internal monitoring system differentiates between key, managerial and other controls. The key controls are of elevated risk relevance and are geared towards covering the risks which are significant from the perspective of the entire company. The Bank uses an ICS tool for documenting, monitoring and evaluating the adequacy and effectiveness of the internal monitoring system.

The departmental head must annually assess and report on the adequacy and effectiveness of internal monitoring in their department. This also includes an assessment of the timeliness of the internal monitoring system. One of the instruments the departmental head uses as a basis for this assessment is the evaluation of the controls carried out and documented by the ICS tool.

In addition, the head of the RISK sector produces an annual report for the Board of Directors, the Audit and Risk Committee and the Executive Management on the assessment of the internal monitoring system of the entire Bank (most recently on 9 December 2016). This report also includes the findings and developments of the risk situation in the areas of operational risk and Business Continuity Management (BCM). The individual assessments of the department manager and RISK head are used by the Board of Directors and Executive Management as a periodical assessment of the adequacy, effectiveness and timeliness of the internal monitoring

system of the entire Bank. They are also the basis for defining and carrying out any necessary corrective actions.

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

The regulations define, among other things, the objectives and strategies of the BCM and the categorisation of critical incidents and escalation behaviour at a strategic level. All BCM documentation must comply with the internal regulations. Besides defining business-critical processes, this contains detailed information on crisis situations (back-up systems and processes, plans, working instructions, communication lists, etc.) and is an aid for the crisis unit set up in such events and for the IT specialist departments in their measures and decisions.

The Board of Directors and the Executive Management are also conscious of the risks which exist but cannot be directly determined in monetary terms, such as strategic, reputational and business risks. These risks are monitored through the regular scrutiny of the existing strategic direction and constant market observation.

E. Compliance and Legal Risk

Compliance risk refers to any legal, reputational and loss risks which may arise from the violation of legal or professional standards or ethical principles. AKB maintains an independent compliance unit which monitors

compliance with statutory, regulatory, professional and internal regulations and by doing so contribute to ensure ethical conduct. These 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.

Compliance is also regularly involved in various Bank projects. In the reporting year this was principally the preparations for the introduction of the Automatic Exchange of Information (AEoI).

AKB has created adequate provisions for legal cases.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No significant events occurred after the reporting date that have a significant influence on the financial position and financial performance of the Bank as of 31st December 2016.

CAPITAL RATIO UNDER BASEL III

	Comments	31.12.2015	31.12.2016
Common equity Tier 1 ratio (CET1)	in % of risk-weighted assets	17,1%	17,2%
Core capital ratio (Tier 1)	in % of risk-weighted assets	17,1%	17,2%
Total capital ratio	in % of risk-weighted assets	17,1%	17,2%
CET1 requirements pursuant to CAO	minimum requirements + capital buffer + countercyclical buffer	5,4%	6,1%
of which capital buffer pursuant to CAO (CET1) ¹⁾	in % of risk-weighted assets	0,0%	0,6%
of which national countercyclical buffer ²⁾	in % of risk-weighted assets	0,9%	1,0%
Available CET1 to meet minimum and buffer requirements after deduction of AT1 and Tier 2 requirements, which are met through CET1	in % of risk-weighted assets	13,6%	13,7%
CET1 requirements according to FINMA-circular 11/2 plus countercyclical buffer	in % of risk-weighted assets	8,7%	8,8%
Available CET1	in % of risk-weighted assets	12,9%	13,0%
T1 target according to FINMA-circular 11/2 plus countercyclical buffer	in % of risk-weighted assets	10,5%	10,6%
Available T1	in % of risk-weighted assets	14,7%	14,8%
Regulatory capital target according to FINMA-circular 11/2 plus countercyclical buffer	in % of risk-weighted assets	12,9%	13,0%
Available regulatory capital	in % of risk-weighted assets	17,1%	17,2%
Amounts below threshold for deductions (before risk weighting)		in CHF 1000	in CHF 1000
Not qualified participations in finance sector	threshold 1	9 304	13 636
Other qualified participations in finance sector (CET1)	threshold 2 and 3	1 501	1 501

¹⁾ Based on the transitional provisions, the capital buffer specified in Art. 43 CAO for years 2013 to 2015 is 0%. For 2016 the capital buffer specified in Art. 43 CAO is 0.625%.

²⁾ Based on Art. 44 CAO the Swiss Federal Council has been requested by the Swiss National Bank to activate the countercyclical buffer. It was set at 2% as of 30th June 2014 for the risk-weighted assets on mortgage lending for the financing of residential property in Switzerland.

INFORMATION ON LEVERAGE RATIO

Comparison between assets reported in the balance sheet and the total exposure for the leverage ratio ¹⁾

	31.12.2015 in CHF 1000	31.12.2016 in CHF 1000
1 Total assets as stated in the published accounts	24 286 004	25 245 534
2 Adjustments relating to investments in banking, financial, insurance and commercial entities that are consolidated for accounting purposes but not included in the scope of regulatory consolidation (m.n. 6-7 FINMA Circular 15/3), and adjustments relating to assets deducted from core capital (m.n. 16-17 FINMA Circular 15/3)	-	-
3 Adjustments relating to fiduciary assets that are recognised in the balance sheet but not taken into account in the measurement of the leverage ratio (m.n. 15 FINMA Circular 15/3)	-	-
4 Adjustments relating to derivatives (m.n. 21-51 FINMA Circular 15/3)	-25 170	-45 499
5 Adjustments relating to securities financing transactions (m.n. 52-73 FINMA Circular 15/3)	11	19
6 Adjustments relating to off-balance-sheet transactions (m.n. 74-76 FINMA Circular 15/3)	608 019	683 725
7 Other adjustments	-	-
8 Overall exposure subject to the leverage ratio	24 868 864	25 883 779

¹⁾ The numbering of the lines corresponds to model table 46 in Appendix 2 of FINMA Circular 16/1 Disclosure – Banks.

Leverage ratio: Detailed illustration ¹⁾

	31.12.2015 in CHF 1000	31.12.2016 in CHF 1000
Balance sheet exposures		
1 Balance sheet items excluding derivatives and securities financing transactions but including collateral (m.n. 14-15 FINMA Circular 15/3)	24 161 510	25 123 436
2 Assets that must be deducted from eligible core capital (m.n. 7 and m.n. 16-17 FINMA Circular 15/3)	–	–
3 Total balance sheet positions subject to the leverage ratio excluding derivatives and securities financing transactions	24 161 510	25 123 436
Derivatives		
4 Positive replacement values relating to all derivative transactions including those concluded with central counterparties (CCPs) after taking into account margin payments and netting agreements (m.n. 22-23 and m.n. 34-35 FINMA Circular 15/3)	51 058	37 235
5 Add-ons for all derivatives (m.n. 22 and m.n. 25 FINMA Circular 15/3)	48 266	39 364
6 Reintegration of collateral provided in connection with derivatives if its accounting treatment results in a reduction in assets (m.n. 27 FINMA Circular 15/3)	–	–
7 Deduction of receivables arising due to margin payments (m.n. 36 FINMA Circular 15/3)	–	–
8 Deduction relating to the exposure to qualified central counterparties (QCCPs) if there is no obligation to reimburse the customer in the event that a QCCP defaults (m.n. 39 FINMA Circular 15/3)	–	–
9 Effective notional amount of credit derivatives issued, after deduction of negative replacement values (m.n. 39 FINMA Circular 15/3)	–	–
10 Netting with effective notional amount of offsetting credit derivatives (m.n. 44-50 FINMA Circular 15/3) and deduction of add-ons for credit derivatives issued (m.n. 51 FINMA Circular 15/3)	–	–
11 Total exposure from derivatives	99 324	76 599
Securities financing transactions (SFTs)		
12 Gross assets in connection with securities financing transactions without netting (except in the case of novation with a QCCP (m.n. 57 FINMA Circular 15/3)) including those recognised as a sale (m.n. 69 FINMA Circular 15/3), less the securities received as part of the securities financing transaction, which are recognised as assets in the balance sheet (m.n. 58 FINMA Circular 15/3)	–	–
13 Netting of cash payables and receivables relating to securities financing transaction counterparties (m.n. 59-62 FINMA Circular 15/3)	–	–
14 Exposure to securities financing transaction counterparties (m.n. 63-68 FINMA Circular 15/3)	11	19
15 Exposure to securities financing transactions with bank as agent (m.n. 70-73 FINMA Circular 15/3)	–	–
16 Total exposure from securities financing transactions	11	19
Other off-balance-sheet exposures		
17 Off-balance-sheet transactions as gross notional amount prior to use of credit conversion factors	3 404 623	3 358 319
18 Adjustments relating to conversion into credit equivalents (m.n. 75-76 FINMA Circular 15/3)	–2 796 604	–2 674 594
19 Total off-balance-sheet exposures	608 019	683 725
Eligible capital and total exposures		
20 Core capital (Tier 1) (m.n. 5 FINMA Circular 15/3)	1 999 609	2 088 719
21 Total exposure (sum of lines 3, 11, 16 and 19)	24 868 864	25 883 779
Leverage ratio		
22 Leverage ratio (m.n. 3-4 FINMA Circular 15/3)	8,04%	8,07%

¹⁾ The numbering of the lines corresponds to model table 46 in Appendix 2 of FINMA Circular 16/1 Disclosure – Banks.

INFORMATION ON LIQUIDITY COVERAGE RATIO (LCR)

in CHF 1000 (monthly average)	1. Quarter 2016		2. Quarter 2016		3. Quarter 2016		4. Quarter 2016	
	Amount / Market Value	Weighted Amount	Amount / Market Value	Weighted Amount	Amount / Market Value	Weighted Amount	Amount / Market Value	Weighted Amount
A. Stock of high quality liquid assets (HQLA)								
Total stock of high quality liquid assets (HQLA)	3 298 351	3 239 880	3 139 547	3 081 836	3 271 648	3 218 314	3 331 228	3 282 676
B. Cash outflows								
Retail deposit run-off	11 592 988	1 006 314	11 841 131	1 024 107	12 049 220	1 041 858	12 110 723	1 052 435
whereof stable	4 731 302	236 565	4 775 421	238 771	4 820 595	241 030	4 815 941	240 797
whereof less stable	6 861 686	769 749	7 065 710	785 336	7 228 625	800 828	7 294 782	811 638
Unsecured wholesale funding run-off	3 367 263	2 420 621	3 051 763	2 106 556	2 906 562	2 018 231	3 047 545	2 026 501
whereof operational deposits (all counterparties) and deposits of member institutions with their central institutions	-	-	-	-	-	-	-	-
whereof non-operational deposits (all counterparties)	3 367 243	2 420 601	3 051 750	2 106 543	2 906 429	2 018 098	3 047 378	2 026 334
whereof unsecured debt issuance	20	20	13	13	133	133	167	167
Secured funding run-off	-	-	-	-	-	-	-	-
Additional requirements	2 482 723	1 727 286	2 664 807	1 843 230	2 572 874	1 735 803	2 624 934	1 807 851
whereof derivatives and other cash outflows	1 607 427	1 607 427	1 688 217	1 688 217	1 581 670	1 581 671	1 649 416	1 649 416
whereof undrawn committed credit and liquidity facilities	875 296	119 859	976 590	155 013	991 204	154 132	975 518	158 435
Other contractual funding obligations	87 474	4 542	333 896	93 639	304 347	81 641	102 254	62 000
Other contingent funding obligations	140 692	7 035	139 992	7 000	149 578	7 479	155 580	7 779
Total cash outflows	17 671 140	5 165 798	18 031 589	5 074 532	17 982 581	4 885 012	18 041 036	4 956 566
C. Cash inflows								
Secured lending including reverse repo and securities borrowing	-	-	-	-	-	-	-	-
Contractual inflows due in ≤ 30 days	344 126	213 475	680 267	381 032	623 396	358 546	381 657	228 149
Other cash inflows	1 572 463	1 572 463	1 618 569	1 618 568	1 520 557	1 520 557	1 491 842	1 491 842
Total cash inflows	1 916 589	1 785 938	2 298 836	1 999 600	2 143 953	1 879 103	1 873 499	1 719 991
Adjusted Values								
Total stock of high quality liquid assets (HQLA)	3 239 880		3 081 836		3 218 314		3 282 676	
Total net cash outflow	3 379 860		3 074 932		3 005 909		3 236 575	
Liquidity coverage ratio (LCR)	95,9%		100,2%		107,1%		101,4%	



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