

# Financial Report 2023

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# Report on the Financial Statements 2023

## Balance sheet (in CHF thousands)

	2023	2022	Change as %
Total assets	27,960,449	27,324,676	+2.3
Advances to customers	22,674,544	21,569,674	+5.1
Financial investments	1,461,574	1,474,473	-0.9
Customer deposits	16,507,088	16,086,917	+2.6
Equity (after repartition)	2,499,146	2,360,650	+5.9

In 2023, the balance sheet total rose by CHF 0.6 billion or 2.3% to CHF 28.0 billion.

This was primarily attributable to the strong growth in advances to customers of CHF 1.1 billion or 5.1%. Mortgage loans alone rose by CHF 0.7 billion to CHF 19 billion.

New credit limits totaled CHF 2.4 billion.

Customer deposits in all forms rose by CHF 0.4 billion to CHF 16.5 billion.

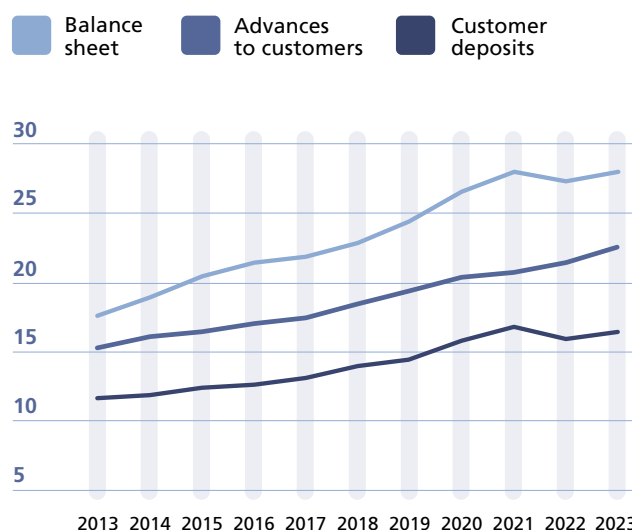
## Cash and cash equivalents

According to Article 13 et ff. of the Ordinance to the Federal Act on the Swiss National Bank (OBN) of March 18, 2004, the average monthly liquidity requirement for the reference period from December 20, 2023, to January 19, 2024, amounts to CHF 150.4 million. In December 2023, the daily average for that period shows a balance of CHF 3,520.8 million, which is CHF 3,370.3 million above the required amount.

In terms of liquidity reserves, the short-term liquidity ratio (LCR) based on the Basel III agreement is 226%, well above the regulatory limit of 100%.

## Balance sheet overview 2013 - 2023

(in CHF billion)



## Assets

**Receivables from banks**, consisting mainly of short- and medium-term deposits placed with investment-grade banks, amounted to CHF 0.3 billion.

At the end of 2023, as at the end of 2022, the balance sheet contains no **receivables from securities financing transactions** (reverse repo).

**Advances to customers**, less value adjustments for default risks, increased by CHF 1.1 billion to CHF 22.7 billion (+5.1%).

For the first time, mortgage loans rose by CHF 0.7 billion to CHF 19.0 billion (+3.7%). Other amounts due from customers rose by CHF 0.4 billion (+13.1%) to CHF 3.7 billion.

The significant increase in advances to customers demonstrates BCF's strong support for the economy of the Canton of Fribourg, particularly for SMEs and the real estate market, while practicing sound risk management.

**Financial investments** amounted to CHF 1.5 billion. They include securities acquired for investment purposes and as a cash reserve (over 98%), precious metals stocks and real estate held for resale.

**Tangible fixed assets**, consisting mainly of buildings used by the Bank, are recorded in the balance sheet at CHF 74.4 million, after depreciation.

### Assets breakdown in %

<b>67.9</b>	Mortgage loans
<b>11.8</b>	Cash and cash equivalents
<b>13.1</b>	Amounts due from customers
<b>5.2</b>	Financial investments
<b>0.9</b>	Receivables from banks
<b>0.3</b>	Tangible fixed assets
<b>0.2</b>	Positive replacement value of derivative financial instruments
<b>0.2</b>	Participations
<b>0.2</b>	Accrued expenses and deferred income

## Liabilities

On the liabilities side, **total liabilities to banks** remained stable at CHF 1.4 billion.

At the end of 2023, BCF had no **receivables from securities financing transactions**.

**Customer deposits** rose from CHF 355.4 million to CHF 16,1 billion.

**Cash bonds** gained in attractiveness and increased by CHF 64.8 million to CHF 358.3 million (+22.1%).

**Total borrowings and loans from the central mortgage bond institution** amounted to CHF 7.3 billion. In 2023, the Bank issued a new bond of CHF 150.0 million and subscribed to the various issues of the Pfandbriefzentrale Schweizer Kantonalbanken for a total amount of CHF 387.0 million. During the same period, CHF 264.0 million of the cantonal banks' mortgage bonds were repaid and CHF 200.0 million of the bonds were repaid.

**Provisions** comprise amounts to hedge the Bank's operational risks and value adjustments for default risks on off-balance-sheet liabilities. They amounted to CHF 19.1 million, compared to CHF 10.2 million at the end of 2022.

The **reserves for general banking risks**, considered as equity capital, were increased by an allocation of CHF 52.0 million. They amount to CHF 719.0 million.

### Liabilities breakdown in %

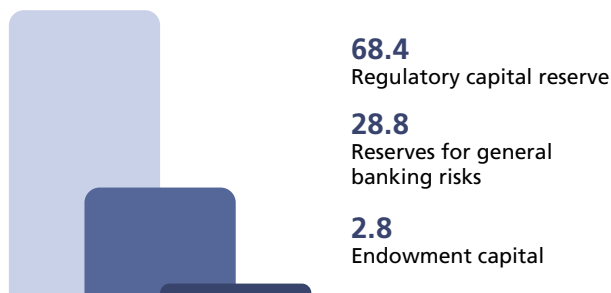
<b>57.8</b>	Amounts due in respect of client deposits
<b>26.1</b>	Bond and central mortgage institution loans
<b>9.2</b>	Shareholders' equity
<b>5.0</b>	Amounts due to banks
<b>1.3</b>	Cash bonds
<b>0.3</b>	Accrued expenses and deferred income
<b>0.2</b>	Negative replacement value of derivative financial instruments
<b>0.1</b>	Other liabilities
<b>0.1</b>	Provisions

## Shareholders' equity

Shareholders' equity consists of the endowment capital, the legal reserve and the reserves for general banking risks. The endowment capital of CHF 70 million, which has remained unchanged since 1981, is made available in its entirety by the State of Fribourg.

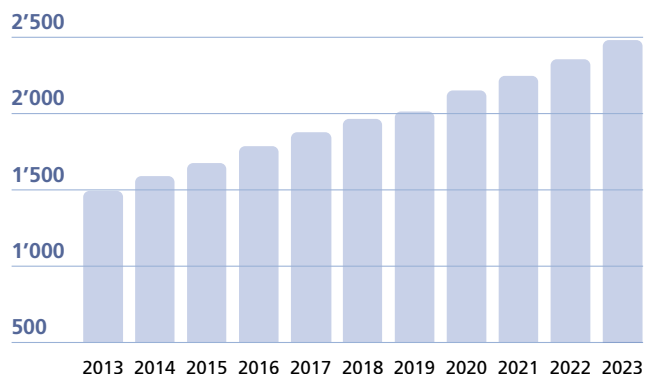
After allocating funds to reserves for general banking risks and after profit distribution, total equity increased by CHF 138.5 million to over CHF 2.5 billion. The CET1 (Common Equity Tier 1) ratio was 18.78%. BCF fully complies with the relevant requirements.

### Breakdown of equity in % after distribution of profit



### Evolution of equity 2013 - 2023

(in million CHF)



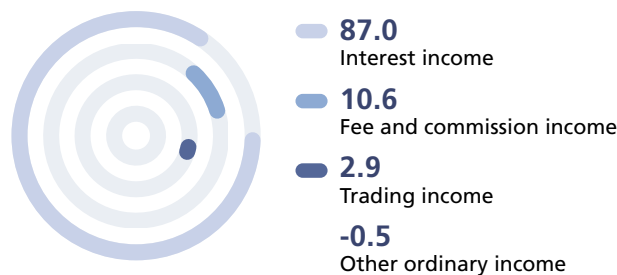
## Income statement

For the 30<sup>th</sup> consecutive year, BCF achieved a record high. This marked increase enabled BCF to pay the canton CHF 75.0 million, including an extraordinary payment of CHF 19.5 million. Taking into account taxes, the canton, municipalities and parishes receive a total of CHF 85.8 million.

Equity capital was also increased by an allocation of CHF 52.0 million to reserves for general banking risks and CHF 87.0 million to the retained earnings reserve.

This confirms BCF's strong market position by offering a local service and decisive and sustainable support to the Canton economy, while at the same time achieving very good operational profitability.

### Breakdown of operating revenues in %



## Operating income

Total **operating income** increased significantly by CHF 60.5 million to CHF 370.6 million (+19.5%).

### Interest operations

The robust growth in advances to customers and the rise in interest rates are drivers of the Bank's most important source of income. **Net interest income** rose significantly by CHF 68.1 million to CHF 322.4 million (+26.8%).

This result takes into account the change in value adjustments for default risks and interest losses amounting to CHF 28.5 million. The value adjustments set out in the FINMA Accounting Ordinance (OEPC) cover default risks for impaired loans/receivables and inherent default risks for non-impaired loans/receivables.

The share of interest income represents 87% of the total operating income.

### Commission and service operations

The **result of commission and service operations**, as in the previous year, amounted to CHF 39.3 million (-1.9%).

### Trading operations

**Income from trading operations**, which is mainly composed of income from foreign exchange and precious metals, amounted to CHF 10.9 million and is thus similar to 2022.

### Other ordinary results

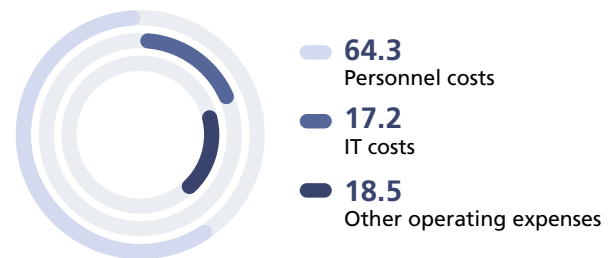
Ordinary expenses of CHF 5.4 million exceed ordinary income of CHF 3.4 million, resulting in an excess of CHF 2.0 million.

## Operating expenses

Operating expenses increased by CHF 13.2 million to CHF 126.7 million (+11.6%). Much of this development can be explained by the tangible reinforcement of front office and defence lines.

The cost-to-income ratio after depreciation was 36.6%, confirming the Bank's effectiveness.

### Breakdown of operating expenses in %



## Results

### Value adjustments on participations, amortisation on tangible fixed assets

Depreciation of tangible fixed assets and value adjustments on investments totaled CHF 10.2 million, compared with CHF 18.7 million, a decrease of CHF 8.4 million.

### Changes in provisions and other value adjustments, losses

Changes in provisions, other value adjustments and losses amounted to CHF 9.4 million, compared with CHF 4.2 million in 2022.

### Operating income

Operating income reached CHF 224.3 million, an increase of CHF 50.5 million (+29.1%). For the first time, it has crossed the barrier of CHF 200 million.

### Taxes

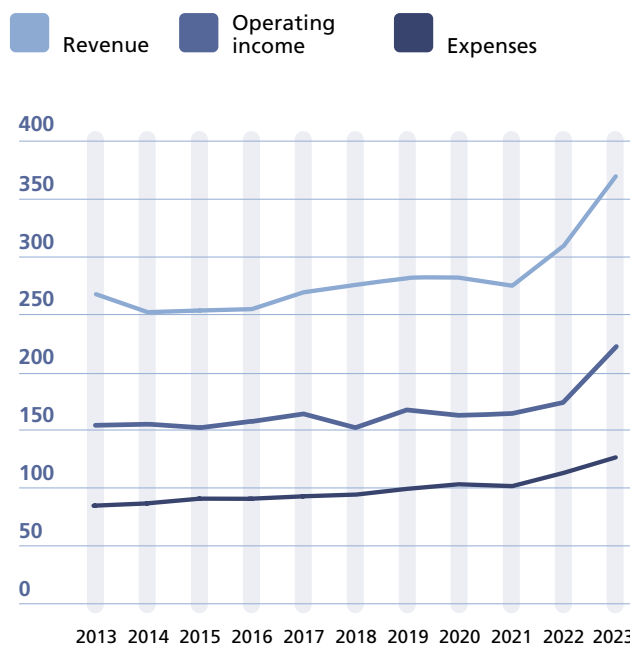
The municipalities received CHF 4.5 million, the parishes CHF 0.5 million and the Canton CHF 5.8 million.

### Profit for the year

After an allocation of CHF 52.0 million to the reserves for general banking risks, profit amounted to CHF 161.5 million, an increase of CHF 20.3 million or +14.4%.

### Development of results 2013 - 2023

(in CHF million)



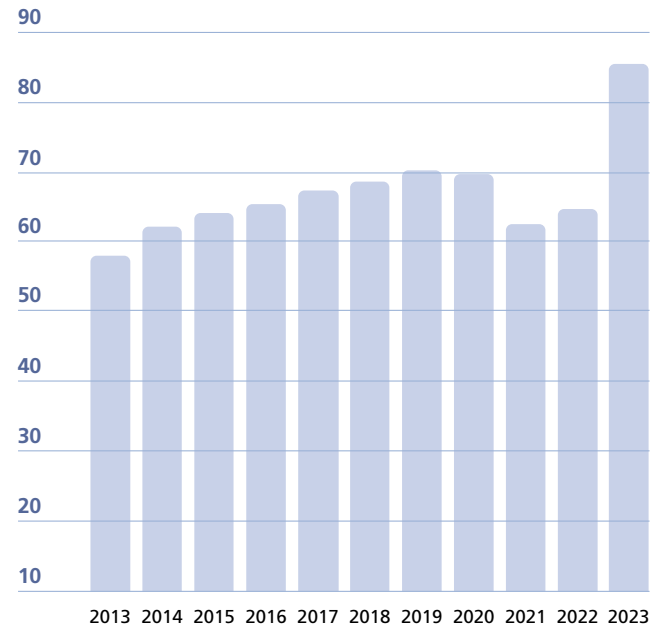
## Breakdown of profit

At their last meeting, the Board of Directors has decided on the presented financial statements. It recommends the following appropriation of profit and distributions:

Profit of the year	CHF	161,496,131
Retained earnings	CHF	650,099
Profit shown on the balance sheet	CHF	162,146,230
<b>Breakdown of profit</b>		
Compensation for the State guarantee	CHF	44,500,000
Remuneration of the endowment capital	CHF	11,000,000
Extraordinary payment to the State	CHF	19,500,000
Allocation to reserve fund	CHF	87,000,000
Retained earnings	CHF	146,230

## Evolution of the annual payment (including taxes) to the State 2013 - 2023

(in CHF million)



The Bank expresses its gratitude to its loyal clientèle for their trust. It is committed to continuously improving the quality of its services.

On behalf of the Board of Directors: A. Geissbühler, Chairman  
On behalf of the Executive Board: D. Wenger, Chairman

## Balance sheet as of 31 December 2023

(in CHF thousands)

	31.12.2023	31.12.2022	Change	
			In CHF	In %
<b>Assets</b>				
Cash and cash equivalents	3,306,651	3,466,794	-160,143	-4.6
Receivables from banks	264,447	532,207	-267,760	-50.3
Amounts due from securities financing transactions	0	0	0	0.0
Amounts due from customers	3,675,499	3,248,436	427,063	13.1
Mortgage loans	18,999,045	18,321,238	677,807	3.7
Trading portfolio assets	4,477	2,820	1,657	58.8
Positive replacement value of derivative financial instruments	59,360	106,006	-46,646	-44.0
Other financial assets at fair value	0	0	0	0.0
Financial investments	1,461,574	1,474,473	-12,899	-0.9
Accrued expenses and deferred income	43,664	33,138	10,526	31.8
Participations	65,680	64,774	906	1.4
Tangible fixed assets	74,459	68,748	5,711	8.3
Intangible assets	0	0	0	0.0
Other assets	5,593	6,042	-449	-7.4
<b>Assets</b>	<b>27,960,449</b>	<b>27,324,676</b>	<b>635,773</b>	<b>2.3</b>
Total subordinated assets	75,258	85,259	-10,001	-11.7
of which subject to mandatory conversion and/or conditional write-off	0	0	0	0.0
<b>Liabilities</b>				
Amounts due to banks	1,388,165	1,378,124	10,041	0.7
Liabilities arising from securities financing transactions	0	0	0	0.0
Amounts due in respect of customer deposits	16,148,774	15,793,354	355,420	2.3
Trading portfolio liabilities	0	0	0	0.0
Negative replacement values of derivative financial instruments	49,842	62,694	-12,852	-20.5
Other financial liabilities at fair value	0	0	0	0.0
Cash bonds	358,314	293,563	64,751	22.1
Bonds and central mortgage institution loans	7,307,000	7,234,000	73,000	1.0
Accrued expenses and deferred income	94,002	86,590	7,412	8.6
Other liabilities	21,140	48,509	-27,369	-56.4
Provisions	19,066	10,192	8,874	87.1
Reserves for general banking risks	719,000	667,000	52,000	7.8
Endowment capital	70,000	70,000	0	0.0
Retained earnings	1,623,000	1,539,000	84,000	5.5
Retained profit	650	504	146	29.0
Profit of the year	161,496	141,146	20,350	14.4
<b>Total liabilities</b>	<b>27,960,449</b>	<b>27,324,676</b>	<b>635,773</b>	<b>2.3</b>
Total subordinated liabilities	0	0	0	0.0
Of which subject to mandatory conversion and/to debt waiver	0	0	0	0.0
<b>Off-balance-sheet transactions</b>				
Contingent liabilities	213,314	202,673	10,641	5.3
Irrevocable commitments	225,214	237,663	-12,449	-5.2
Commitments relating to calls on shares other equity securities	48,552	48,552	0	0.0
Confirmed credits	0	0	0	0.0



## Income statement 2023

(in CHF thousands)

			Change	
	2023	2022	In CHF	In %
Interest and discount income	468,013	306,129	161,884	52.9
Interest and dividend income from trading operations	85	32	53	>100.0
Interest and dividend income from financial investments	11,809	11,215	594	5.3
Interest expense	-128,990	-58,144	70,846	>100.0
<b>Net interest income before loan impairment charges/reversals</b>	<b>350,917</b>	<b>259,232</b>	<b>91,685</b>	<b>35.4</b>
Changes in value adjustments for default risks and losses on interest transactions	-28,540	-4,919	23,621	>100.0
<b>Net interest income after loan impairment charges/reversal (NII)</b>	<b>322,377</b>	<b>254,313</b>	<b>68,064</b>	<b>26.8</b>
Fees and commissions on securities and investment transactions	19,048	20,907	-1,859	-8.9
Fees and commissions on credit operations	2,213	2,096	117	5.6
Fees and commissions on other services	21,608	21,000	608	2.9
Fee and commission expense	-3,565	-3,930	-365	-9.3
<b>Net fee and commission income</b>	<b>39,304</b>	<b>40,073</b>	<b>-769</b>	<b>-1.9</b>
<b>Net trading income and fair-value adjustments</b>	<b>10,897</b>	<b>10,908</b>	<b>-11</b>	<b>-0.1</b>
Gains/losses on disposals of financial investments	35	-109	144	>100.0
Income from participations	2,815	2,522	293	11.6
Real-estate income	-170	916	-1,086	>-100
Other ordinary income	611	1,708	-1,097	-64.2
Other ordinary expenses	-5,301	-247	5,054	>100.0
<b>Other ordinary income</b>	<b>-2,010</b>	<b>4,790</b>	<b>-6,800</b>	<b>&gt;-100.0</b>
<b>Total operating revenues</b>	<b>370,568</b>	<b>310,084</b>	<b>60,484</b>	<b>19.5</b>
Personnel costs	-81,388	-70,543	10,845	15.4
Other operating expenses	-45,272	-42,948	2,324	5.4
<b>Operating expenses</b>	<b>-126,660</b>	<b>-113,491</b>	<b>13,169</b>	<b>11.6</b>
Value adjustments on participations, amortization on tangible and intangible assets	-10,227	-18,658	-8,431	-45.2
Changes in provisions and other value adjustments, losses	-9,423	-4,185	5,238	>100.0
<b>Operating profit</b>	<b>224,258</b>	<b>173,750</b>	<b>50,508</b>	<b>29.1</b>
Extraordinary income	0	0	0	0.0
Extraordinary expenses	0	0	0	0.0
Change in reserves for general banking risks	-52,000	-25,000	27,000	>100.0
Taxes	-10,762	-7,604	3,158	41.5
<b>Profit of the year</b>	<b>161,496</b>	<b>141,146</b>	<b>20,350</b>	<b>14.4</b>
Retained earnings	650	504	146	29.0
<b>Profit shown on the balance sheet</b>	<b>162,146</b>	<b>141,650</b>	<b>20,496</b>	<b>14.5</b>
<b>Appropriations</b>				
Compensation for the State guarantee	44,500	46,000	-1,500	-3.3
Remuneration of the endowment capital	11,000	11,000	0	0.0
Extraordinary payment to the State	19,500	0	19,500	0.0
Allocation to fund reserve	87,000	84,000	3,000	3.6
Retained earnings	146	650	-504	-77.5

## Cash flow statement as of 31 December 2023

(in CHF thousands)

	Reporting year		Previous year	
	Source	Use	Source	Use
<b>Cash flow from operations:</b>				
Net profit for the year	161,496		141,146	
Change in reserves for general banking risks	52,000		25,000	
Value adjustments on participations, depreciation on tangible and intangible assets	10,227		18,658	
Provisions and other value adjustments	8,874		3,054	
Changes in value adjustments for default risks and losses	22,592		3,154	
Active delimitations		10,526	270	
Passive delimitations	7,412			7,266
Payment to the State		57,000		55,000
<b>Balance</b>	<b>262,601</b>	<b>67,526</b>	<b>191,282</b>	<b>62,266</b>
<b>Cash flow from investments</b>				
<b>Balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash flow from investments:</b>				
Participations		2,081		22,986
Real estate		5,930		3,151
Other tangible fixed assets		8,833	51	6,979
<b>Balance</b>	<b>0</b>	<b>16,844</b>	<b>51</b>	<b>33,116</b>
<b>Cash flow from banking operations:</b>				
Due to banks – short term		34,959		184,787
Due to banks – long term	45,000			104,000
Receivables from banks – short term	217,795		521,372	
Receivables from banks – long term	49,965			49,965
Liabilities arising from securities financing transactions – short term				
Liabilities arising from securities financing transactions – long term				
Amounts due from securities financing transactions – short term				
Amounts due from securities financing transactions – long term				
Amounts due in respect of client deposits	355,420			736,118
Amounts due from customers		448,570		203,610
Mortgage loans		678,892		618,079
Negative replacement value of derivative financial instruments		12,852		36,516
Positive replacement value of derivative financial instruments	46,646			96,024
Cash bonds	109,935	45,184	34,065	39,728
Borrowings	150,000	200,000	140,000	200,000
Long-term borrowings	387,000	264,000	709,000	442,000
Financial investments	12,899			104,359
Trading operations		1,657		818
Other liabilities		27,369	43,006	
Other receivables	449		87,752	
<b>Balance</b>	<b>1,375,109</b>	<b>1,713,483</b>	<b>1,535,195</b>	<b>2,816,004</b>
<b>Cash and cash equivalents status:</b>				
Cash and cash equivalents	160,143		1,184,858	
<b>Balance</b>	<b>1,797,853</b>	<b>1,797,853</b>	<b>2,911,386</b>	<b>2,911,386</b>

## Statement of changes in equity as of 31 December 2023

(in CHF thousands)

	Endowment capital	Reserves for general banking risks	Retained earnings	Retained profit/loss	Result for the period	Balance
<b>Equity at the beginning of the reporting period</b>	<b>70,000</b>	<b>667,000</b>	<b>1,539,000</b>	<b>141,650</b>		<b>2,417,650</b>
Dividends and other distributions				-57,000		-57,000
Other allocations to (withdrawals) from reserves for general banking risks		52,000				52,000
Other allocations (withdrawals) from other reserves			84,000	-84,000		0
Profit/loss for the year					161,496	161,496
<b>Equity at the end of the reporting period</b>	<b>70,000</b>	<b>719,000</b>	<b>1,623,000</b>	<b>650</b>	<b>161,496</b>	<b>2,574,146</b>

# Notes to the Financial statements

## Comments on the activity

The Banque Cantonale de Fribourg (BCF) is a legal entity under public law distinct from the State. Its headquarters are in Fribourg.

### Staff

As of December 31, 2023, the Bank had 532 employees (December 31, 2022: 489) representing 443 full-time jobs (December 31, 2022: 403).

### Activities

BCF offers the services of a local universal bank. It plays a key role in the Fribourg banking market thanks to its knowledge of the economic fabric and its strong presence. It offers its clients tailor-made solutions. It concentrates its activities in the following areas:

#### Interest operations

With a share of 87% of total revenues, interest operations are the main source of income. Advances are generally granted in return for mortgage cover on residential, commercial and industrial buildings. Commercial loans are granted in particular to SMEs in all economic sectors of the canton.

Changes in value adjustments for default risks and losses related to interest transactions are deducted from gross interest income and thus directly impact the interest margin.

The majority of interbank transactions are short- and medium-term. For long-term refinancing, BCF uses recourse to the capital market. It issues bonds in its own name at irregular intervals and, as a member of the Pfandbriefzentrale Schweizer Kantonalbanken participates in the bonds issued by this organisation.

Interest rate risks are managed mainly through interest rate swaps.

Customer deposits, including cash bonds, cover 73% of the advances to customers.

#### Commission and service business

The commission and service business accounts for 10.6% of total revenues. Securities trading, investment advisory, wealth management, and payment transactions make up the majority of the commission and service business. These financial services are used by private clients, institutional investors and commercial companies.

#### Trading business

Trading business, which accounts for 2.9% of total revenues, consists mainly of foreign exchange, precious metals and currency transactions carried out on behalf of clients. These transactions are carried out within specific limits, without any significant open positions.

#### Other areas of activity

To meet liquidity requirements, the Bank manages its own securities portfolio. It consists mainly of fixed-interest positions that can be discounted with the Swiss National Bank for high-quality repo transactions (Repurchase and Reverse Repurchase Agreements). BCF operates through a network of 27 branches, including one online. It also operates 58 ATMs, 23 depomats and 11 self-service areas.

#### Outsourcing

In particular, BCF has outsourced IT-related activities to Swisscom (Switzerland) AG and document scanning to Swiss Post AG within the meaning of FINMA circular 2018/3 («Outsourcing - banks and insurers»).

#### Exceptional or subsequent events

No events to report.

## Accounting and valuation principles

### General principles

The accounting and reporting principles comply with the provisions of the Swiss Federal Law on Banks and Savings Banks and its implementing ordinance, the accounting regulations, i.e., the FINMA Accounting Ordinance and the FINMA Directive 2020/01 («Accounting for Banks»), as well as the Swiss Code of Obligations. The financial statements are established in accordance with the true and fair view principle (statutory individual accounts) as of December 31.

The figures in the notes and supplementary information have been rounded for publication purposes. Potential discrepancies in addition are therefore possible.

### Recording of transactions

All transactions are recorded in the Bank's books on the day they are concluded (trade date accounting).

### Translation of foreign currency transactions and balances

Assets and liabilities expressed in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Income and expenses are translated at the exchange rates prevailing at the dates of the transactions. Gains and losses are recorded in the result of «Trading operations» or in «Other ordinary results».

Applied prices:	31.12.2023	31.12.2022
EUR	0.927	0.984
USD	0.837	0.922
GBP	1.067	1.114

### Cash and cash equivalents

Cash and cash equivalents are recorded in the balance sheet at nominal value.

### Loans and advances to banks and customers, mortgage loans

Loans and advances to customers and banks are recorded at nominal value. Impaired loans, i.e. loans for which there are indications that the contractual clauses will not be fully complied with, are valued at their liquidation value. After taking into account the collateral provided, the residual risk of loss on these receivables is covered by individual value adjustments. The valuation of individualized value adjustments takes into account all the client's liabilities.

When the value adjustment is first made, the expense is entered globally under the heading «changes in value adjustments for default risk and losses from interest transactions». Releases of value adjustments or provisions that have become free are also recorded under «changes in value adjustments for default risk and losses from interest transactions». In the event of changes in credit utilization, the Bank makes a non-income-relevant reclassification between the value adjustment applicable to the corresponding balance sheet position and the provision made for the undrawn portion of the limit. The individual value adjustments are offset on the assets side of the balance sheet against the corresponding active positions.

Interest due and unpaid for more than 3 months, i.e. impaired interest, are automatically and fully classified as provision.

Amounts recovered from receivables written off in previous years are released through the income statement item «changes in value adjustments for default risks and losses from interest transactions».

At the end of each quarter, each impaired receivable is reassessed and the value adjustment is adjusted if necessary.

A value adjustment is also made to cover the inherent risk of default on the non-impaired loan portfolio.

Value adjustments for inherent default risks are created, used or released via the item «changes in value adjustments for default risks and losses from interest transactions», or via «changes in provisions and other value adjustments» for off-balance sheet positions.

Provisions are made for interest on impaired loans and loans with collection problems, or interest due and unpaid after 90 days.

### Securities and precious metals held for trading

Securities and precious metals trading portfolios are always valued and carried on the balance sheet at fair value. Price gains and losses are recognized in the result of «Trading operations». Interest and dividend income from trading portfolios is recognized in the result of «Interest operations».

### Financial assets

Interest-bearing securities classified as financial assets are recorded in the balance sheet at their acquisition value, with the premium or discount being amortised until the maturity of the securities (accrual method).

Other financial asset securities and precious metals are valued according to the lowest value principle. The balance of the adjustments in value is recorded under «Other ordinary expenses» or «Other ordinary income».

Properties held for resale are valued at the lower of cost or liquidation value. The liquidation value also takes into account the retention period of the properties.

### Repurchase and reverse repurchase agreements

Repurchase and reverse repurchase agreements are accounted for as follows:

- The cash amounts exchanged are reported in the balance sheet under «Receivables from securities financing transactions», respectively «Liabilities arising from securities financing transactions».
- Securities transferred for collateral purposes do not require a balance sheet entry, as the transferring Bank remains the beneficial owner.
- The subsequent disposal of securities received involves a balance sheet entry. This results in a non-monetary liability being recorded at market value.

### Participations

Participating interests are valued at no more than their acquisition cost, less economically necessary depreciation.

In the case of participations in companies whose securities are listed on the stock exchange, the valuation is based on the stock exchange value, but not more than the acquisition cost.

Participations of an economic support or sponsoring nature, irrespective of the percentage holding, whose liquidation value is not significant, are valued at CHF 1 in the balance sheet.

### Tangible fixed assets

Bank-owned buildings and land, carried at acquisition cost, are depreciated using the declining balance method based on their expected economic life. Land is not depreciated. Renovation work and investments are capitalised if the market value or value in use is increased on a permanent basis or if they lead to an increase in the useful life.

Fixed installations and conversions in own or leased bank premises, the costs of which exceed CHF 50,000, are capitalised and depreciated over a maximum life of 10 years. For leased premises, the remaining term of the lease is taken into account.

Other tangible fixed assets, such as furniture, machinery and vehicles, with a cost of more than CHF 5,000, as well as computer software licenses with a cost of more than CHF 50,000,

are recorded in the balance sheet at their acquisition value and depreciated over their useful life, but over a maximum of 5 years.

The principle of individual valuation is applied.

### Accrued expenses and deferred income

The timing of income and expenses for the year is recorded in the accruals and deferrals accounts.

### Provisions

Provisions for operating risks and for the economically necessary default risks of off-balance-sheet liabilities are valued individually on the reporting date.

Value adjustments to balance sheet receivables are deducted from the corresponding items and are therefore not included in this position.

### Reserves for general banking risks

Reserves for general banking risks are set aside to cover latent risks in the business by debiting the item «Changes in reserves for general banking risks». They are recognized as core capital within the meaning of the Swiss Federal Banking Ordinance and are not subject to tax.

### Commissions on credit business

The Bank records lending fees under «Interest income». Commissions on the conversion of variable rates into fixed rates are recorded under «Commission transactions».

## Derivative financial instruments

As part of its Asset and Liability Management activities, the Bank enters into interest rate swaps on its own behalf to hedge fixed-rate loans granted to customers. These hedging transactions are subject to periodic effectiveness tests. The results are recorded under the same income statement heading as the hedged transaction.

Trading positions in derivatives are valued at market prices.

The Bank also carries out forward exchange transactions involving the purchase and sale of covered options on behalf of its clients and for its own account. The positive and negative replacement values of open derivative financial instruments on the balance sheet date are recorded under the heading «Positive replacement values of derivative financial instruments» and «Negative replacement values of derivative financial instruments» respectively. The volumes of all open contracts are shown off balance sheet.

## Pension commitments

The Bank has an independent pension fund for the occupational benefits of its employees, known as the «Caisse de prévoyance du personnel de la Banque Cantonale de Fribourg», which is an institution under public law. The pension fund is registered with the Bernese supervisory authority for pension funds and foundations in accordance with Article 48 LPP.

The financial statements are prepared in accordance with Swiss GAAP FER 26.

The employer has no contribution reserves in the Fund.

As of 01/01/2024, 512 active insured and 201 pensioners are affiliated to the pension fund (previous year: 464 and 200).

The pension plan adopted is a so-called «defined contribution plan» and covers the usual pension risks, i.e. retirement and disability pensions, as well as the risk of death. The contributions paid by the Bank to the pension fund for 2023 amounted to CHF 8.9 million (see table on page 76).

## Taxes

Taxes are calculated on the basis of the Bank's results and take into account the principle of linking to the reporting period.

## Changes in accounting and valuation principles

There were no changes in accounting and valuation principles during the year 2023.

## Factors affecting the Bank's economic situation

The 2024 outlook and the probability of the results will be influenced by developments in the current economic situation, which is particularly marked by the war in Ukraine and the Middle East, as well as uncertainties surrounding inflation trends and any reduction in the key interest rate.

Depending on the business area, these uncertainties also impact our customers' financial situation. If necessary, the increase in risks related to credit operations could eventually make it necessary to set aside additional value adjustments.

## The Bank's approach to risk management

### Objectives

Banking activities consist of taking strategic and business, credit and market risks in order to generate economic profit and, indirectly, by gaining an exposure to operational risks. Within BCF, all risks are managed in an integrated and consistent manner by a process that concerns all functions of the Bank and whose overall objectives are:

- Knowledge of risk exposure, in the sense that it is assessed, monitored and carried forward appropriately in relation to the economic and regulatory environment.
- A match between the Bank's risk-taking capacity and its risk profile.
- An optimization of returns in comparison to the risks taken and thus to the equity capital committed.

### The Bank's risk management is based on the following principles:

- The Bank takes strategic and business risks, credit risks and market risks with the aim of generating economic profit.
- The Bank seeks to minimize its exposure to operational risks arising from its operations.
- All risk-taking is clearly in line with the Bank's business activities and the risk profile concerned.
- The risk-taking level must be in line with the risk tolerance in terms of variability of the operating result and the target level of equity capital.
- The Bank shall enter into and maintain solely positions of which it is aware and can manage the risks.
- All risks are assessed and monitored with regard to their financial impact, their regulatory impact and their impact on the Bank's reputation.

- Risk management applies the same definitions, methodological principles and organisational principles throughout the Bank.
- The Bank is continuously improving its risk assessment and control methods and processes by seeking quality approaches in line with the risks taken.
- The Bank aims for a high level of risk management culture and skills. It is based on the Basel Committee's best practices and recommendations.

## Risk structure

The Bank monitors five risk categories for all of its activities:

- **Strategic and business risk** that, in the case of strategic risk, results from the occurrence of a change in the economic or regulatory environment that affects the Bank's strategic choices in a negative way or, in the case of business risk, for a given strategy, results from the effects of economic or competitive changes that negatively affect business decisions.

**Credit risk** that results from the possible event of default by a counterparty. Credit risk is intrinsically associated with any credit exposure.

- **Market risk** arising from the possible event of adverse changes in market parameters, in particular prices and rates, implied volatilities, and other underlying effects in the markets.
- **Liquidity risk** is also considered to be a market risk both in terms of the possible difficulty of structural refinancing of the business and the potential problems associated with short-term liquidity management. Market risk is intrinsically linked to market exposures.
- **Operational risks** arising from the possible occurrence of an inadequacy or malfunction due to inappropriate processes, persons or systems, or to malicious acts. Operational risk includes non-compliance in the sense of risk of non-compliance with the Bank's legal provisions, norms and rules. Operational risks are intrinsically related to business operations. These risks are analysed and managed according to their potential impact.

There are three types of impact:

- **Financial impact**, i.e. a decrease in net profit, the book value and/or the economic value of the equity.
- **Regulatory impact**, i.e. intervention by the authorities resulting from a breach of the legal and regulatory framework to which the Bank is subject.
- **Reputational impact**, i.e. adverse public information about the Bank, the seriousness of which depends on the reaction of the Bank's main stakeholders.

## Risk management governance

BCF's risk management governance and organisation are defined according to the same basic principles for all risks. The main responsibilities for risk management are summarized as follows:

- The Board of Directors (BoD) decides on the basic principles of risk management and the Bank's risk-taking strategy. The BoD adopts the BCF risk policy developed by the Executive Board (DIGE) and ensures that an effective internal control system (ICS) is in place.
- The Audit and Risk Committee (CAuR) is responsible for establishing and operating risk management in accordance with the framework defined by the BoD.
- The Executive Board (DIGE) is responsible for the development, implementation and operation of risk management and the ICS. It establishes the guidelines and instructions that regulate responsibilities, competencies and risk control measures.
- To this end, the DIGE has set up a Risk Committee. Each month, the Committee analyzes the status of the main risks incurred by the Bank and of environmental and social risk factors.
- The Risk Management, headed by the Chief Risk Officer (CRO), coordinates risk management between the various units. It is responsible for developing and improving the Bank's risk control principles and methods. It is also responsible for monitoring the institution's risk profile and insuring risk reporting. It also reviews the suitability and effectiveness of the ICS in coordination with the business and risk managers.
- For any exposure to the Bank's credit risk, the Credit Risk Management is responsible for the portfolio-wide risk analysis and the monitoring of counterparty exposure. Responsibility for designing and monitoring the credit risk assessment models for the positions, particularly when dealing with credit processes, lies with the Bank. It is also responsible for defining and implementing criteria and standards for decision-making and credit monitoring.





## Credit risk

Credit risk refers to a potential inability of a party to meet its obligations to the Bank. The non-performance or imperfect performance of a counterparty's commitments may ultimately result in a financial loss for the Bank.

More specifically, credit risk refers to the risk of default by the counterparty, i.e. the risk of losses incurred as a result of the default by a borrower of its contractual obligations. In addition to the financial loss of the total or partial amount of the credit (settlement risk or principal risk), credit risk includes also unrealised gains resulting from the non-payment of the debt (replacement cost risk).

As regards the entire credit risk, the Bank aims to protect itself against three possible types of impact, namely financial risk, regulatory risk and reputational risk.

### - Credit activity, general control and monitoring of credit risk

The Bank is exposed primarily to credit risk arising from customer loans. To this end, the Bank proposes a wide range of customary loans, covered or uncovered, conditional commitments as well as irrevocable commitments to both natural persons and legal persons.

The aim of the credit policy, laid down and validated by the Board of Directors, is to define the mandate for the organization of credit risk, the strategy for taking credit risk, the delegated roles, responsibilities and competencies with regard to organization and the process of analyzing and granting credit as well as the rules and principles governing the control of credit risk. Moreover, the aim of the credit policy is to control exposure and distribution of credit risk by means of limits and thresholds that are applicable and useful to the conduct of credit risk. Its application is designed to achieve expected quality targets across the credit portfolio. Thus, the pursuit of the objective of profitability for the credit business is framed by the risk approach arising from the credit policy and also meets the applicable prudential rules.

Overall, the Bank aims to maintain a portfolio of high quality credit in line with the internal regulatory framework (maximum lending rate, maximum repayment and redemption periods, financial capacity calculation, debt capacity calculation, etc.) and, to limit the risk of concentration diversified in terms of client segments, economic sectors, types of loans and geographical location with respect to both counterparties and real estate collateral in Switzerland.

In particular, the internal rulebook aims to ensure a uniform, credit-risk-appropriate analysis and authorisation practice. As a matter of precision, the internal regulatory framework sets out the rules, standards, principles and guidelines in effect and aims to establish an appropriate working framework and uniform code of conduct for the management and oversight of credit risk on a regular, accurate and comprehensive basis. On this basis, the Bank is in a position to monitor credit risk

at both the level of individual transactions and at the level of the credit portfolio.

The organisation and operational delegation of powers with regard to granting loans is determined by the Board of Directors through the loan policy. Both the organisation and the delegation are risk-oriented and are based on multiple dimensions, such as counterparty risk (rating class), counterparty segment, level of overall exposure, type and coverage of collateral received as well as type of financing. The Credit Committee is the highest authority for granting credit within its competence. The Committee is chaired by the CEO, is composed of members of the Executive Board and is managed by the Credit Risk Management organizational unit. At the same time, the granting of credit to the governing bodies (members of the Board of Directors and members of the Executive Board) is the responsibility of the Board of Directors.

All counterparties requiring credit approval are subject to risk assessment. The creditworthiness of the counterparty is an essential component of the credit analysis. As such, any credit commitment requires prior analysis and validation of the counterparty's rating. The rating or risk class reflects the default risk of a counterparty. To measure and manage the risk of counterparty default, the Bank evaluates counterparties using a rating system that classifies debtors into twelve risk classes. At the same time, the Bank relies on segmentation using different risk models depending on the nature of the debtor. Counterparty ratings are determined and managed by means of expert rating systems for the following client segments: private clients, corporate clients (SMEs and big companies) and real estate professionals (natural or legal persons). The expert rating systems for counterparty ratings used by the Bank are provided by RSN Risk Solution Network AG. Counterparties are assessed on the basis of dedicated models and homogeneous criteria for the same population. These systems allow the Bank to adequately determine the requirements and conditions applicable to each financing.

Updating counterparty rating classes allows the Bank to monitor the default risk effectively and regularly throughout the term of the commitments. In addition, all credit commitments are reviewed periodically as part of a dynamic credit management, based on their risk, and then submitted for an extension of jurisdiction.

Generally, the Bank limits credit risk by splitting them and demonstrating a high level of caution about the quality of counterparties and collateral. Accordingly, the Bank will exclusively grant loans to counterparties who have the financial capacity to meet their commitments and ultimately repay them. Counterparties must be both solvent, honourable and trustworthy. Indeed, the integrity of counterparties, knowledge of the subject matter of financing, plausibility and proportionality of credit transactions are key aspects of the analysis and decision from the Bank's perspective.

The Bank conducts credit transactions primarily in the canton of Fribourg and in an area bordering the cantonal borders.

Alternatively and to a limited extent, the Bank exercises credit activity in a geographical area that is extended and limited to Switzerland's borders. Geographical exposure to credit risk is controlled by means of risk tolerance and monitoring indicators.

Loans constituting one or more Exceptions to Policy (EtP) are specifically monitored both at the level of individual loans and at the level of the credit portfolio. EtP are loans secured by pledged real estate with one or more exceptions to the internal rules on lending rates, repayment periods and/or financial capacity calculation, or the SBA guidelines on minimum requirements for mortgage financing.

Throughout the individual credit management cycle, at regular intervals and in the absence of extraordinary events, a risk-based periodic control procedure is applied, depending on the counterparty segment and risk, the type and amount of credit commitments, the nature and coverage of collateral, and the presence or absence of EtP. The main purpose of this procedure is to reassess the creditworthiness of the counterparty (rating), to analyse the stability and development of contingent collateral and to conduct a financial capacity review. In addition, counterparty and collateral-related warnings and special events that have an impact on credit risk are actively monitored. If such signals or events are detected, a review of the credit exposure is carried out.

In addition, with respect to the loan portfolio of the Bank as a whole, additional aggregated risk measures are implemented in the form of both past and advanced indicators, such as the calculation of the migration of counterparty ratings or in the form of stress tests on all or part of the portfolio and according to the course of various stress scenarios. To this end, periodic reports are produced by the Credit Risk Management organizational unit and presented to the Bank's various committees and bodies. These reports also include a monitoring of the credit risk appetite as well as an analysis of the credit portfolio structure covering the allocation of the portfolio using multiple structural characteristics based on counterparty risk and concentration risk.

#### - Credit collateral evaluation

Collateral pledged and deposited as security for loans is valued in accordance with standard, uniform norms.

#### Mortgage-backed loans

The market value of the properties is periodically estimated in accordance with established supervision rules and principles and by means of computer-based real estate valuation tools in line with the typology and allocation of the properties. In this regard, macro- and micro-location, construction standards, obsolescence and renovation cycles, as well as the sustainability of actual or projected income and vacancy rates for investment properties are taken into account.

The Bank uses two third-party valuation systems provided by Wüest Partner AG:

- One for the appraisal of owner-occupied residential properties based on a hedonic valuation model which compares actual market real estate transaction data, based on detailed real estate characteristics.
- One for the appraisal of investment properties, including rental, commercial, administrative, industrial or craft real estate, based on a capitalization model. This methodology takes into account the sustainable income from the building as a central parameter for determining the performance value.

Moreover, the evaluation of large-scale construction projects and special or complex buildings due to their typology and/or use generally involves an additional external real estate appraisal commissioned by decision of the Bank.

When granting loans secured by pledged real estate, the Bank uses the lowest value between the internal or external valuation for certain specific cases set out above and the actual transaction price or cost price.

The value of the mortgages will be reviewed and updated as part of the regular credit review or in the event of an increase in credit risk caused by a restatement of the credit position. (e.g. adjustment of credit limit, adjustment of depreciation, etc.) or detected in the context of normal monitoring activity.

Delays in payment of interest and/or principal are monitored and analysed in order to identify mortgage loans with actual risk exposure. On this basis, these claims are subject to detailed scrutiny which may require the implementation of risk reduction measures (e.g. partial redemption requirement, request for additional collateral, etc.) or individual adjustments in the event that there is insufficient collateral after calculating the liquidation value of the collateral.

#### Securities-backed loans

The liabilities and the value retained to cover loans secured by securities admitted by the Bank are calculated daily and monitored on a regular basis. These credits are provided against the pledge of securities such as book balances, current and liquid market securities, rights arising from insurance policies or any other eligible security under multiple applicable criteria taking into account mainly their transferability, liquidity and marketability.

The Bank calculates and applies discounts on market values in order to hedge against market and monetary risks of marketable and liquid securities as well as to determine the cover value or lending amount. Discounts are also calculated and applied for other types of securities that are not officially listed on a market, depending on the nature of the product or contract and the associated underlying risks.

If the pledged value of the collateral falls below the amount of the credit commitment, the Bank requires either a partial reduction of the debt or additional collateral in order to re-establish credit cover. If the collateral shortfall or extraordinary market conditions persist or increase, the Bank can realize the guarantees in order to unwind the credit commitment.

#### **Unsecured loans**

Unsecured loans are generally granted to counterparties in the segments of corporate clients, public-law entities or entities treated as public-law entities. These are commitments in the form of commercial loans and unsecured overdrafts or accounts overdrafts covering all counterparty segments.

The solvency of such counterparties is monitored annually through the provision and analysis of the annual financial statements, and, if necessary, through the provision of interim financial statements or other useful information enabling an appropriate monitoring of the development of the financial condition of the counterparty at periodic intervals. The underlying analysis carried out with this information may lead to the identification of a deterioration in the counterparty risk, respectively credit risk. The risk assessment may therefore lead to restructuring or reorganisation measures being defined, with individual value adjustments being issued at the same time if the credit exposure is considered impaired.

- **Determination of the need for individual value adjustments for credit default**
- **Identification of credit default risks**

#### **Overdue receivables**

Overdue receivables are valued and monitored separately. Overdue receivables are receivables with contractually agreed payments of interest (including accrued interest), associated commissions and/or depreciation that are more than 90 days overdue and unpaid.

#### **General monitoring of credit commitments**

The general monitoring of credit commitments is organized and performed according to the nature of the counterparty and of the guarantees and other contractual credit clauses, using appropriate instruments and measures at appropriate intervals corresponding to the inherent or actual risks.

#### **Determination of individual value adjustments for credit default risks relating to impaired receivables**

Individual value adjustments are made and booked on a quarterly basis to prevent the risk of default on impaired receivables.

Any impaired receivables, that is, those resulting from a situation in which it is unlikely that the counterparty will be able to meet its future obligations, are valued at the liquidation value of the collateral. Any resulting decrease in value is covered by individual value adjustments. This

impairment is measured by the difference between the value of the receivable and the amount that is likely to be recoverable, taking into account counterparty risk and the net proceeds from realising contingent collateral. The value of the receivable corresponds either to the credit limit or to the amount of credit used. The likely recoverable amount of the collateral, i.e. the liquidation value, is the alienation value that can potentially be realized after deducting the expected holding and liquidation costs. This approach is applied to the entire credit commitment of an individual counterparty or a group of related counterparties forming an economic group in order to take into account the whole perimeter with credit default risk.

Counterparties at risk, or risk positions, that are known and identified as such, are revalued four times a year. In addition to the review of the appropriate level of individual value adjustments, the strategy and related measures are reviewed. The Credit Risk Management organisational unit evaluates all individual value adjustments on risk positions and submits them to the Credit Committee, the decision-making body, for approval.

The Bank reviews the creditworthiness of the counterparties using risk models and rating models specific to the various client segments in order to determine the probabilities of default. The Bank applies the CreditMaster expert rating system of RSN Risk Solution Network AG. The Bank measures the creditworthiness of counterparties based on a 12-class ratings scale which is structured into three risk sub-categories:

- Actual risk-free counterparty in rating classes 01 to 08: no individual value adjustments are created on the receivables of such counterparties.
- Heavily supervised counterparty in rating class 09: no individual value adjustments are created on the receivables of such counterparties.
- Actual risk counterparty in rating classes 10 to 12 and subject to individual value adjustments. Counterparties in rating class 12 are in fact in actual or selective default and may, as the case may be, not require the booking of individual value adjustments.

Impaired receivables are again classified at their full value on the balance sheet when the principal and interest due and outstanding are paid according to contractual provisions and other credit-worthiness criteria are met.

- **Determination of individual value adjustments for inherent risks of default relating to non-impaired loans/receivables**

Non-impaired receivables arise from situations where it is likely that the debtor will be able to meet its future commitments.

As a category 3 bank in accordance with Appendix 3 OB, the Bank is obliged under Article 25 para. 1 letter b of the Ordinance on the Swiss Financial Market Supervisory Authority



(FINMA) to make value adjustments for inherent risks of default on non-impaired receivables.

Inherent risks of default result from risks present on the balance sheet date in an apparently healthy loan portfolio, which will only be realized later.

Accordingly, the inherent default risks of non-impaired loans, i.e. loans classified in rating categories 1 to 9, are also subject to value adjustments according to an internal model.

The internal model is based on the following components:

- a value adjustment rate (risk factor) expressed in percent and applied to the volume of each rating class concerned
- annual change in real estate prices expressed in percent according to the transaction price index for condominiums and villas issued by Wüest & Partner SA
- annual variation of the gross domestic product of the canton of Fribourg expressed in percentages according to the data of the statistics service of the Canton of Fribourg (SStat).

All receivables from banks, customers and public sector entities, as well as debt securities held to maturity, are included in the balance sheet or off-balance sheet. The risk factors are valid for the entire current accounting period. They are reviewed annually by the FINA division and adjusted if necessary. Annual changes in the components of the internal model are taken into account in the analysis.

Changes in the risk factors used to determine the value adjustments for inherent default risks are disclosed, where applicable, in these notes to the annual financial statements, respectively in the notes to the half-yearly financial statements.

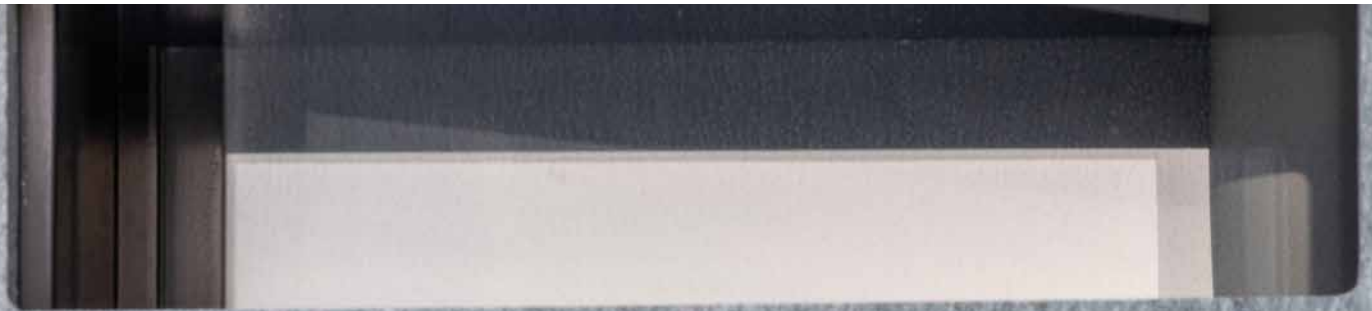
Since 2015, the adjustment rates applied to each rating class have remained unchanged. The elements taken into account in their annual review have not led to any adjustments.

The use of the value adjustment for inherent risks of default may occur in the event of a sudden and significant loss on an unimpaired position. The amount used must be reconstituted within a maximum of five years, in accordance with article 25 paragraph 7 of the OEPC.

This replenishment period will also apply if the value adjustment for inherent risks is used to create individual value adjustments for impaired loans.

Any shortfall in this respect, i.e. the difference between the amount of the adjustment actually made and the amount calculated according to the internal method, is disclosed in the annual report in accordance with Article 25 para. 8 of the Swiss Federal Law on Insurance.

As of December 31, 2023, the need for value adjustments for inherent risks is fully covered.



## Market risks

Market risks represent the potential for losses due to fluctuations in exchange rates, interest rates, securities prices and indices on all positions held by the Bank.

### Interest rate risk

Interest rate risk arises from mismatches between the size and terms (rate-setting maturities) of the Bank's asset and liability balance sheet positions. For variable positions (variable-rate mortgages, savings and current accounts), models are used to replicate as closely as possible the pace and magnitude of changes in client rates in response to changes in market rates. Movements in the market yield curve, and the resulting changes in client behavior, are the source of interest rate risk. These changes directly affect interest income and the present value of the Bank's equity.

Through its «Asset and Liability Management» (ALM) Committee, the Bank monitors various indicators relating to interest rate risk on the balance sheet:

**Static indicators.** The Bank calculates the duration of equity capital on a monthly basis, as well as the sensitivity of the value of equity capital to an interest rate shock.

**Dynamic indicators.** The Bank establishes quarterly interest rate and business scenarios combined with a refinancing/hedging strategy.

These dynamic simulations take into account the behavior of clients according to the interest rate scenarios and make it possible to simulate the interest margin, the duration of equity capital and the economic value of equity capital over different periods. In order to measure, assess, limit and manage this risk, a management and monitoring policy has been put in place by the ALM Committee. Risk tolerances are approved annually by the BoD.

The Bank uses derivative financial instruments (IRS) as part of its asset and liability management activities, mainly to manage its exposure to interest rate risk. These transactions are recorded as «Micro Hedges» and thus only their net interest flow impacts the income statement under «Interest and discount income». No ineffectiveness was observed at December 31, 2023.

Operational management of interest rate risk is carried out by the ALMT structural unit.

## Other market risks

Other market risks, including foreign exchange risk and security price fluctuation risk, are constantly monitored within the limits set. The majority of the Bank's transactions are customer transactions. In principle, these transactions are carried forward to the market to cover the risk of losses. The residual exchange risk on foreign currency positions is thus limited.

### Liquidity risks

Liquidity risk is the risk that the Bank will not have sufficient resources to meet its commitments at all times and on a continuous basis.

The Bank, through its «Asset and Liability Management» (ALM) Committee, monitors its exposure to liquidity risk by producing schedules of outstanding balance sheet items and by calculating balance sheet structure ratios. It also develops stress scenarios and carries out dynamic simulations of the future balance sheet structure. Using leading indicators, the Bank anticipates the occurrence and impact of potential crises and has drawn up a plan of measures for this purpose. These simulations enable the Bank to define its refinancing program on the capital market.

It thus complies with the quantitative and qualitative requirements of FINMA circular 2015/2.

Operational liquidity risk management is carried out by the ALMT structural unit.

### Operational risks

Operational risks are defined as risks that the Bank does not actively incur. In doing so, the Bank has defined a method for managing operational risks and dedicated control approaches for certain specific diversities, particularly the key risks managed by Compliance, which are set out below. The overall concept of operational risk management used by the Bank is based on the best practice formulated by the Basel Committee and is in line with FINMA Circular 2023/1 on operational risks and resilience.

Operational risk management aims to control operational risk drivers by identifying areas for improvement and reinforcing operational and managerial control systems. In particular, the Bank aims to reduce its exposure:

- to a breach of the Bank's legal and regulatory requirements, standards or rules, including the possibility of an event of control risk (inadequate design of the control mechanism, implementation of the non-compliant control mechanism or lack of rigour in the application of the control mechanism);

- to inappropriate or malicious behaviour on the part of the actors, i.e. employees, suppliers, bank counterparties, clients or other external actors;
- to inappropriate characteristics of information systems (applications, interfaces and hardware) or other communication systems (telephony, fax, emails and social networks);
- to inadequate infrastructure;
- to an organization – bringing together the concept (method, process, organizational chart) and the organizational framework (regulations, policies, directives and manuals) – which is inappropriate in relation to the Bank's activities;
- to natural hazards.

Reviews are conducted periodically to identify the main operational risks. They are supplemented by ad-hoc analyses, e.g. if new potential threats emerge, if FINMA requests it or if a significant risk event is detected at another bank. These reviews and analyses are conducted by the Management and professionals and seek to identify possible improvements to the risk management system, particularly operational and managerial controls.

In order to monitor the evolution of the operational risk profile, tolerance is expressed with regard to operational incidents in general and for each operational risk category. In the event of a significant operational risk event, the Bank bases its management of the incident on the application of clearly defined measures.

Operational risks are limited by an adequate organisation and by the implementation of an appropriate and efficient internal control system (ICS) that respects the principle of separation of functions.

## Risks in the compliance sector

FINMA defines compliance as «abiding by the relevant statutory, regulatory and internal rules and observing generally accepted market standards and codes of conduct». In this context, the Compliance function includes generalists from the global regulatory framework specializing in banking.

Compliance supports the Bank's governing bodies by ensuring compliance with due diligence obligations and standards to combat money laundering and terrorist financing, limiting reputational risks, and participating in meeting deadlines. This is the case in particular for the monitoring of new client relationships and transactions, the reporting of suspicious activity reports, the monitoring of market abuse as well as the implementation of economic sanctions. The Compliance function will thus ensure that the Bank offers assurance of proper business conduct, a sine qua non condition for maintaining the operating licence as a financial intermediary.

It also applies to limiting the occurrence of so-called compliance risks as part of the Risk Management function. These risks can take many forms, but can be broken down into BCF's risk of money laundering and terrorist financing, risk of cross-border activities, and the wider risk of non-compliance with the regulations.

## Internal control system

The Bank's Internal Control System (ICS) contains all the control structures and processes ensuring the proper conduct of day-to-day business, adherence to legal, regulatory and internal provisions as well as the completeness and reliability of the reporting.

The framework conditions underpinning the ICS, which ensure its smooth operation, are defined at the level of the control environment, the elements of which include, in particular, internal regulations, independent control bodies, organisational charts and job profiles required. At the level of processes, there is a close intersection between processes, risks and controls. Risks are captured and evaluated for each process. On this basis, key controls are then defined, all of which are documented and recorded in the processes. In addition to key controls, there are numerous other risk mitigation measures.

The Bank conducts a review of the adequacy and effectiveness of the ICS at least once a year and monitors the implementation of the resulting improvement measures. The reporting relating to the ICS is established quarterly in the context of the Risk Committee.

## Business Continuity Management

As part of Business Continuity Management (BCM), the Bank implemented comprehensive measures to maintain its operations even in the event of a failure of critical resources (personnel, IT system, buildings, suppliers). A number of strategic options have been identified for specialized sectors so that they can maintain the functioning of key business processes.

All of the core IT systems were set up and implemented redundantly at several locations. In order to limit the damage as much as possible and to enable an effective and coordinated response by the Management, the Bank has prepared emergency plans. Regular tests and exercises are conducted to verify that the plans and organization are up-to-date and operational. In order to guarantee their ability to ensure business continuity, the crisis unit and the organisation are regularly trained and tested using several scenarios. This procedure has proven successful in cushioning the impact of the pandemic and confirms the soundness of the BCM.



## Data protection

The processing of customer data and the related security are handled in strict compliance with data protection legislation and FINMA circular 2023/1 «Operational risks and resilience – banks». Governance, as well as technical, organisational and infrastructural measures have been put in place to ensure optimal security of client data. These measures are active 24/7. In addition, employees are regularly made aware of the importance of complying with the standards and measures, through awareness campaigns and training, which are also addressed to interested customers. With regard to cybersecurity in particular, the effectiveness of the system is regularly reassessed and its resistance to cyberattacks tested.

In addition, the Bank relies on specialized information sources. In particular, it monitors the following categories of cyberattacks in collaboration with its service providers: malware attacks and phishing, cyber espionage, sophisticated cybercrime, denial of service attacks (DoS or DDoS), social engineering and unauthorized access. For each category of threat, measures have been defined to identify threats specific to the Bank, protect critical assets, and detect and respond to cyberattacks. Crisis governance and related exercises complement the protective measures in place to ensure that the Bank's operations can be reasonably maintained in the event of an attack.

## Information relating to the balance sheet

### Breakdown of securities financing transactions (assets and liabilities)

(in CHF thousands)

	Reporting year	Previous year
Book value of claims arising from cash collateral pledged in connection with securities borrowing or reverse repurchase agreements*	0	0
Book value of liabilities arising from cash collateral received in connection with securities lending or repurchase agreements*	0	0
Book value of securities held for own account, lent or transferred as collateral in connection with securities borrowing or repurchase agreements		
- Of which those that can be sold or repledged without restriction		
Fair value of securities received as collateral in connection with securities lending and those received in connection with securities borrowing and under reverse repurchase agreements, which can be sold or repledged without restriction	0	0
- Of which securities repledges as collateral	0	0
- Of which sold securities		

\* Before netting agreements

## Risk mitigants for loans and off-balance-sheet transactions

### Impaired loans

(in CHF thousands)

	Type of risk mitigant			Total
	Mortgage	Others	Unsecured	
<b>Loans (before impairment charges/reversals)</b>				
Amounts due from customers	706,622	823,812	2,246,678	3,777,112
Mortgages	19,087,184		10,939	19,098,123
- Residential real estate	15,526,752			15,526,752
- Office and business premises	1,263,948			1,263,948
- Commercial and industrial property	1,082,520			1,082,520
- Other	1,213,964			1,213,964
<b>Loans (before impairment charges/reversals)</b>				
Reporting year	19,793,806	823,812	2,257,617	22,875,234
Previous year	18,962,484	995,121	1,790,170	21,747,775
<b>Loans (after impairment charges/reversals)</b>				
Reporting year	19,698,047	718,880	2,257,617	22,674,544
Previous year	18,867,430	912,075	1,790,170	21,569,675
<b>Off-balance-sheet transactions</b>				
Contingent liabilities	14,220	14,267	184,828	213,315
Irrevocable commitments			225,214	225,214
Commitments relating to calls on shares and other equity securities			48,552	48,552
Confirmed credits				
<b>Off-balance-sheet transactions</b>				
Reporting year	14,220	14,267	458,594	487,081
Previous year	14,050	10,510	464,328	488,888

### Impaired loans

(in CHF thousands)

	Gross receivables	Realization value of risk mitigants*	Net receivables	Individual impairment charge/reversal
Reporting year	431,183	323,088	108,095	112,333
Previous year	314,091	229,466	84,625	88,825

\* Debt/realization value per client: the lower of the two amounts is taken into account. The BCF determines the individual value adjustments on the basis of the credit limits granted, the total positions of the clients concerned and the impaired interests. The individual value adjustments therefore exceed the net amount of impaired loans.

## Trading portfolio assets and liabilities / other financial assets and liabilities at fair value

(in CHF thousands)

	Reporting year	Previous year
<b>Assets</b>		
<b>Trading portfolio assets</b>	<b>4,478</b>	<b>2,820</b>
Debt securities		
- Of which listed on a recognized stock exchange		
Equity securities	3,206	1,142
Commodities and precious metals	780	687
Other	492	991
<b>Total</b>	<b>4,478</b>	<b>2,820</b>
- Of which determined using a valuation model		
- Of which securities eligible for repurchase agreements in accordance with liquidity regulations		

No passive transactions as of December 31, 2023.

## Derivative financial instruments (assets and liabilities)

(in CHF thousands)

	Trading instruments			Hedging instruments		
	Positive replacement value	Negative replacement value	Value of underlying asset	Positive replacement value	Negative replacement value	Value of underlying asset
<b>Interest-rate instruments</b>						
- Swaps				56,331	46,988	3,000,000
<b>Foreign currencies and precious metals</b>						
- Forward contracts and swaps	3,029	2,853	157,633			
<b>Equity securities / indices</b>						
- Options (exchange traded)		2	200			
<b>Total before netting agreements:</b>						
Reporting year	3,029	2,855	157,833	56,331	46,988	3,000,000
- Of which determined using a valuation model				56,331	46,988	3,000,000
Previous year	2,974	2,740	206,166	103,032	59,953	3,032,000
- Of which determined using a valuation model				103,032	59,953	3,032,000
<b>Total after netting agreements:</b>						
	Positive replacement value			Negative replacement value		
Reporting year	59,360			49,842		
Previous year	106,006			62,693		

### Breakdown by counterparty:

	Central clearing houses	Banks and securities dealers	Other clients
Positive replacement value (after netting agreements)		56,543	2,817

## Financial investments

(in CHF thousands)

	Book value		Fair value	
	Reporting year	Previous year	Reporting year	Previous year
<b>Debt securities</b>	1,207,748	1,219,010	1,166,258	1,134,403
- Of which securities intended to be held until maturity	1,207,748	1,219,010	1,166,258	1,134,403
- Of which securities available for sale				
<b>Equity securities</b>	228,179	232,333	246,903	251,051
- Of which significant participations (minimum of 10% of capital or voting rights)				
<b>Precious metals</b>	780	780	9,169	8,906
<b>Real estate</b>	24,868	22,349	24,868	22,349
<b>Total</b>	<b>1,461,574</b>	<b>1,474,473</b>	<b>1,447,198</b>	<b>1,416,709</b>
- Including securities eligible for repurchase agreements in accordance with liquidity regulations	1,009,203	995,748		

## Counterparty breakdown

(in CHF thousands)

	Best quality	High quality	Average quality	Speculative	In default	not rated
<b>Debt securities: book value</b>	1,055,656	116,975	32,149	2,968		

## Participations

(in CHF thousands)

	Reporting year									
	Cost	Accumulated depreciation and write-offs	Book value at year-end	Change in allocation	Investments	Divestments	Depreciation and write-offs	Value adjustments in case of equity method / reversal of depreciation	Book value at year-end	Market value
<b>Other participations</b>										
- Listed			0						0	
- Unlisted	89,567	-24,794	64,774		906				65,680	
<b>Participations total</b>	<b>89,567</b>	<b>-24,794</b>	<b>64,774</b>		<b>906</b>				<b>65,680</b>	

## Compagnies in which the bank has a significant long-term direct or indirect holding

(in CHF thousands)

Company name and headquarters	Main business	Capital (in 1'000)	% of share capital held	% of voting rights held	% of stake held directly	% of stake held indirectly
Investissements Fonciers SA, Lausanne	Fund management	1,000	28.6	28.6	28.6	0
Capital Risque Fribourg SA, Fribourg	Investment company	12,000	31.6	31.6	31.6	0
EdgEvoq Holding SA, Fribourg	Investment company	369	30.7	32.6	30.7	0
BCF SICAV, Fribourg	Real estate funds	500	100.0	100.0	100.0	0

BCF does not prepare consolidated financial statements, as the requirements in this respect are not met.

The theoretical value of investments in which the Bank could nevertheless exercise significant influence, according to the equity method, amounts to CHF 53,552 million, compared with CHF 53,253 million at book value. The difference in value of CHF 0.299 million would therefore have a positive impact on the Bank's earnings (CHF 3,141 million in 2022). Participations of an economic support or sponsorship nature, irrespective of the percentage held, whose liquidation value is non-material, are valued at CHF 1 on the balance sheet.

## Tangible fixed assets

(in CHF thousands)

	Acquisition value	Accumulated depreciation and write-offs	Book value at end of pre- vious year	Reporting year					Book value at year-end
				Changes in allocation	Investments	Divestments	Depreciation and write-offs	Repossessions	
Bank premises	174,678	-117,451	57,227		4,520		-2,646		59,100
Other real estate	12,788	-9,865	2,923		1,411		-39		4,295
Computer programs separately acquired or internally developed	16,195	-10,156	6,040		8,011		-5,024		9,027
Other tangible fixed assets	6,746	-4,188	2,558		822		-1,343		2,037
<b>Tangible fixed assets</b>	<b>210,407</b>	<b>-141,660</b>	<b>68,747</b>		<b>14,764</b>		<b>-9,052</b>		<b>74,459</b>

## Other assets and liabilities

(in CHF thousands)

	Other assets		Other liabilities	
	Reporting year	Previous year	Reporting year	Previous year
Offset accounts			9,520	43,313
Order accounts	3,333	3,830	2,567	3,137
Coupons / coupons and securities due			462	18
Indirect taxes	2,260	2,212	8,592	2,041
<b>Total</b>	<b>5,593</b>	<b>6,042</b>	<b>21,140</b>	<b>48,509</b>

## Assets pledged or assigned as collateral for own liabilities\*

(in CHF thousands)

	Amount or book value of pledge	Real liability
Total assets pledged or assigned		
Securities deposited as collateral for SNB Lombard loan	59,018	0
Mortgage-backed securities to cover claims pledged to the Pfandbriefzentrale Schweizer Kantonalbanken	5,642,395	4,472,000
Guarantee account with the SNB to cover irrevocable commitments to esisuisse	40,805	81,610

\* Without securities financing transactions (see separate breakdown of related transactions on page 70).

## Commitments relating to own occupation pension funds as well as shares held by own occupation pension funds

(in CHF thousands)

	Reporting year	Previous year
Amounts due in respect of client deposits	57,461	45,000
Cash bonds	3,000	3,000
<b>Total</b>	<b>60,461</b>	<b>48,000</b>

## Economic situation of own occupational pension funds

(in CHF thousands)

Economic benefit/liability and pension expenses	Surplus / deficit at reporting year end	Economic share of the bank / financial group		Change in the economic share compared to the previous year (economic benefit / commitment)	Contributions paid for reporting year	Pension costs in personnel expenses	
		Reporting year	Previous year			Reporting year	Previous year
Pension plans with no surplus or shortfall					8,863	8,863	8,037

The assessment is based on the annual financial statements of the pension fund as at 31.12.2022. As of 31.12.2022, the coverage ratio of the Pension Fund is over 100%. Further information is provided on page 59 under «Pension liabilities».



## Outstanding bonds

(in CHF thousands)

Year of issue	Rate in %	Reimbursement	Nominal value
2014	1.250	03.06.2024	150,000
2015	0.550	03.02.2025	350,000
2018	0.200	20.02.2026	200,000
2023	1.900	08.09.2026	150,000
2017	0.300	17.02.2027	200,000
2015	0.600	09.04.2027	150,000
2012	1.450	07.06.2027	175,000
2019	0.500	23.02.2028	260,000
2019	0.250	24.05.2029	200,000
2020	0.000	26.02.2030	200,000
2020	0.140	12.06.2030	165,000
2021	0.000	05.02.2031	240,000
2022	0.3126	02.02.2032	140,000
2019	0.100	01.11.2044	255,000
<b>Total reporting year</b>			<b>2,835,000</b>
<b>Total previous year</b>			<b>2,885,000</b>

None of the bonds issued by BCF can be called in for redemption before the maturity date.

## Bonds and mortgage-backed bonds

(in CHF thousands)

<b>Total reporting year</b>	<b>4,472,000</b>
<b>Total previous year</b>	<b>4,349,000</b>

## Provisions, reserves for general banking risks and variation during reporting year

(in CHF thousands)

	Status at end of previous year	Used as allocated	Changes in scope	Currency translation differences	Recoveries, overdue interest	New provisions changed to income statement	Releases credited to income statement	Status at end of reporting year
Provisions for credit risks	1,991					7,325		9,316
Provisions for other operating risks	100							100
Other provisions	8,101	-198				1,747		9,650
<b>Total provisions</b>	<b>10,192</b>	<b>-198</b>				<b>9,072</b>		<b>19,066</b>
<b>Reserves for general banking risks</b>	<b>667,000</b>					<b>52,000</b>		<b>719,000</b>
<b>Provisions for credit risk and country risk</b>	<b>179,251</b>	<b>-1,307</b>				<b>24,814</b>	<b>-1,185</b>	<b>201,574</b>
- Of which provisions for impaired loans	88,825	-1,307				24,814		112,333
- Of which provisions for non-impaired loans	90,426						-1,185	89,241

## Share capital

(in CHF thousands)

	Reporting year	Previous year
Endowment capital	70,000	70,000

The endowment capital is made available in its entirety by the Canton of Fribourg, in accordance with the law on the Banque Cantonale de Fribourg.

## Receivables and commitments with respect to related parties

(in CHF thousands)

	Receivable		Commitment	
	Reporting year	Previous year	Reporting year	Previous year
Significant shareholder *	94,500		540,396	572,080
Affiliated companies *	279,039	165,533	97,619	126,159
Governing cases **	22,180	20,904	10,554	9,690
Other related parties *			60,461	48,000

## Receivables and commitments with respect to related parties

(in CHF thousands)

	Receivable		Commitment	
	Reporting year	Année précédente	Reporting year	Année précédente
Affiliated companies *			748	1,198
Governing cases **			16	12

\* Transactions were granted on the terms for customers.

\*\* Transactions with members of the Board of Directors and with members of the Executive Board were granted on the standard terms for customers, respectively on those on the standard terms for BCF employees.

## Maturity structure of financial instruments

(in CHF thousands)

		Maturity							
		Sight	Callable	up to 3 months	3 to 12 months	12 months to 5 years	Over 5 years	Fixed assets	Total
<b>Assets / Financial instruments</b>									
		3,265,846	40,805						3,306,651
	Cash and cash equivalents			88,118	49,965				264,447
	Receivables from banks	126,364							
	Amounts due from securities financing transactions								0
	Amounts due from customers	14,798	875,032	567,618	420,552	1,258,024	539,474		3,675,499
	Mortgage loans	14,994	2,817,580	818,727	1,435,757	8,642,632	5,269,355		18,999,045
	Trading portfolio assets	4,478							4,478
	Positive replacement value of derivative financial instruments	59,360							59,360
	Financial investments	294,644			162,789	475,853	503,419	24,868	1,461,574
<b>Total</b>	<b>Reporting year</b>	<b>3,780,485</b>	<b>3,733,416</b>	<b>1,474,463</b>	<b>2,069,064</b>	<b>10,376,509</b>	<b>6,312,249</b>	<b>22,868</b>	<b>27,771,054</b>
<b>Total</b>	<b>Previous year</b>	<b>3,998,273</b>	<b>2,458,829</b>	<b>1,722,886</b>	<b>2,035,119</b>	<b>9,904,706</b>	<b>7,009,812</b>	<b>22,349</b>	<b>27,151,975</b>
<b>Foreign funds / Financial instruments</b>									
	Due to banks	41,165			130,000	632,000	585,000		1,388,165
	Repurchase agreements								
	Amounts due in respect of client deposits	3,498,635	7,993,052	1,326,805	936,634	1,791,400	602,247		16,148,774
	Negative replacement value of derivative financial instruments	49,842							49,842
	Cash bonds			3,789	39,468	265,665	49,392		358,314
	Bonds and mortgage-backed bonds			72,000	441,000	3,365,000	3,429,000		7,307,000
<b>Total</b>	<b>Reporting year</b>	<b>3,589,642</b>	<b>7,993,052</b>	<b>1,402,594</b>	<b>1,547,102</b>	<b>6,054,065</b>	<b>4,665,639</b>		<b>25,252,095</b>
<b>Total</b>	<b>Previous year</b>	<b>4,599,155</b>	<b>8,355,590</b>	<b>537,914</b>	<b>552,200</b>	<b>5,316,905</b>	<b>5,399,971</b>		<b>24,761,735</b>

## Notes to off-balance-sheet transactions and to income statement

### Contingent liabilities

(in CHF thousands)

	Reporting year	Previous year
Credit hedging commitments	779	295
Bid guarantees	212,535	202,378
<b>Total contingent liabilities</b>	<b>213,315</b>	<b>202,673</b>

### Fiduciary transactions

(in CHF thousands)

	Reporting year	Previous year
<b>Fiduciary investments with third parties</b>	<b>0</b>	<b>0</b>

### Net trading income

(in CHF thousands)

	Reporting year	Previous year
Securities transactions / realized and unrealized income	-8	-74
Currencies	10,731	10,788
Precious metals	175	194
<b>Net trading income</b>	<b>10,898</b>	<b>10,908</b>

### Disclosure of significant refinancing income under interest and discount income and significant negative interest

(in CHF thousands)

	Reporting year	Previous year
<b>Negative interest</b>		
Negative interest on active operations (reduction of interest income)	-2	-2,809
Negative interest on passive operations (reduction of interest expenses)	0	3,818

### Personnel costs

(in CHF thousands)

	Reporting year	Previous year
Fixed and variable compensation	54,738	50,178
Employee benefits / Contribution to staff pension funds	24,078	17,726
Other personnel expenses	2,571	2,639
<b>Total personnel costs</b>	<b>81,388</b>	<b>70,543</b>

## Other operating expenses

(in CHF thousands)

	Reporting year	Previous year
Premises	5,384	4,465
IT and communication costs	21,836	20,509
Machinery, furniture and vehicles costs	323	172
Auditor fees	372	395
- Of which for financial and prudential audits	368	350
- Of which for other services	4	45
Other operating expenses	17,358	17,408
<b>Total other operating expenses</b>	<b>45,272</b>	<b>42,949</b>

## Comments on significant losses and extraordinary income

(in CHF thousands)

	Reporting year	Previous year
Extraordinary income	0	0
Extraordinary expenses	0	0

## Taxes and payments to Fribourg communities

(in CHF thousands)

	Reporting year	Previous year
<b>Payments to Fribourg communities</b>		
Cantonal, municipal and parish taxes	10,762	7,604
Compensation for cantonal guarantee	44,500	46,000
Remuneration of the endowment capital	11,000	11,000
Extraordinary payment to the State	19,500	-
<b>Total</b>	<b>85,762</b>	<b>64,604</b>
<b>Weighted average tax rate *</b>	<b>38.24%</b>	<b>37.18%</b>
<b>Tax payment details</b>		
Cantonal taxes	5,764	4,238
Municipal taxes	4,508	3,016
Parish taxes	490	350
<b>Total paid taxes</b>	<b>10,762</b>	<b>7,604</b>
<b>Weighted average tax rate *</b>	<b>4.80%</b>	<b>4.38%</b>

\* Based on operating profit



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To the Grand Council of the Canton of Fribourg  
  
of **Banque Cantonale de Fribourg, Fribourg**

Geneva, 21 March 2024

## Report of the statutory auditor

### Report on the audit of the financial statements



#### Opinion

We have audited the financial statements of Banque Cantonale de Fribourg (the Company), which comprise the statement of financial position as at 31 December 2023, the statement of income, and the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework for banks and comply with the Swiss law and law on Banque Cantonale de Fribourg.



#### Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.



### Valuation of loans and advances to customers and mortgages

<b>Risk</b>	<p>Lending operations constitute the Bank's main activity. Advances to customers amounted to CHF 22.7 bn at 31 December 2023, an increase of CHF 1'105 m or 5.12% compared to 31 December 2022, and represent 81% of the Bank's balance sheet total.</p> <p>Their assessment is based on an internal control system set up by the Bank to limit and manage credit risks. All credit commitments require prior analysis and definition of a counterparty rating, which allows for an assessment of the credit risk on a scale of 1 to 12 (1 being the best credit rating and 12 the worst).</p> <p>Subsequently, each receivable is subject to a periodic internal review at a frequency defined in the credit manual. Based on these ratings, overdue and non-performing loans are identified and are subject to a specific procedure.</p> <p>The identification of risks and the evaluation of the corresponding value adjustments are thus based on ratings and analyses that involve a significant degree of judgment on the part of the General Management. Given the volume of loans granted, the assessment of customer loans and mortgages is considered a key element of the audit.</p> <p>The procedures for monitoring and handling overdue and non-performing loans are set out on page 62 and following of the notes to the financial statements.</p> <p>The amounts of value adjustments are shown on page 71 of the notes to the financial statements.</p>
<b>Our audit response</b>	<p>Our work consisted in assessing and testing the key controls relating to the granting (compliance with internal directives and validation competencies), recording, release and monitoring of loans, as well as the methodology for identifying default risk and assessing value adjustments.</p> <p>In addition, we have performed detailed procedures which consisted in particular in:</p> <ul style="list-style-type: none"> <li>▪ verifying, on the basis of a sample of overdue receivables, their correct treatment and recording in the accounts, as well as their validation by the competent authorities;</li> <li>▪ verifying the correct treatment and accounting of interest on impaired receivables;</li> <li>▪ verifying, based on a sample of impaired receivables, their correct treatment and accounting in the accounts, as well as their validation by the competent authorities;</li> <li>▪ verifying the general IT controls relating, in particular, to the Finnova and CreditMaster IT systems;</li> <li>▪ verifying, based on a sample of "non-impaired" loans, that there are no indications that the evaluation of the credits was not appropriate, and that the classification of the latter was erroneous.</li> </ul> <p>Finally, we have audited the compliance with the accounting standards applicable to banks with regard to the valuation and presentation of advances to customers and mortgages in the financial statements.</p> <p>Our audit procedures did not give rise to any reservations regarding the valuation of loans and advances to customers and mortgages.</p>



### Assessment of the latent risk of default

**Risk** The assessment of the latent risk of default on the non-impaired loan portfolio, respectively on receivables not covered by individual value adjustments, is also considered a key element of the financial audit because of the potential impact on the result and the margin of appreciation in defining the method to be applied.

The calculation corresponds to the provisioning based on an individual loss rate fixed for each of the first nine rating classes. The current rates are justified by the Bank by considering the evolution of its loan portfolio, the volume of new loans granted, the evolution of the real estate market and its risk analysis.

The amounts of these value adjustments are the subject of an internal procedure presented on page 62 and the amounts are presented on page 71 of the notes to the annual accounts.

**Our audit response** We have performed the following procedures:

- verification of the determination of the amount of the value adjustments for latent risk;
- review of the loss rates applied to the rating classes and the underlying assumptions.

Our audit procedures did not give rise to any reservations regarding the assessment of the latent risk of default



### Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



### Board of Directors' responsibilities for the financial statements

The Board of Directors is responsible for the preparation of the financial statements, which give a true and fair view in accordance with the applicable financial reporting framework for banks, with the Law on the Cantonal Bank of Fribourg, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.





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#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on EXPERTsuisse's website at: <https://www.expertsuisse.ch/en/audit-report>. This description forms an integral part of our report.

#### **Report on other legal and regulatory requirements**



In accordance with Art. 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of the financial statements according to the instructions of the Board of Directors.

Furthermore, we confirm that the proposed appropriation of available earnings complies with Swiss law and the Law on Banque Cantonale de Fribourg. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

 Didier Müller  
(Qualified Signature)

Licensed audit expert  
(Auditor in charge)

 Matthieu Siffert  
(Qualified Signature)

Licensed audit expert

## Equity and liquidity as of 31 December 2023

### Key regulatory figures

(in CHF thousands)

	31.12.2023	30.06.2023	31.12.2022
<b>Equity taken into account (CHF)</b>			
1 Common equity tier 1 (CET1)	2,499,146	2,360,650	2,360,650
2 Tier 1 Capital (T1)	2,499,146	2,360,650	2,360,650
3 Total equity	2,508,462	2,362,925	2,362,642
<b>Risk-weighted assets (RWA) (CHF)</b>			
4 RWA	13,309,961	12,932,922	12,765,911
4a Tier 1 Capital (T1)	1,064,797	1,034,634	1,021,273
<b>Risk-based capital ratios (as % of RWA)</b>			
5 CET1 Ratio (%)	18.78%	18.25%	18.49%
6 Core capital ratio (%)	18.78%	18.25%	18.49%
7 Total capital ratio (%)	18.85%	18.27%	18.51%
<b>CET1 requirements (as a % of RWA)</b>			
8 Capital adequacy ratio according to the Basel minimum standard	2.50%	2.50%	2.50%
9 Countercyclical capital buffer (Art. 44a OFR) according to the Basel minimum standard	0.00%	0.00%	0.00%
10 Additional capital buffer under international or national systemic risk (%)	0.00%	0.00%	0.00%
11 Total requirements of the Basel minimum standard, in CET1 quality (%)	2.50%	2.50%	2.50%
12 CET1 available to cover buffer requirements according to the Basel minimum standard (after deducting CET1 allocated to cover minimum requirements and, if applicable, to cover TLAC requirements) (%)	10.85%	10.27%	10.51%
<b>Target capital ratios according to Appendix 8 of the OFR (in % of RWA)</b>			
12a Equity ratio according to Appendix 8 OFR (%)	4.00%	4.00%	4.00%
12b Countercyclical capital buffer (Art. 44 and 44a OFR) (%)	1.14%	1.15%	1.12%
12c CET1 target ratio (in %) according to Appendix 8 of the OFR increased by the countercyclical buffers according to Articles 44 and 44a OFR	8.94%	8.95%	8.92%
12d T1 target ratio (in %) according to Appendix 8 of the OFR increased by the countercyclical buffers according to Articles 44 and 44a OFR	10.74%	10.75%	10.72%
12e Overall equity ratio target (in %) according to Appendix 8 of the OFR increased by the countercyclical buffers according to Articles 44 and 44a OFR	13.14%	13.15%	13.12%
<b>Basel III leverage ratio</b>			
13 Global commitment (CHF)	28,379,130	28,027,959	27,721,986
14 Basel III leverage ratio (core capital as % of total commitment)	8.81%	8.42%	8.52%
<b>Liquidity ratio (LCR)</b>			
15 LCR numerator: sum of high quality liquid assets (CHF)	4,129,627	4,152,846	4,390,510
16 LCR denominator: net cash outflow (CHF)	1,822,713	2,118,683	2,311,250
17 Liquidity ratio, LCR (in %)	227%	196%	190%
<b>Funding ratio (NSFR)</b>			
18 Stable available refinancing (in CHF)	24,434,356	24,423,501	24,008,507
19 Stable refinancing required (in CHF)	18,449,554	18,026,587	17,268,498
20 Funding ratio, NSFR (in %)	132%	135%	139%

## Overview of risk-weighted assets (RWA)

(in CHF thousands)

	RWA 31.12.2023	RWA 30.06.2023	Minimum equity 31.12.2023
1 Credit risk (without CCR - counterparty credit risk)	12,433,025	12,111,116	994,642
2 Of which determined by the standard approach (SA)	12,433,025	12,111,116	994,642
6 Counterparty credit risk CCR	6,777	9,700	542
7b Of which determined by the market value method	6,777	9,700	542
10 Risk of change in value of derivatives (CVA)	8,074	14,240	646
13 Investments in collectively managed investments - mandate-based approach	188,244	187,519	15,060
14 Investments in pooled investments - fallback approach	37,527	13,391	3,002
20 Market risk	6,492	6,499	519
21 Of which determined according to the standard approach	6,492	6,499	519
24 Operational risk	629,820	590,457	50,386
27 Total	13,309,961	12,932,922	1,064,797

## Table - statistics

### Overview of some balance sheet items and annual results from 2013 to 2023

(in CHF thousands)

	Commitments to customers in the form of savings and investments	Other com- mitments to customers	Cash bonds	Amounts due from customers	Mortgage loans	Profit for the year	General legal reserve	Payment to the State of Fribourg	Payment to municipal- ities and parishes	Balance Sheet sum
2012	5,726,338	5,503,588	286,291	2,901,558	11,070,394	113,346	753,000	45,100	8,890	16,271,192
2013	5,899,583	5,502,905	237,379	3,123,945	12,182,783	118,884	831,000	48,900	8,605	17,664,901
2014	6,017,496	5,584,111	230,746	3,153,753	12,801,440	120,172	911,000	53,000	8,800	18,790,108
2015	6,048,407	6,165,552	248,410	3,068,517	13,433,871	122,690	988,000	55,000	9,000	20,623,237
2016	6,193,006	6,203,723	231,070	3,000,335	14,123,667	123,687	1,066,000	55,800	9,250	21,560,833
2017	6,487,431	6,489,395	213,147	2,912,767	14,666,367	126,365	1,144,000	57,224	9,533	21,996,450
2018	6,868,944	6,944,332	224,576	3,081,746	15,427,864	128,765	1,224,000	58,990	9,964	22,926,714
2019	7,313,619	6,866,847	264,550	3,121,864	16,242,304	131,611	1,305,000	60,033	10,034	24,639,422
2020	8,074,448	7,576,730	295,970	3,187,449	17,045,531	133,344	1,388,000	66,353	3,590	26,714,326
2021	8,367,783	8,161,689	299,226	3,046,747	17,704,392	135,089	1,459,000	59,134	3,129	28,034,820
2022	8,582,650	7,210,705	293,563	3,248,436	18,321,239	141,146	1,539,000	61,238	3,366	27,324,676
2023	8,081,104	8,067,670	358,314	3,675,499	18,999,045	161,496	1,623,000	80,764	4,998	27,960,449