



ANNUAL REPORT 2015



Pictures: Ritom hydroelectric plant, above Piotta

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Fulvio Pelli, attorney at law
Chairman of the Board of Directors

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.....

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Message from the Chairman of the Board of Directors

Dear Madam,
Dear Sir,

In its 100th year of business, Banca dello Stato del Cantone Ticino has achieved excellent results. Mortgage loans increased by CHF 424 million to over CHF 7.7 billion. In spite of the voluntary disclosure procedure launched by the Italian government, the inflow of new money totalled CHF 135 million. The Bank's operating activities were also excellent: gross profit stood at CHF 82.5 million and net income increased by 12.4%, reaching approximately CHF 43.8 million. Based on these remarkable results, the Board of Directors decided to allocate CHF 22 million to the reserve for general banking risks in order to bolster the Bank's own capital resources. It has also earmarked CHF 6 million for the "BancaStato Centennial Foundation", a non-profit foundation instituted to finance innovative projects and businesses favouring the economic development of the Canton.

The cost/income ratio improved considerably, from 59.1% to 54.8%, proving that the substantial investments made in 2014 to upgrade the informatics system and work processes are now bearing fruit. The dividend to the Canton was increased from CHF 29.3 million in 2014 to CHF 33.2 million. Adding the interest on the CHF 60 million subordinated loan granted by the Canton to BancaStato at the end of 2014, the total amount paid out to the Canton stood at CHF 35 million.

In a difficult year for asset management banks, Axion SWISS Bank SA achieved satisfactory results. The Axion SWISS Bank SA, which is entirely owned by BancaStato, registered an inflow of new assets totalling CHF 1.4 million. Its net income decreased by CHF 0.5 million to CHF 1.4 million.

The Bank's good operating results were achieved within a difficult economic context. Low interest rates, uncertainties with regard to the economic situation and financial markets and, to a large extent, the operating framework of asset administration activities, have all impacted negatively on income.

The Bank nevertheless succeeded in increasing its income by 6.5% to CHF 182.7 million thanks to a growth in business volumes, stable margins and specific operations regarding the management of the balance sheet structure.

The ongoing progress in mortgage loans granted, and the doubling, from 1% to 2%, of the countercyclical capital buffer on these loans (pursuant to a decision of the Swiss Federal Council in 2014), have forced the Bank to further enhance its equity. Over and above the CHF 22 million allocated to reserves, the Board of Directors and the State Council have agreed to an additional CHF 80 million subordinated loan eligible as capital. This capital increase is significant in order to avoid the slowing down of lending, particularly during trying times for the Canton's economy. As a result of these measures and the ordinary payment to the legal reserves, the Bank's capital adequacy, measured as the ratio of required capital to available funds, has improved, standing at 211.9%, exceeding the minimum ratio of 140% set by FINMA.

With regard to the anticipated performance in 2016, given the prevailing uncertainty of the economic situation and the difficult context in which banks are operating, it is even more arduous today to make reliable predictions.

In 2015, the new BSM (B-Source Master) IT solution and renewed work processes were fully operational for the first time. Except for a few "growing pains" these extensive changes were positive for the Bank. The Institute was able to work more efficiently while clients benefited from better service.

The Bank also resolved the fiscal controversy with the United States (US Program) and concluded the activities pertaining to the voluntary disclosure procedure introduced by the Italian government which allowed Italian taxpayers who have assets abroad to regularise their position. In this regard, it is important to note that 80% of Italian clients have so far remained with our Bank.



This is encouraging even though the Bank, as well as the Ticino financial marketplace, will have to demonstrate their ability to provide products and services which are competitive at an international level.

In 2015, BancaStato worked towards the acquisition of a share of Société Générale Private Banking (Lugano-Svizzera) SA by its affiliated Axion SWISS Bank SA in order to enable it to manage asset volumes which can better meet the challenges of asset management activities. Moreover, the Bank was active in the creation of a “home-base” for external Ticinese asset managers who face increasingly complex regulatory and market conditions.

The important objectives achieved in 2015 came as a result of the substantial reorganisation and optimisation program which was launched several years ago. After this major and intense endeavour the Bank will be able to focus on consolidating its achievements in the coming years.

The year 2015 was pivotal for BancaStato not only for the results it achieved, but also because it celebrated 100 years of existence and dedicated a substantial budget to the organisation of events throughout 2015, involving the entire Canton.

The Board of Directors wanted celebrations worthy of the 100 years spent in service to clients and Canton. These events were met with public appreciation, a tangible sign of the Ticinese people’s attachment to their Bank, something I feel particularly proud of.

Fulvio Pelli, attorney at law
Chairman of the Board of Directors

BancaStato's Centennial – A Brief History

(Excerpts from the speech held by the Chairman of the Board of Directors, Fulvio Pelli, attorney at law, on the official ceremony to celebrate the 100th anniversary of Banca dello Stato del Cantone Ticino on the 4th of September 2015 at the Teatro Sociale in Bellinzona.)

Banca dello Stato del Cantone Ticino was founded in 1915 in what were then difficult times for Canton Ticino. It was wartime, the so-called “absurd Great War”. That same year, Italy was also involved in the conflict. Ulrich Wille, who was elected general in the previous year, had repeatedly expressed his concern regarding the position of Italy, fearing a military intervention against Swiss territories. But worries in Ticino in 1915 were not only of a military nature as the economy of our impoverished Canton was far from booming. In the year prior to the Bank's founding, three other banks had filed for bankruptcy: the “Credito Ticinese”, the “Banca Popolare Ticinese”, and first and foremost, the “Banca Cantonale Ticinese” in which the State held a modest stake. The latter bank was founded sixty years earlier, taking over from another institution. In that year, the people of Ticino lost 40 million francs in savings, almost half of the total savings deposited in those days in all Ticino banks. It was a real catastrophe. The Swiss Confederation called for a meeting of representatives of the national and Ticino banking industry, as well as the Cantonal government. This initiative later gave birth to “Banca del Ticino SA”, a transitional institution largely financed by the German-speaking part of Switzerland and whose investment policy was geared to utmost security. However, this could not be considered as a definitive solution. The Ticino government, along with the Grand Council of Ticino, showed considerable spirit of initiative and courage, and succeeded in creating a new autonomous public banking institution by turning “Banca del Ticino SA” into “Banca dello Stato del Cantone Ticino”, all within a few months.

On the 6th of May 1915, less than three months after the presentation of the government message, Parliament approved the bill. In November 1915, Banca dello Stato del Cantone Ticino began operations. The following year, it became part of the Association of Swiss Cantonal Banks. The State imposed on the Bank a public mandate which is part of its founding law, in order to “promote the economic development of the Canton, by providing services to business, industry, crafts and agriculture and offering secure and remunerative investment opportunities for savings”. Gone were past financial speculations and manoeuvres motivated by personal interest. The new banking policy emphasized a cautious approach and long-term objectives.

This was both a sound and wise move: the all-prudent policy adopted in 1915 was maintained and kept strictly unchanged by political authorities over several decades.

In the words spoken by Ferruccio Pelli, then Chairman of the Board of Directors during the celebrations for the Bank's 50th anniversary, the long-term consequence of the policy pursued since 1915 was that “money flowed in with savings booklets and cash bonds, and flowed out as absolutely secure mortgages; all other banking operations were minor if not excluded”. Such a banking policy was not devoid of drawbacks: fifty years after its founding, during the economic revival in the wake of World War II, the then Chairman stated that “the impossibility of operating beyond imposed restrictions progressively put the Bank in a disadvantageous position with respect to competing institutions which were free from restrictions and poised to conquer the market”.

An initial reaction to this obvious disadvantage came about with the legislative reform of 1961. The strict founding law was somewhat relaxed. The Bank was now able to develop in the field of commercial transactions. However, this would not be sufficient. In relative passivity, the Bank had to watch as the Ticino economy developed, consistent foreign capital flowed in and the banking industry boomed. The Institute also lagged behind when it came to creating the management structures for what would later be termed “private banking”, a segment which was not considered sufficiently “public” in those days and which was thought of as entailing an exceedingly high reputational risk.

The Bank's real reform, that is, the one that now allows it to compete on equal terms with privately owned banks, materialized only in 2003 with a substantial amendment of the founding law. We must therefore be grateful to those public officials who were able to understand the needs dictated by changing times and who conceived a reform that was both efficient and capable of rallying public support. The Bank thus became a universal bank. It was able to operate within the various markets that had developed and thus refinance thanks to the instruments of modern financial science, while still operating under the surveillance of FINMA. This supervision was therefore less “hand-crafted” than the previous surveillance which was more political and less technical in character.



Ten years later, and 100 years after the founding of the Bank, Ticino is experiencing more turbulent times, although less so our Bank which is in better shape than ever. Difficulties increased in both the Swiss and Ticinese banking world. Both were faced with actual legislative revolutions, in part imposed by others, the world's most powerful (G20, OECD), and in part as a result of a typically Swiss eagerness to conform and the view that uncritical complying to the rules of those in command is the only way out in the face of the international opposition to a banking system which is considerably better than that of our neighbours.

Both the Board of Directors and the Executive Boards, which were established after the 2003 reform, took it upon themselves to interpret the positive popular decision expressed after the referendum on the amendments of the founding law by adhering as strictly as possible to the message of prudence. This was by choice rather than by imposition of law; security in favour of clients as well as openness to innovation and new investments to make up for the latest setbacks. The most recent reforms of the BancaStato system derived from this decision. The tangible outcomes are the bolstering of our private banking units; the acquisition of our affiliate, the Axion Swiss Bank, and of a part of the Société Générale Private Banking SA (Lugano); efforts aimed at growth and the setting up of a service structure favouring the many Ticinese asset managers struggling with the new rigorous and costly control standards required by FINMA; the introduction of new financing activities such as trading in specific raw materials and, finally, activities geared towards providing the Ticino market with still much-needed banknotes.

In recent years, our Banca dello Stato del Cantone Ticino or BancaStato, as it is now commonly referred to, has increased its profitability substantially. This was achieved thanks to the ongoing rationalisation of its organisation and the qualitative upgrading of its services, all of which was implemented without sacrificing the professional expectations of staff and without penalising the financial interests of its clients or its owner, the State of Canton Ticino. The latter saw its dividends more than double over the ten-year period from 2005 to 2015.

Improved profitability does not mean giving up public service. In the banking world this concept is not easily interpretable nor is it limited to paying out substantial dividends. Although these are necessary, they do not tell the whole story. BancaStato finances our State, as well as numerous municipalities, even the smallest ones, and it does this by applying economic, rather than political, valuation criteria. After in-depth evaluations, BancaStato finances businesses in the Canton and contributes to the development of technological innovation. BancaStato provides funds to the Ticino agriculture sector, which has been largely neglected by the other banking institutions. BancaStato sponsors those events which do not particularly interest larger banks, focusing on sports and, in particular, students. BancaStato increasingly finances Ticino clients, therefore placing the Canton at the centre of its world.



Corporate Governance

Corporate Governance is defined as a set of rules and relationships which dictate how an enterprise is managed: it is therefore intended to illustrate those essential elements to better understand how Banca dello Stato del Cantone Ticino is administered, as well as who is in charge of specific executive functions, and the basic principles under which these functions are carried out.

Introduction

Banca dello Stato del Cantone Ticino (BancaStato) chooses to voluntarily publicise information on its corporate governance. The publication draws reference from the outline proposed by the Directive on Information Relating to Corporate Governance issued by SIX Swiss Exchange, latest version effective 1 September 2015¹.

All data herein are at 31 December 2015 or refer to the entire 2015 financial year, unless otherwise indicated.

Corporate Name, Legal Status, Duration and Head Office

Banca dello Stato del Cantone Ticino, founded in 1915, is an autonomous institution operating under public law. The Republic and Canton of Ticino owns 100% of the Bank's equity. The Institution's statute is that of a cantonal bank, in accordance with the Swiss Federal Law on Banks and Savings Banks².

The activities of the Bank are regulated by the Law on Banca dello Stato del Cantone Ticino dated 25 October 1988. The Bank is established with no time limit. Its head office is in Bellinzona³.

Purpose and Activities

The purpose of Banca dello Stato del Cantone Ticino, as indicated in Art. 3 of the Law on Banca dello Stato del Cantone Ticino, is to promote the economy of the Canton and to provide the public with opportunities for secure and remunerative investment of their savings.

In conformity with the above-mentioned Law, the activities of the Bank extend to all operations of a full-service bank.

As illustrated in its Operating Rules and Regulations, the Bank's activities comprise:

1. acceptance of deposits in all forms allowed by the banking legislation;
2. granting of collateralised and non-collateralised loans and credits;
3. processing transactions with letters of credit and stand-by letters of credit, in particular in Commodity Trade Finance;
4. issuing guarantees, sureties and guarantee commitments;
5. securities trading for third parties and on own account;
6. trading in derivative financial instruments both for third parties and on own account;
7. issuing and participating in the issuance of shares, bonds and other securities, for both Swiss and foreign debtors;
8. spot or forward trading of currency and securities in foreign currency, precious metals and monetary market papers, both for third parties and on own account;
9. trading with professional banknote dealers as per Art. 2 of ORD-FINMA;
10. setup and distribution of investment funds in Switzerland and abroad, and the acceptance of mandates as a custodian and/or underwriter;
11. advisory, intermediation and asset management, as well as custody and administration of securities and valuables;

¹ Refer to: https://www.six-exchange-regulation.com/dam/downloads/regulation/admission-manual/directives/06_16-DCG_en.pdf

² Refer to: http://www.admin.ch/ch/e/rs/c952_0.html

³ Refer to: <http://www3.ti.ch/CAN/Rleggi/public/index.php/raccolta-leggi/legge/vid/490>

12. payment transaction processing in Switzerland and abroad;
13. carrying out the functions of an asset administrator;
14. providing treasury services;
15. providing custody and securities administration services, as well as safe deposit box rentals;
16. carrying out fiduciary transactions, in its own name, but on account and at the risk of customers;
17. issuing and placing of bonds, shares and other financial instruments, and participating in issues or financial operations of public or private corporations.

Supervision

The Bank is subject to the supervision of the Swiss Financial Market Supervisory Authority (FINMA) pursuant to the provisions of the banking legislation⁴.

1. BANK STRUCTURE AND OWNERSHIP

1.1 Operational structure

1.1.1 Group operational structure

BancaStato is a Group. As at 31 December 2015, and just as at the end of 2014, the Bank held a 100% share in a holding company, AHSA Holding SA, with headquarters in Lugano (nominal capital: CHF 7.5 million).

AHSA Holding SA in turn owns 100% of the share capital of Axion SWISS Bank SA with head office in Lugano (nominal capital: CHF 43 million). With this structure, BancaStato remains legally autonomous. As a Group, BancaStato adopted special Group Regulations which lay down its overall organisational rules.

1.1.2 Bank operational structure

The Heads of each Division, along with the President, form the Executive Board. The following business units report to the President of the Executive Board: Management and Credit Control, as well as the Senior Executive Management: Legal and Compliance, Human Resources, and Strategic Planning

and Communications. The other business units are: Special Tasks, Services⁵, Markets and Private Banking, and Retail and Corporate.

1.2 Ownership

Banca dello Stato del Cantone Ticino is an autonomous institution with legal status under public law. The Republic and Canton of Ticino owns 100% of the Bank's equity.

1.3 Cross-shareholdings

The Bank does not have any cross-shareholdings.

2. CAPITAL STRUCTURE

2.1 Capital

By law, the State assigns the Bank an endowment capital and the Bank is authorized to issue participation certificates⁶.

To this date, the Bank has not made use of the latter source of capital, and its capital solely consists of the endowment capital provided by the State, that is CHF 240 million.

The interest paid out on endowment capital is fixed by the Bank's Board of Directors and by the State Council. A 5% interest was paid out on endowment capital in 2015.

2.2 Specifications concerning capital

Pursuant to Art. 6 of the Law on Banca dello Stato del Cantone Ticino, any increase in endowment capital must be authorised by the Grand Council (Cantonal Parliament).

On 23 November 2011, the Government issued a request to Parliament with respect to increasing BancaStato's endowment capital from CHF 110 million to CHF 240 million⁷ in order to satisfy the new requisites of the FINMA in terms of capital adequacy⁸ and to sustain the investments involving several important projects which BancaStato is implementing while, at the same time, still guaranteeing a margin of financial autonomy.

The Legislative Decree related to this request was approved by Parliament on 8 May 2012.

⁴ Refer to: <https://www.finma.ch/en/finma-public/authorised-institutions-individuals-and-products/>

⁵ The Services Division was constituted in 2014 and took over from the former Logistics Division. It includes "Financial and Risk Management" (which formerly reported directly to the President of the Executive Board) and the Service Center Department which now comprises the activities of the former Logistics Division.

⁶ Refer to: <http://www.3.ti.ch/CAN/RLeggi/public/index.php/raccolta-leggi/legge/vid/490>

⁷ Refer to: <http://www.ti.ch/CAN/SegGC/comunicazioni/GC/odg-mes/6570.htm>

⁸ Refer to: https://www.finma.ch/en/~/_media/finma/dokumente/dokumentcenter/myfinma/rundschreiben/finma-rs-2011-02.pdf?la=it

2.3 Changes in capital

There were no changes in the endowment capital in 2015. On 31 December 2014, in conformity with Government Resolution 5761 of 17 December 2014, the endowment capital was increased from CHF 200 million to CHF 240 million. In 2013, it was increased from CHF 110 million to CHF 200 million and in 2012 from CHF 100 million to CHF 110 million.

2.4 Shares and participation certificates

The Bank's endowment capital is not divided up into shares. According to Art. 6 of the Law on Banca dello Stato del Cantone Ticino, the Institution is authorised to issue participation certificates not exceeding 50% of its endowment capital. As at 31 December 2015, just as at the end of 2014, there was no participation capital.

2.5 Bonus certificates

The Law on Banca dello Stato del Cantone Ticino does not contemplate the issuing of bonus certificates.

2.6 Limitations on transferability and nominee registrations

As the capital of Banca dello Stato del Cantone Ticino is not divided into shares, there is no relevant information to provide under this heading.

2.7 Convertible bonds and options

Banca dello Stato del Cantone Ticino has not issued any convertible bonds, and there are no options on the Bank's equity. It is however important to mention the "old style" hybrid product – T2 loan (Tier 2) with PONV, point of non-viability clause issued in 2011 for an amount of CHF 175 million and the loans received from the Canton (Additional Tier 1 loan) with PONV clause of CHF 60 million at the end of 2014 and CHF 80 million at the end of 2015. Although technically these loans are not convertible, in the event of the Bank's impending insolvency (PONV), these funds would contribute to its recovery through a credit reduction or a full conversion into capital (lenders' claims would be fully covered). For details, refer to the corresponding table of the Notes to the Group Financial Statements.

3. BOARD OF DIRECTORS

3.1 Members of the Board of Directors and activities

The Board of Directors exercises the ultimate responsibility for the management of the Bank and the supervision and control of the state of business.

The Board is composed of seven members who must be Swiss citizens of which at least six must be domiciled in the Canton (Art. 19 of the Law on Banca dello Stato del Cantone Ticino).

Based on the provisions of Art. 20 of the Law on Banca dello Stato del Cantone Ticino, members of the State Council (Cantonal Government), government officials, magistrates of any type (except for justices of peace), directors, administrators and employees of other credit institutions (with the exception of members of the Swiss National Bank governing bodies), cannot be appointed to the Board of Directors. Relatives and next of kin, spouses, registered partners or cohabiting partners, siblings or siblings-in-law, business partners and employees of the same company may not be members of the Board of Directors simultaneously. The members of the Board of Directors fulfil the independence criteria described in FINMA Circular 2008/24⁹.

The members of the Board of Directors do not carry out operational functions. No member of the Board of Directors has been a member of the Executive Board or member of the Auditors (previous or present).

Hereunder is a brief presentation of the members of the Board in office as at 31 December 2015¹⁰, their function, education, professional background and principal activities.

FULVIO PELLI

Function

Chairman of the Board of Directors, born on 26 January 1951, Swiss. On the Board of Directors since 2004, Chairman since 1 July 2004, Chairman of the Chairman's Office and of the Strategy Committee.

Education and professional background

Law studies at the Universities of Bern and of Zurich, degree from the University of Zurich in 1974, PhD in 1977, with a thesis on the relationship between majority and minority in limited companies. That same year, he was admitted to Bar

⁹ https://www.finma.ch/it/~/_/media/finma/dokumente/dokumentencenter/myfinma/rundschreiben/finma-rs-2008-24.pdf?la=it

¹⁰ The composition of the Board of Directors has remained unchanged with respect to 31.12.2014.

and Notary Public Council. He was Assistant Public Prosecutor for the Sottoceneri area for an extraordinary period of four years. He is at present the owner of the law and notary firm Pelli e Associati, Lugano. From 1995 to 2014 he was National Councilor and from 2005 to 2012 he headed the Swiss Liberal-Radical Party.

Other principal activities

- » Chairman of the Board of Directors of GSMN Ticino SA, Sorengo (Sant'Anna and Ars Medica Clinics);
- » Member of the Board of Directors of the Cooperative, the Holding and two operational companies of the La Mobiliare Group, Bern;
- » Chairman of the Board of Directors of Edy Toscano AG, Chur.

ROBERTO GRASSI

Function

Member of the Board of Directors, born on 27 February 1963, Swiss. On the Board of Directors since 1 July 2004, Chairman of the Audit Committee and Member of the Strategy Committee. He was nominated Deputy Chairman of the Board of Directors on 8 July 2011 and is a member of the Chairman's Office.

Education and professional background

Degree in Economics from the University of St. Gallen in 1987 and PhD in Economics from the University of Neuchâtel in 1990. He has been with Fidinam SA in Lugano as a member of the Executive Board and Head of the Corporate Advisory Division since 1996. General Manager of Fidinam Group Holding SA, Lugano since 2001.

Other principal activities

- » Chairman or Member of the Board of Directors of various companies of the Fidinam Group;
- » Chairman of the Board of Directors of Axion SWISS Bank SA;
- » Chairman of the Board of Directors of Pizzarotti SA, Lugano;
- » Member of the Chairman's Office of the Chamber of Commerce, Industry and Crafts of Canton Ticino (CCIATI);
- » Vice-president of the Lugano Commodity Trading Association;
- » Honorary Consul of France in Lugano.

CARLO DANZI

Function

Member of the Board of Directors, born on 24 February 1963, Swiss. On the Board of Directors since 10 July 2007, Secretary of the Board of Director since 1 October 2009 and, in this capacity, Member of the Chairman's Office, Member of the Audit Committee and of the Strategy Committee.

Education and professional background

After the Lyceum and various language courses abroad, he worked for a pharmaceutical company in 1983, later becoming its owner in 1994. Since 1997 he has been the owner of a real estate management company based in Locarno.

Other principal activities

- » Chairman of the Board of Directors of Fonte SA, Locarno;
- » Chairman of the Board of Directors of Laude SA, Locarno;
- » Chairman of the Board of the Carlo Danzi Foundation, Prato Leventina;
- » Chairman of the Board of the Ri di Foch Foundation, Prato Leventina.

MARCO FANTONI

Function

Member of the Board of Directors, born on 27 October 1957, Swiss. On the Board of Directors since 10 March 2009, Chairman of the Projects Committee.

Education and professional background

He graduated in Commercial Sciences from the Cantonal Business School in Bellinzona, he worked for Fidinam Fiduciaria SA, Lugano from 1977 to 1985. In 1987 he became the owner of Comafim SA, Lugano, a company active in the area of real estate promotion, administration of revenue buildings and condominiums and intermediation in houses, villas and apartments.

Other principal activities

- » Member of the Board of directors of the Carla and Bruno Fabbroni Foundation, Lugano.

GIOVANNI JELMINI

Function

Member of the Board of Directors since 1 December 2011, born on 10 July 1962, Swiss. Member of the Projects Committee.

Education and professional background

Degree in Law from the University of Fribourg, lawyer and public notary. Owner of the law and notary firm Jelmini from 1996 to 2009. Since 2010 co-owner of the law and notary firm Respini, Jelmini, Beretta Piccoli & Fornara.

Other principal activities

Grand Council Deputy from 1995 to 2011, he was a member of the Management Commission, Chairman of the Legislation Commission, Taxation Commission, Constitution and Political Rights Commission as well as of the Grand Council Public Mandate Control Commission of Banca dello Stato del Cantone Ticino. He was Cantonal President of Ticino's Popular Democratic Party from 2007 to 2015. He is member of the Foundation Council of the Fondazione Cardiocentro Ticino, and President of the Civic Philharmonic of Mendrisio.

MICHELE MORISOLI

Function

Member of the Board of Directors, born on 30 November 1966, Swiss. On the Board of Directors since 2 December 2008, member of the Audit Committee.

Education and professional background

Master of Science (MSc) in Business Economics from the University of Lausanne in 1988. Worked for a leading banking institution in both Zurich and Ticino from 1988 to 1997. From 1997 to 2002, he was Administrative Director at the University of Lugano (USI). Until 31 December 2011 he was Director of the Regional Hospital of Bellinzona and Valleys, Director of the Oncology Institute of Southern Switzerland in Bellinzona and member of the General Management of the Cantonal Hospital Organisation (EOC – Ente Ospedaliero Cantonale).

Since 1 January 2012, he has been General Agent of the insurance company Helvetia and Vice-president of the Liberal-Radical Party of Ticino since 2012.

Other principal activities

- » President of the Casa dell'Accademia Foundation, Mendrisio;
- » Vice-president of the Associazione l'Ancora, a center for drug addictions, Lugano;
- » Member of the IT for Persons with Disabilities Foundation, Lugano.

RAOUL PAGLIA

Function

Member of the Board of Directors, born on 22 April 1967,

Swiss. On the Board of Directors since 10 July 2012, Member of the Projects Committee.

Education and professional background

Degree from the "Ecole des Hautes Etudes Commerciales" of the University of Lausanne in 1993 and Certified EFFAS Financial Analyst and Portfolio Manager – AZEK in 1999. From 2003 to 2006, he was an expert examiner in financial operations for the Swiss Federal examinations in banking (Eidgenössische Bankfachprüfung).

In February 2013 he obtained a Master's Degree in Advanced Studies in Tax Law from SUPSI. In 1993 he was employed by Banca del Gottardo in Lugano as a financial analyst. He started at BSI SA in 1996, and worked in the investment funds, institutional clients and stock markets departments. In 2011 he was responsible for stock markets for the Family Office Division (which later became Patrimony 1873) until June 2012, when he left the Institution. He is at present Managing Director and Member of the Board of Directors at AMCO Fiduciaria SA.

Other principal activities

- » Sole director of Genco Food SA;
- » Sole director of Leponi SA.

3.2 Other activities and vested interests of the members of the Board of Directors

This information is included in Section 3.1.

3.3 Elections and terms of office

The members of the Board of Directors are appointed by the State Council. Their education, competence and professional history are decisive criteria for their appointment. They remain in office for 3 years, until 30 June. Retiring members may be re-elected. On an annual basis, the State Council renews two, two and three mandates respectively. The maximum term of office is 12 years (Articles 21 and 22 of the Law on Banca dello Stato del Cantone Ticino).

The dates of election and terms of office for the present members of the Board of Directors are as follows:

- » Fulvio Pelli, Chairman: 1 July 2004/30 June 2016
- » Carlo Danzi, Secretary: 10 July 2007/30 June 2016
- » Marco Fantoni: 10 March 2009/30 June 2018
- » Roberto Grassi, Deputy Chairman: 1 July 2004/30 June 2016
- » Giovanni Jelmini: 1 December 2011/30 June 2016
- » Michele Morisoli: 2 December 2008/30 June 2017
- » Raoul Paglia: 10 July 2012/30 June 2018

3.4 Internal organisational structure

The Board of Directors elects among its members the Chairman, the Deputy Chairman and the Secretary, who together form the Chairman's Office.

The Board of Directors reaches a quorum when at least five of its members are present. Decisions are determined by a simple majority of those present, and abstention is not permitted.

In principle, the President of the Executive Board attends the meetings in an advisory capacity. With prior agreement from the Chairman of the Board of Directors, he may invite members of the Executive Board to the meetings for the presentation of specific points on the agenda. Every member of the Board of Directors must inform the other members of possible conflicts of interest and/or conflicts in personal business or that of relatives, and may not in those circumstances attend or take part in deliberations or vote on the subject matter. Minutes are taken at each meeting.

The Board of Directors has defined its own committees, which are described below. The organisation, functioning and competences of the Chairman's Office and the committees are illustrated and set out in specific rules and regulations.

Every member of the Board of Directors is entitled to obtain, under absolute observance of professional secrecy (Art. 11 of the Law on Banca dello Stato del Cantone Ticino), information and details on all Bank business. The members of the committees of the Board of Directors have, within the framework of their mandate, an unlimited right to information on and consultation of Bank documents. The Executive Board and the Internal Auditors must provide the committees of the Board of Directors with all information they require.

In 2015, the Board of Directors convened 13 times.

The meetings of the Board of Directors and its committees lasted between three and a half to four hours.

3.5 Areas of responsibility

The Board of Directors exercises the ultimate responsibility for the management of the Bank, as well as the supervision and control over the state of business. Pursuant to applicable law, regulatory, organisational, strategic and financial responsibilities, as well as supervision and control, lie with the Board of Directors.

Some of its tasks, as defined by Art. 24 of the Law on Banca dello Stato del Cantone Ticino and Art. 11 of the Operating Rules and Regulations are listed by category hereunder:

Regulatory duties

- establishing the Bank's regulatory provisions;
- laying down the operating rules and the Organisation and Risk Management Regulations, and other regulations;
- drawing up a formal document on the public mandate in view of defining the general and specific objectives which are to be met in the medium term by the Bank in favour of the development of the cantonal economy, specifying the instruments to be used to this end and priorities;
- issuing the Staff Rules and Regulations upon prior consultation with personnel.

Organisational duties

- establishment of the Bank's organisation;
- definition of the Bank's organisational chart;
- appointment, suspension, removal or dismissal of the President of the Executive Board, members of the Executive Board, members of the Management, Chief Auditor, Deputy Chief Auditor and the Compliance Officer;
- compensation and adoption of disciplinary measures as regards the Executive Board, the Chief Auditor and the Deputy Chief Auditor;
- organisation of accounting, controlling and financial planning;
- establishment and closing of branches and agencies;
- appointment and dismissal of External Auditors;
- granting or revoking power to sign as laid down in Art. 22 and 23 of the Operating Rules and Regulations;
- authorisation to assume mandates as corporate or foundation bodies on the part of all Bank staff;

- authorisation to operate in new sectors;
- approval of tasks and objectives of each division;
- decision to appear in court and initiate legal proceedings, with power to delegate;
- appointment of the Chairs of the Committees of the Board of Directors.

Strategic and financial duties

- approval of the Bank's financial plans and strategic guidelines laid down in the strategic planning document;
- review and approval of budgets, accounts, semi-annual and annual financial reports;
- review and approval of the annual social and environmental report and of the section on Corporate Governance of the Annual Report;
- decision on the issuance of participation certificates as per special regulations and the annual setting of the base dividend on participation capital;
- decision-making, upon notice from the Executive Board, on requests for loans, credits or advances and on operations which engage Bank funds or its pecuniary responsibility and which are not part of delegated responsibilities as laid down in the operating rules and regulations;
- approval of loans to the members of the Executive Board and the Chief Auditor;
- ratification of loans granted to members of the Board of Directors by the Executive Board or by its subordinate offices within the framework of their delegated responsibilities;
- decision-making on the acquisition and disposal of participations exceeding 15% of the subsidiary's capital or exceeding CHF 2 million, within the limits set by Art. 14 of the Law on Banca dello Stato del Cantone Ticino;
- fixation, in agreement with the State Council, of the interest rate on the endowment capital;

- providing the State Council with the annual report, the financial statements, the proposal for appropriation of available earnings and the External Auditors' report by 31 March of each year;
- establishment of reference rates and oversight to ensure that the individual rates set by the Executive Board are in conformity with Art. 3 of the Law on Banca dello Stato del Cantone Ticino;
- reporting to the FINMA in the event that capital requirements are not met;
- current operating expenses and investments in infrastructure which are not specifically delegated to the Executive Board.

Supervision and control duties

- determining the control procedures to undertake in line with current applicable external regulatory provisions;
- approval and review, at regular intervals, of the Organisation and Risk Management Regulations which are submitted by the Executive Board;
- oversight on compliance with banking regulatory provisions with respect to risks, in particular the control of major risks as per Art. 16 of the Ordinance on Liquidity and Art. 95 and following of the Capital Adequacy Ordinance;
- supervision of the work of the Executive Board, including assessment of the Executive Board in terms of meeting its objectives and its work procedures;
- supervision of the work performed by the Internal Auditors and the Legal and Compliance Office;
- review of the reports of the External Auditors, the Internal Auditors and the Legal and Compliance Office, and their treatment.

Moreover, the Board of Directors makes decisions, in accordance with Art. 24 of the Law on Banca dello Stato del Cantone Ticino, on any other matter that the said Law or the Bank's Rules and Regulations do not explicitly assign to another Bank body or authority.

With respect to consolidated supervision, the Board of Directors exercises its competences on the basis of the Group Rules and Regulations which is drawn upon the principles mentioned above (Art. 24 of the Law on Banca dello Stato del Cantone Ticino and Art. 11 of the Operating Rules and Regulations).

In compliance with Art. 25 of the Law on Banca dello Stato del Cantone Ticino, the Board of Directors may delegate part of its duties, to the exclusion of those inalienable on the analogy of Art. 716a of the Swiss Civil Code¹¹, to permanent or ad hoc committees composed of members of the Board of Directors or to the Executive Board.

As a rule, the Committees do not have any decision-making authority; they draw up notices to the Board of Directors on matters relating to their own charter. Specific decisional authority may be attributed by the Board of Directors.

Minutes are taken at every meeting of the Chairman's Office and of the Committees.

With respect to the delegation of duties to the Executive Board, refer to the corresponding paragraph under Executive Board.

The functions and organisation of the Chairman's Office and the Board of Directors' Committees as at the end of 2015 are described hereunder.

As laid down in internal regulatory provisions, at Group level, the activities of the Committees of the Board of Directors also comprise all issues entrusted for the Group to BancaStato's Board of Directors.

CHAIRMAN'S OFFICE

The Chairman's Office makes all urgent and extremely significant decisions on any matter which the Law or the Rules and Regulations assign to the Board of Directors. In such cases the decision must be submitted to the Board of Directors for approval at its earliest meeting.

The Chairman's Office brings to the attention of the Board of Directors all matters relating to the approval of the Rules and Regulations which fall within the authority of the Board of Directors, as well as matters pertaining to the Bank's organisation, internal regulatory provisions (other than those falling within the duties of the Audit Committee) and matters of personnel policy. It handles relations with the authorities and communications of the Board of Directors, both internal and external.

The Chairman's Office is composed, as it was at the end of 2014, of the Chairman, Dr. Fulvio Pelli, the Deputy Chairman, Dr. Roberto Grassi and the Secretary, Mr. Carlo Danzi.

In 2015, the Chairman's Office convened once.

Audit Committee of the Board of Directors

The Audit Committee of the Board of Directors deals with issues relating to financial matters, internal control systems and risk management, as well as internal and external audits.

With respect to financial matters, the Committee examines the issues and draws up recommendations to the Board of Directors regarding the following:

- accounting principles to be adopted for the preparation of accounts,
- approval of accounts,
- approval of semi-annual reports,
- approval of the budget,
- approval of expenses and overrun expenditures for matters which fall within the authority of the Board of Directors,
- organisation of accounting and financial planning.

As regards the internal control system and risk management, the Audit Committee examines and submits notices to the Board of Directors on the following:

- functioning, efficiency and results of the internal control system,
- strategic decisions relative to risk management,
- functioning, methodologies, efficiency and results of the risk management system,
- procedures to ensure that all risks incurred by the Bank are duly identified, assessed, monitored and controlled,
- compliance with current banking rules and regulations,
- system for monitoring irregularities or recommendations issued by the audit authorities,

¹¹ <https://www.admin.ch/opc/en/classified-compilation/19110009/201507010000/220.pdf>, page 254

- adequacy of the internal control and risk management system with regard to the Bank's strategic decision-making,
- reports of the Executive Board on risk management as well as reports on the activities and risk-assessment of the Legal and Compliance Offices, the Risk Management and the Security Service.
- matters within the competence of the Board of Directors listed in the rules and regulations for risk management and risk policy.

As for internal and external audits, the Committee draws up further recommendations on specific matters, and brings them to the attention of the Board of Directors.

The Audit Committee of the Board of Directors is composed, as it was at the end of 2014, of the Chairman, Dr. Roberto Grassi, and Messrs. Carlo Danzi and Michele Morisoli, members. In 2015 the Committee convened five times.

Projects Committee

The Projects Committee examines and draws up notices to the Board of Directors on:

- planning, implementation, management and control methods, budgets and observance, work progress, reasons pertaining to planning variations, future impacts and other possible aspects of current projects;
- planning, budgets, implementation, management and control methods, future impact and other possible aspects relating to projects which the Bank may consider;
- investments which fall within the authority of the Board of Directors.

The Projects Committee is composed, as it was at the end of 2014, of the Chairman, Mr. Marco Fantoni and Messrs. Giovanni Jelmini and Raoul Paglia. In 2015 the Committee met five times.

Strategy Committee

The Strategy Committee examines the issues and submits notices to the Board of Directors in matters pertaining to the Bank's strategy.

This Committee is composed, as it was in 2014, of Dr. Fulvio Pelli, Chairman, and of Mr. Carlo Danzi and Dr. Roberto Grassi, members. In 2015 no meeting was necessary.

3.6 Information and control instruments vis-à-vis the Executive Board

In line with the Operating Rules and Regulations, the President of the Executive Board reports monthly to the Board of Directors: the balance sheet and income statements, information on the Bank's liquidity, capital adequacy, the situation as regards risks and information on the functioning, effectiveness and results of the internal control system. Moreover, quarterly, he must convey to the Board of Directors information regarding the business development with respect to targets and strategies set by the Board of Directors, as well as information regarding the general business state of the Bank and information on major risks, as per Art. 16 of the Ordinance on Liquidity and Art. 95 and following of the Capital Adequacy Ordinance. Semi-annually, he must provide the balance sheet and the semi-annual income statement.

Every year, he must submit the strategic planning, budgets, the financial statements and annual report, the social and environmental report, the evaluation on the possible updating of the Organisation and Risk Management Regulations, as well as a report on the activity and risk assessment of the Legal and Compliance Office, the Risk Management Office and the Security Service. As deemed necessary, other documents or data may be requested.

Information concerning the management of risks is provided in the Notes to the Financial Statements.

The fundamental principles of information flows have been set also for the Group. The Bank has External Auditors, in conformity with current banking legislation (cf. Section 8.1) as well as Internal Auditors.

The Internal Auditors' Office is independent of the Executive Board and was composed at the end of 2015 of five staff, including the Chief Auditor (Mr. Gabriele Guglielmini, Chartered Accountant – Federal Accounting Diploma).

The Chairman of the Board of Directors acts as the Chief Auditor's direct superior and oversees his activity. The audit is planned in agreement with the Board of Directors.

The latter may assign specific checks, investigations or controls to the Internal Auditors.

Details pertaining to the organisation, functions and duties of the Internal Auditors are laid down by the Board of Directors in special regulations. The staff of the Internal Auditors Office are not permitted to participate in bank operations. The members of the Board of Directors receive all reports relating to ordinary audits. These documents comprise also the stance of the Executive Board on the recommendations formulated by the Internal Auditors.

The Internal Audit reports are discussed by the Internal Auditors with the Audit Committee of the Board of Directors and the Board of Directors.

4. EXECUTIVE BOARD

The Board of Directors may delegate part of its functions relating to business management, to the exclusion of those inalienable on the analogy of Art. 716a of the Swiss Civil Code, to the Executive Board.

The functions of the Executive Board are listed in detail in Art. 15 of the Operating Rules and Regulations, and are the following:

Regulatory duties

- implementing the regulatory provisions and recommendations of the supervisory authority and surveillance bodies, internal and professional guidelines, and oversight on compliance of the same;
- issuing specific regulations relating to instituted committees;
- issuing guidelines and appropriate orders as required for the performance of banking activities;
- implementing the provisions as laid down in the public mandate document;
- implementing the measures set out in the Staff Rules and Regulations;
- issuing a code of conduct and laying down the sanctions in case of non compliance.

Management and organisational duties

- implementation of the Bank's organisation;
- implementation of the Bank's detailed organisational chart;
- development of the Bank's strategic planning and implementation of the measures envisaged in the same based on decisions of the Board of Directors;
- organisation of financial management controls;
- recruitment, compensation, appointment and disciplinary measures, dismissals, as well as direction and supervision of staff other than those falling within the authority of the Board of Directors;
- preparation of the documents pertaining to matters to be submitted to the Board of Directors;
- membership in trade associations;
- decision to appear in court and initiate legal proceedings, as delegated;
- apprising the Board of Directors on the Bank's business development and on its economic and financial state;
- definition of the duties and targets in each division.

Financial duties

- preparation of budgets, semi-annual and annual financial statements;
- drawing up of the social and environmental reports and of the section of the Annual Report on Corporate Governance;
- approval of monthly accounts to be submitted to the Board of Directors;
- implementation of the decisions taken by the Board of Directors with regard to loan requests, credits or advances on operations which engage Bank funds or

pecuniary responsibility and which are not included in delegated responsibilities as outlined in the Operating Rules and Regulations;

- decision on risk-incurring, investments and expenditure, within the limits of the relevant Organisation and Risk Management Regulations;
- decision on the issuance of bonds or other third-party asset gathering;
- determination of individual interest rates, in accordance with the provisions of Art. 3 of the Law on Banca dello Stato del Cantone Ticino;
- notice to the Board of Directors in the event capital requirements are not met;
- decision-making on the acquisition and disposal of participations not exceeding 15% of the subsidiary's capital or CHF 2 million;
- current operating expenses and investments in infrastructure within specific competency limits.

Supervision and control duties

- implementation of the control procedures based on applicable external regulatory provisions;
- implementation of the provisions envisaged in the Organisation and Risk Management Regulations and the proposals for update to be submitted to the Board of Directors;
- supervision on risks incurred and adequacy of allocated capital;
- preparation of the records for the Public Mandate Control Commission of the Cantonal Parliament;
- establishing an evaluation with respect to its own work procedures and the meeting of its objectives.

Credit duties

- decisions related to credit business on the basis of delegated competencies defined by the Board of Directors.

With respect to the Group's operational management, it is important to note that the Executive Board exercises its own competences based on the Group Regulations.

The activities of the Executive Board are supported by the Executive Management, as well as by specific committees of the Executive Board, whose principal responsibilities are summarised below.

These committees carry out their own functions also for specific issues pertaining to the Group.

Risk Committee

The Risk Committee ensures adequate supervision of overall risks, and in particular of operational risks. The duties assigned to this Committee are: to decide on risk thresholds and risk spread (based on the Bank's strategy), to define strategies and operational policies for overall aggregated risk management to be submitted to the Board of Directors for approval, to ensure the implementation and compliance with the objectives set by the Board of Directors with respect to overall risk and in particular operational risks, including aspects pertaining to risk assessment methods, organisation and control, as well as to supervising outsourced activities.

The Risk Committee is chaired by the President of the Executive Board. Its Deputy Chairman is the Head of Retail and Corporate Clients Division.

Credit Risk Committee

The Credit Risk Committee is responsible for managing the credit risk with the aim of optimising its administration. Within the framework of the competencies assigned to it, the Credit Risk Committee decides on loan applications (loan granting, extension, renewal, increase). It also proceeds to a preliminary examination of, and submits prior notice on all matters which are brought to the attention of the Board of Directors for information or debate.

The Chairman of the Credit Risk Committee is the President of the Executive Board and the Deputy Chairman is the Head of the Retail and Corporate Clients Division.

ALCO (Assets & Liabilities Committee)

Within the framework of assignments entrusted to it, the ALCO is responsible for the market risk, including liquidity risk, on all Bank portfolios in view of optimising the management of this risk based on the Bank's strategy and budget. More specifically, this Committee manages rate and currency risk exposure on the balance sheet (as regards both benefits and economic value), overall liquidity, positions in the investment portfolio, and exposure to market risk derived from trading activities.

This Committee is chaired by the Head of Markets and Private Banking Division. The Deputy Chairman is the President of the Executive Board.

4.1 Members of the Executive Board

The Executive Board is composed of the President of the Executive Board and members who are all Heads of Divisions. The members' term is indefinite and they retire three years earlier than the standard age of retirement.

No member of the Executive Board was ever a member of the Bank's Board of Directors or worked for the Auditors (past or present).

Following is a short introduction to the members in office as at 31 December 2015 along with their functions on the Executive Board, their educational background, their professional record of accomplishments and their other activities.

BERNARDINO BULLA

Function

Appointed President of the Executive Board on 16 December 2011, in charge since 1 January 2012. Born on 7 February 1957, Swiss. Member of the Executive Board since 1 October 2000.

Education and professional background

Degree in Economics and Social Sciences from the University of Geneva in 1983. He started work for the Credit Department

of BSI SA in Lugano in 1984. In 1997, he joined the Swiss Bank Society as Head of Private and Corporate Clients, then transferred to UBS SA as Head of International Clients and Trading within the Corporate Clients Division.

At the end of 1998 he was responsible for corporate customers in Ticino at Credit Suisse-Lugano. He joined BancaStato on 1 October 2000 as a Member of the Executive Board and Head of the Corporate Clients Division. From 16 April 2007 to 31 December 2011, he was Head of the Risk Control Division. In January 2012, he became President of the Executive Board (competencies listed under 1.1.2).

Other activities

- » Member of the Board of Directors of Axion SWISS Bank SA, Lugano and of its Audit Committee;
- » Member of the Executive Committee of the Ticino Bankers' Association;
- » Member of the Foundation Council of the Centro Studi Bancari;
- » Member of the Board of Directors of the Association of Swiss Cantonal Banks (ASCB), Basel;
- » Member of the Board of Directors of Agire Invest SA.

RENATO ARRIGONI

Function

Member of the Executive Board since 1 October 2000 and Deputy President of the Executive Board, born on 8 March 1954, Swiss.

Education and professional background

Degree in Economics and Social Sciences from the University of Geneva in 1978, professional training and development at UBS SA: Organiser in Geneva, Assistant Branch Manager in Biasca and team leader for organisation in Lugano. From 1987 to 1990, Assistant Regional Logistics Manager at UBS in Tokyo. Returning to Switzerland, he joined Banco di Lugano, first as Head of the Organisation Unit, then as Head of Logistics. On 1 October 2000, he joined Banca Stato as a Member of the Executive Board and Head of the Logistics Division. Since 1 April 2014 he heads the Special Tasks Division.

Other activities

- » Colonel of the General Staff in the Swiss Army, former Commander of the Territorial Regiment 96;
- » Member of the Board of Directors of TeleTicino SA;
- » Deputy Chairman of the Board of Directors of Axion SWISS Bank SA as well as Chairman of their Audit Committee.

DANIELE ALBISETTI

Function

Member of the Executive Board since 1 April 2014, born on 28 October 1962, Swiss.

Education and professional background

Degree in Economics with a major in Corporate Management from the University of Lausanne in 1985. He began his professional career in the internal audit division of Banca del Gottardo where he was team leader and was promoted to Bank Officer in 1985 and then to Assistant Vice-President in 1989. In 1990, he was entrusted with several projects pertaining to organisation, and risk management control within the Controlling Department. In 1996 he was promoted to Member of the Management and in 1999 became Head of Controlling at Group level.

He joined BancaStato on 1 February 2003 as Head of Financial and Risk Management, taking on de facto the position of Chief Financial Officer.

On 1 April 2014, he became a member of the Executive Board and Head of Services Division which is responsible for financial management and risk supervision, as well as for providing organisational, IT and operational support to various Bank processes.

Other activities

- » Member of the Executive Committee and treasurer of the Swiss Walking Federation.

FABRIZIO CIESLAKIEWICZ

Function

Member of the Executive Board since 1 August 2008; born on 4 September 1970, Swiss.

Education and professional background

Degree in Political Economics from the University of Lausanne in 1993. In 1994 he was employed by UBS SA as a member of a post-graduate team for corporate clients in the Ticino area. In the following year, he became a business consultant with the title of Bank Officer. From the end of 1997 to the beginning of 2000 he was Head of the General Secretariat for the Liberal Radical Party of Ticino. He began his employment at BancaStato on 19 June 2000 as Deputy Manager of the Biasca Agency. On 31 December 2001, he was appointed Member of the Management and assumed the position of Regional Head and Head of the Corporate Clients Division for the Bellinzona Area. He has been Member of the Executive Board and Head of Retail and Corporate Clients since 1 August 2008.

Other activities

- » Deputy Chairman of the Foundation Council of the Fondazione di Previdenza Risparmio 3 of Banca dello Stato del Cantone Ticino;
- » Member of the Board of the Carlo and Albina Cavargna Foundation;
- » Member of the Board of Governors of the Ticino Cancer League.

CLAUDIO GENASCI

Function

Member of the Executive Board since 1 January 2003; born on 26 February 1959, Swiss.

Education and professional background

Degree in Economics and Social Sciences from the University of Fribourg in 1985. Hired at UBS SA as an all-rounder and later as an asset manager in their Finance Department in Lugano. Starting in 1990 he was Head of Asset Management at UBS SA in Locarno. He moved to Cornè Banca SA, Lugano Offices, in 1996 as Head of Investment Strategies. He joined BancaStato on 1 August 2001 as Head of the Markets and Finances Division. In 2003, the Board of Directors appointed him Member of the Executive Board for the Market and Finances Division.

Since 16 April 2007 he has been Head of the Markets and Private Banking Division.

Other activities

- » Chairman of the Foundation Council of the "Risparmio 3" Pension Fund of Banca dello Stato del Cantone Ticino;
- » Member of the Investment Committee of the Real Estate Fund Residentia, in quality of expert in real estate financing.

5. COMPENSATION, PARTICIPATIONS AND LOANS

5.1 Content and method of determining the compensation and the participation programs

The fixed and variable compensation of the Executive Board, as well as that of the Chief Auditor and his Deputy fall within the responsibility of the Board of Directors.

Present compensations of the Members of the Board of Directors are established on the basis of a Resolution of the State Council dated 23 June 2004, effective 1 July 2004.

The Board of Directors approves the Staff Rules and Regulations and the Management Rules and Regulations, which also outline the Bank's policy with regard to salaries, allowances and variable retributions. On an annual basis and acting on proposals from the Executive Board, the Board of Directors makes decisions with regard to the review of annual salaries and the variable component within the framework of MbO (management by objectives).

The social security coverage of the members of the Executive Board is calculated using the same parameters as used for calculating the compensation to Members of the Management. Guaranteed coverage exceeds minimum legal requirements. Moreover, they benefit from the family allowances granted to all staff.

The following figures include fixed retribution, variable retribution and a lump sum figure for entertainment expenses.

In 2015, total compensation for members of the Bank's bodies was as follows: CHF 427,359 for the Board of Directors and CHF 3,476,600 for the five members of the Executive Board.

The highest compensation within the Board of Directors was CHF 94,551 and the highest compensation within the Executive Board was CHF 848,000¹².

Among the Bank's providers there are entities connected to the members of the Board of Directors and the Executive Board. The members of the Board of Directors and the members of the Executive Board benefit from mortgage loans under the same conditions as the Bank staff.

At the end of 2015, loans to Bank governing bodies totalled CHF 88.8 million (see also the corresponding table of the Notes to the Financial Statements).

5.2 Transparency of the compensations, shareholdings and loans pertaining to issuers domiciled abroad

As the Bank has no registered offices abroad, there is no relevant information under this point.

6. SHAREHOLDERS' PARTICIPATION RIGHTS

Relations with Ownership

The information to be disclosed as per paragraphs 6.1 to 6.5 of the Annex to the Directive on Information Relating to Corporate Governance issued by SIX Swiss Exchange does not apply to Banca dello Stato del Cantone Ticino. However, it was deemed useful to sum up the main features of the Bank's relation with its ownership. The members of the Board of Directors are appointed by the State Council. As laid down in Art. 33 of the Law on Banca dello Stato del Cantone Ticino, the Grand Council and the State Council ensure that the Law is adhered to and that the general policy of the Bank is in line with the objectives laid down in the Law.

Within the authority of the Grand Council and the State Council lie, in particular, the overview and approval of the Bank's income statement and balance sheet.

In accordance with Art. 39 of the Law on Banca dello Stato del Cantone Ticino, the Board of Directors must submit its report on the state of business at the Bank, the income statement and the balance sheet, the proposal for appropriation of available earnings and the report of the External Auditors to the State Council by 31 March of every year.

¹² The September 2014 version of the Corporate Governance Guidelines introduces new and more specific recommendations for the presentation of compensations within the Board of Directors and the Executive Board. We believe that the description contained in this Annual Report reflects the requirements for exhaustiveness and transparency.

By 30 April, the State Council transmits the documentation to the Grand Council for approval of the annual accounts, the proposed appropriation of available earnings and the sign off of the Bank's governing bodies.

In conformity with Art. 34 of the Law on Banca dello Stato del Cantone Ticino, the Grand Council exercises a supervisory duty as regards the fulfilment of the public mandate by way of the Public Mandate Control Commission. This Commission is made up of one member per parliamentary group each of whom is appointed by the Grand Council for a period corresponding to one legislative session. In compliance with the provisions of Art. 35 of the Law on Banca dello Stato del Cantone Ticino, the Public Mandate Control Commission verifies the correct fulfilment of the public mandate and draws up a special report to the attention of the Management and Finance Commission on the achievement of the public mandate.

The report prepared by the Commission must include its opinion on the degree of fulfilment of the general and specific objectives laid down in the strategic document on the public mandate as drawn up by the Board of Directors, and based in particular on its analysis of the Annual Social and Environmental Report.

The Commission, which details the parliamentary debate on the aforementioned documents with its report, is entitled to view all the documentation and to hear the Bank representatives insofar as this is compatible with banking secrecy.

As at 31 December 2015 the Commission included: Gabriele Pinoja (taking over from Marco Chiesa; chairman), Omar Balli (deputy chairman; replacing Daniele Caverzasio), Maurizio Agustoni, Nicola Brivio (succeeding Christian Vitta at the end of April), Kandemir Bordoli Pelin and Sergio Savoia.

7. CONTROL AND DEFENCE MEASURES

The information to be disclosed as per paragraphs 7.1 and 7.2 of the Annex to the Directive on Information Relating to Corporate Governance issued by SIX Swiss Exchange is not applicable to Banca dello Stato del Cantone Ticino.

8. AUDITORS

8.1 Duration of the mandate and term of office of the lead auditor

The appointment of the Auditors falls under the authority of the Board of Directors (Art. 37 of the Law on Banca dello Stato del Cantone Ticino).

In 2005, the Board of Directors entrusted the External Auditor mandate to PricewaterhouseCoopers SA in accordance with the Banking Law. In 2015, Mr. Beresford Caloia, partner at PricewaterhouseCoopers SA, assumed the function of lead auditor for the sixth time. This mandate is annual.

PricewaterhouseCoopers SA also audits AHSA Holding SA and Axion SWISS Bank SA.

8.2 Auditing honorarium

For the year 2015, the auditing honorarium of PricewaterhouseCoopers SA for the ordinary audit of BancaStato and other audits amounted to CHF 512,800.

8.3 Additional honorariums

In 2015 additional services for CHF 11,300 were required from PricewaterhouseCoopers by BancaStato.

8.4 Supervisory and control instruments vis-à-vis the auditors

As stated in the Section on the Board of Directors, the Audit Committee of the Board of Directors exercises various activities connected to the External Auditors.

The reports of the External Auditors are brought to the attention of the Board of Directors.

The Board of Directors meets at least once a year with the External Auditors. The full report of the Auditors and the Group Auditor as well as the report on the basic audit are presented by the External Auditors to the Board of Directors. Representatives of the External Auditors take part in the meetings of the Audit Committee of the Board of Directors.

9. INFORMATION POLICY

BancaStato's information and communication policy is based upon principles of consistency, clarity, continuity, up-to-dateness, transparency and verifiability. It specifically aims to strengthen corporate culture and promote its image in observance of its corporate identity both within and without.

The responsibility for the management of the Bank's communication policy is entrusted to the Strategic Planning and Communications Department.

The Bank has an Intranet site in which it informs all staff on corporate strategy, the products and services of the various divisions, financial results, press releases, as well as on communications from the Executive Board and the Board of Directors. This intranet website is an essential source of corporate information, truly a valuable resource comprising all documentation and data to facilitate the ongoing pursuit of banking activities.

Financial results are published twice a year and communicated to the Ticinese media (radio, television and newspapers as well as on the internet), to press agencies, as well as to the press offices of all Cantonal Banks and the Association of Swiss Cantonal Banks. As a rule, the annual financial report is presented during the first quarter at a press conference held at BancaStato's Head Office.

The annual report is sent to the FINMA, the State Council, the Grand Council, the Public Mandate Control Commission, the Swiss National Bank, all Cantonal Banks, the Association of Swiss Cantonal Banks, as well as to correspondent banks, and Swiss and foreign clients upon request.

Annual reports, in Italian and in English, can be accessed via the BancaStato website at www.bancastato.ch¹³ and are available at any BancaStato counter.

For the 2015 financial year, the Bank published once again its Social and Environmental Report¹⁴.

BancaStato can be accessed by the public via their website www.bancastato.ch which facilitate access to information on products, services and news from the Bank. The website www.bancastato.ch was developed in cooperation with IT professionals, it is updated on an ongoing basis and has become an interesting communication channel with the public.

The Bank publishes the magazine "BancaStato News"¹⁵ twice a year and is present in various daily newspapers, broadcasts and publications which deal with financial and economic issues with interviews, presentations and financial articles¹⁶.

Since the fall of 2012, Internet users may subscribe to the newsletter service which provides information on the diversified world of the Institution. Since November 2014, BancaStato also spreads its institutional news on Twitter. Moreover, representatives from BancaStato participate regularly in conferences and other public events and respond to queries from the media with regard to the Bank's stance on topical issues.

The Executive Board receives journalists on a regular basis for the presentation of the financial reports and in order to introduce various issues relating to the Bank's activities, thus promoting dialogue and reciprocal knowledge.

All principal documents published by BancaStato are available at its branches and agencies as well as on its website. For further information, contact:

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¹³ Refer to: <http://www.bancastato.ch/bancastato/Area-media/Pubblicazioni/Rapporti-di-esercizio.html>

¹⁴ Refer to: <http://www.bancastato.ch/bancastato/Area-media/Pubblicazioni/Rapporti-di-esercizio.html>

¹⁵ Refer to: <http://www.bancastato.ch/bancastato/Area-media/Pubblicazioni/BancaStato-News.html>

¹⁶ Refer to: <http://www.bancastato.ch/bancastato/Area-media/Novita/Rassegna-stampa.html>



Ticino's Economy in 2015 and Outlook for 2016

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The international overview

In 2015 we witnessed several important events. Stable growth in the US (+2.15% on an annual basis in the third quarter of 2015) allowed the Federal Reserve to initiate the normalisation phase of the monetary policy after several years of accommodating policies and near zero interest rates. Unemployment in the world's largest economy stood at 5% in December, a rate close to those seen before the 2008 recession. In Europe, the ECB continued to pursue its expansive monetary policy in an attempt to support the feeble growth in the Eurozone which reached +1.6% on an annual basis in the third quarter of 2015, while unemployment levelled off at 10.8%. The British GDP however grew by a more consistent 2.1%, with the jobless rate down to 5.3% on an annual basis in the third quarter of 2015.

Fears about a slowdown in the Chinese economy, which grew by 6.9% in 2015 compared to the previous year, created tensions on the financial markets. This put negative pressure on growth expectations throughout the world, particularly in countries linked to Chinese imports. A further contributing factor was the new devaluation imposed on the yuan by the Chinese central government. A major drop in raw materials and crude prices, down by approximately 30% in 2015, put considerable strain on the energy and mining sectors, increasing tensions among OPEC countries, as well as several emerging markets, and aggravating the recession in Russia where GDP in the third quarter of 2015 was down by -3.8% on an annual basis. The new price of crude, which is well below expectations, has resulted in adjustments in State budgets and final balances, with partial cuts to public spending. Overall, the world economy is expected to see a 3.1% growth in 2015, slightly below the expansion rate of 2014. In its forecast for 2016, the International Monetary Fund indicated some improvement for advanced economies with an expected average growth of 2.1%. Emerging and developing countries, which experienced particularly stressful conditions in 2015, are also expected to see an improvement in their growth rate. In some cases, however – Russia, Brazil, Latin America and Caribbean – waves of recession and economic weakness are expected to

drag on. Net exporters of commodities and energy are likely to experience negative impacts ranging between -1% and -2% on their annual growth rates in the 2015-2017 period, due to the reduced price of exported goods. The year 2016 may also see an increase in negative impacts owing to a worsening of the Chinese economy and of the geopolitical situation.

The national overview

At the national level, 2015 will be remembered by the Swiss Central Bank's unexpected decision to discontinue the minimum exchange rate against the euro. The announcement ending the franc-euro peg on January 15th was followed by months of chaos and uncertainty about national growth perspectives. In later months, worst-case scenarios dissipated and were substituted by forecasts of a rather marked slowdown in economic expansion. In December 2015, SECO economic forecasts indicate a real annual variation of GDP of +0.8% as compared to the previous year. The impact on the value of nominal exports was considerable. However, in real terms, 2015 is expected to end with a 1.5% increase in exports and a 2% rise in imports, on an annual basis. The year is forecast to close with a 0.9% increase in employment compared to the previous year, while the average unemployment rate stood at 3.3% in 2015. At the present time, the negative impact of the new exchange rate threshold with the euro, now equal to approximately CHF 1.08 per euro, appears to have been limited in part by resorting to support measures such as short-time work allowances which were used to an increasingly substantial degree since February 2015. The SECO forecast an improvement in the national economic growth rate with a 1.5% expansion while the annual average unemployment rate is expected to rise to 3.6% during 2016. The shock of the nominal variation in exchange rate impacted strongly on consumer prices which dropped by -1.1% during 2015 while they are expected to remain largely stagnant (-0.1%) in 2016. This in turn translated into a real appreciation of wages estimated at 1.9% in the third quarter of 2015. This is anticipated to encourage consumption and partly mitigate the effects of the expected rise in unemployment.



The overview for Canton Ticino

Based on BakBasel data, the economy in Ticino faced a period of stagnation in 2015. Added value produced in the Canton dropped by -0.1% as compared to the previous year. A growth rate below the national average did not however impact negatively on employment. The number of jobs continued to increase over the year and the average unemployment rate stood at 3.8% in 2015, 0.4 percentage points below the 2014 figure. While unemployment is generally rising on a national level, Ticino exhibited the opposite trend. Although with lesser intensity than in 2014, this Canton saw a further increase in the number of companies operating on its territory. An analysis of available data shows a reduction both in the number of cancellations as well as new registrations, with a positive balance of 869 companies. Most of the companies registered in 2015 (approximately one in three) belong to the commercial, technical and scientific sectors. As regards the economic situation of companies active in the Canton, those monitored by PanelCODE experienced a further drop in their nominal sales in 2015, in line with the variation of the consumer price index. Companies which faced major difficulties were mostly those within the business sector, while the banking sector recorded improved revenues and activities compared to 2014. The construction and transport industries however remained stable.

For 2016, BakBasel anticipates a +0.6% rise in cantonal GDP, reaching +2.1% during 2017. More positive trends are also likely for the businesses monitored by PanelCODE, with the exception of the industrial sector where a major drop in turnover and production levels is expected.

Report of the Board of Directors of Banca dello Stato del Cantone Ticino

Banca dello Stato del Cantone Ticino and the Economy of Switzerland and Ticino in 2015

The year 2015 will surely be remembered for the 15th of January, the day the Swiss National Bank (SNB) announced its decision to discontinue the minimum exchange rate with the euro, triggering turbulence in the domestic market and awakening concerns for the Swiss economy with the national currency being subject to strong upward pressures during the year. On that same date, the SNB increased negative interest rates on assets in sight deposit accounts which banks hold with it. As a result, banks had to continue to operate with minimal commercial margins, primarily on client deposits. One year later, experts estimate that, in spite of everything, the Swiss economy did not slow down, but on the contrary, experienced a modest 0.8% growth. Widening our perspective to Europe and the world, the good upturn of the US economy with the consequent prospect of higher reference rates must be mentioned. At the same time, the Eurozone confirmed it is slowly recovering from the crisis, registering a better growth rate than expected.

Returning to the domestic market, in 2015 the real estate sector continued to exhibit mixed increases in prices at the national level, and Ticino was no exception. In this context it must be remembered that in 2014, on the recommendation of the SNB, the Federal Council doubled the "countercyclical buffer" which compels banks to hold a specific quota of capital in relation to the mortgage loans in order to cool down an overheated mortgage market. According to experts, since its introduction in 2013, the effects of the countercyclical buffer have begun to materialise by improving this sector's resistance.

Indicatively, the Swiss banking sector anticipates positive results. During 2015 the Ticino financial sector dealt with the fiscal regularisation programme launched by Rome which ended in November.

The outflow of Italian clients was less than expected, which confirmed that our banking centre is appreciated for the added value it is able to offer its clients.

More specifically for BancaStato, 2015 was the first full year in which the informatics platform Avaloq/B-Source Master was running. In the meantime, a new version was implemented at the same time as work processes were being consolidated. The reporting year also saw the launch of the new Light 2017 strategy, characterised by a pre-retirement plan which will allow the Institution to attain its optimum size by 2017 without resorting to layoffs. In this regard, at the end of 2014, the Bank had decided to completely amortise the costs of the pre-pension plan and to redeem those of the new IT platform within two years

The financial results achieved by BancaStato in 2015 are particularly gratifying. On the one hand, they have permitted an increase in the allocation to the Bank's owner from CHF 29.3 million to CHF 33.2 million and, additionally, CHF 1.8 million¹⁷ in interest on the CHF 60 million loan granted by the Canton in 2014 for a total payment of CHF 35 million. On the other hand, they have bolstered the Bank's financial base by increasing its equity.

Client business volumes have continued to increase both in the loan area (+3.9% to CHF 9.4 billion) and in funding (+2.6% to CHF 6.8 billion), which again confirms BancaStato's significant role in the economy of Ticino and for the Ticinese people. Gross profit recorded a substantial increase (+56.9% to CHF 82.5 million), also in view of the fact that – as mentioned above – some non-recurring expenditure items connected to the Light 2017 strategy were integrally booked in 2014. In consideration of these excellent results, BancaStato has attributed CHF 22 million to the reserves for general banking risks, thus further strengthening its capital adequacy.

¹⁷ For more information about this loan, please refer to Section 2.7 of the Corporate Governance Chapter in this Annual Report.

In spite of this substantial allocation, net income increased markedly (+12.4% to CHF 43.9 million).

Comment on the Evolution of Major Balance Sheet and Off-balance Sheet Items¹⁸

Although BancaStato's business extends to all services offered by a universal bank, it continued to maintain its focus on mortgage lending in 2015 as well. Mortgage loans increased by 5.8% or CHF 424 million totalling over CHF 7.7 billion. As interest rates remain at an historical low, the loan portfolio is almost integrally structured on fixed rate mortgages. In this regard – and in consideration of concerns voiced over the past several years regarding a possible real estate bubble – it must be stated that BancaStato's lending policy continues to be based on cautiousness. As a result, the quality of its lending portfolio has remained sound as in previous years. An analysis of mortgage loans granted to private individuals shows that 76% of loans are for amounts below CHF 500,000, which confirms the capillary diversification of risks.

Amounts due from customers declined by 4.1% or CHF 70.8 million, settling at CHF 1.7 billion. Loans to public corporations totalled CHF 761 million, thereby guaranteeing BancaStato a predominant share in this market in Ticino. Loans to private individuals and companies remained at their 2014 level, totalling CHF 907 million, with only a marginal decrease of 0.6%. These items are tangible signs of BancaStato's contribution to the development of the economy in the Canton.

As regards funding, payables resulting from client deposits reached CHF 6.8 billion, up 2.7%, thereby confirming the evolution of the last few years. Within this item, the generalised extremely low interest rates on deposits have reduced the attractiveness of special savings accounts in favour of transaction accounts. An opposite trend shows an increase in traditional savings and pension accounts (3rd pillar and vested benefits). As expected, savings books continue to diminish as a result of the Bank's decision, which goes back several years, to convert these outdated products into savings accounts. The low level of interest rates has obviously impacted on client term deposits (fixed savings accounts and cash bonds).

In order to satisfy its requirements for medium to long-term funding, as well as for the purpose of sound management of exposure to interest rate risk, the Bank floated a CHF 150 million bond issue on the capital market¹⁹ and it also turned, as it had done in previous years, to bond issues of the Central Mortgage Bond Issuing Body of the Swiss Cantonal Banks (a net increase of CHF 49 million). This source provided capital at a particularly low cost. Total funding obtained on the capital market amounted at close to CHF 2.5 billion at the end of 2015, an 8.8% increase.

The Bank's balance sheet total grew from almost CHF 10.9 billion at the end of 2014 to over CHF 11.4 billion as at 31.12.2015, exhibiting a vigorous 5.1% growth. Over the past 25 years, BancaStato's business volumes almost tripled: in 1991, they totalled CHF 4.3 billion, in 2001, CHF 6.3 billion and in 2015, CHF 11.4 billion.

With respect to off-balance sheet operations, there was a further development in business connected to the Commodity and Trade Finance Service based on guarantees and commitments arising from documentary credits, which is in line with the Bank's strategy.

Evolution of Assets under Management

The volume of assets under management at BancaStato contracted by CHF 149 million (-1.6%), and stood at over CHF 9.4 billion. In 2015, against a net new money inflow of CHF 135 million, which represents a positive trend despite the conclusion of the Italian tax regularisation programme, there was a CHF 284 million decrease in value due to the evolution of prices on stock and exchange markets. This resulted primarily from the SNB's decision to discontinue its support of the EUR/CHF exchange rate. At the end of 2015, assets under custody totalled CHF 576 million, slightly below the CHF 689 million recorded at the end of 2014.

Assets under management by Axion SWISS Bank SA showed a progression of over CHF 65 million (+2.9%), and stood at close to CHF 2.3 billion. Net new money totalled CHF 1.4 million, a particularly gratifying result especially considering that a good part of its clients are Italian residents, and thus subject to the fiscal regularisation programme.

¹⁸ The data refer to BancaStato's Individual financial statements. A distinction is made between Individual and Group statements only in the case of significant variances.

¹⁹ The 0.5% bond issue of Banca dello Stato del Cantone Ticino 2015-2024 was floated with the support of the Zurich and Basel Cantonal Banks.

Comment on the Evolution of the Main Items of the Income Statement

In 2015 BancaStato was able to post excellent results. The substantial growth in operating results (before extraordinary items), up from CHF 32.4 million to CHF 63.5 million (+96.2%), allowed the Institute to bolster its capital with an allocation of CHF 22 million to Reserves for general banking risks as well as to pay out CHF 35 million to the Canton, its owner.

Net revenues for 2015 progressed by CHF 11.1 million as compared to 2014 (+6.5%) totalling CHF 182.7 million, with increases in nearly all items.

The results from interest activities – the principal revenue item for BancaStato – shows significant progression (+CHF 9.2 million or +7.6%), supported on the one hand by a growth in mortgage volumes and commercial margins and, on the other, by opportunities offered in the present market for financing at lower cost. These elements mitigated shrinking margins on client deposits as a result of negative market rates on the short and medium term, as the SNB discontinued its support for the EUR/CHF exchange rate. In this context, BancaStato achieved gratifying results by maintaining its cautious policy in managing its balance sheet structure, as well as by turning to issues of the Cantonal Banks' mortgage refinancing institution in order to adequately refinance existing outstanding loans.

Results from commission business and services advanced by CHF 0.8 million (+2.6%). The primary contributing factor was commission income from other service activities (including commissions for making the documentation available to adhere to the voluntary disclosure programme for Italian clients domiciled in Italy) and an increase in lending commissions.

Trading income rose again to a record level and for the first time exceeded CHF 15.5 million, a 13.5% growth as compared to 2014, up by CHF 1.8 million. This was fuelled primarily by increased volumes on currency operations due to more extended volatility in the forex market.

Other operating results decreased by 13.4% and totalled CHF 4.7 million in 2015.

A major regression in operating expenses resulted primarily from the pre-pension plan ending in 2017 which was entirely paid for in 2014, with a total expenditure of CHF 19.8 million.

Even excluding this variation, personnel expenses nevertheless diminished by CHF 1 million while other operating expenses rose by CHF 2 million. In this context, it should be noted that 2015 was BancaStato's centennial year. The item "Other operating expenses" comprises expenditures in relation to a rich agenda of celebrations throughout the cantonal territory during the year.

Gross profit²⁰ grew by almost CHF 30 million (or 56.9%).

Depreciation on fixed and intangible assets increased marginally from CHF 19.6 million in 2014 to CHF 20.8 million in 2015, primarily as a consequence of the adoption of the new informatics Avaloq/B-Source Master platform at the beginning of April 2014, depreciating over 24 months.

The item "Changes to provisions and other value adjustments, and losses" since 2015 refers only to operating losses and variations in provisions for other banking risks based on FINMA Circular 2015/01 - "Accounting - Banks" mentioned under Note 20. Compared to a net provisioning need of CHF 0.6 million in 2014, 2015 saw a net release of CHF 1.8 million. This is primarily as a consequence of the agreement with the US Department of Justice within the framework of the US Program (USD 3.393 million fine) requiring the release of approximately CHF 2 million excess provisioning which had been booked to this end.

Operating results for 2015 therefore stood at an outstanding CHF 63.5 million, soaring by 96.2% compared to the previous year (+CHF 31.1 million).

The item "Extraordinary income" – up from CHF 0.7 million in 2014 to CHF 8.5 million in 2015 – comprises proceeds of CHF 6.8 million from the disposal of the participation in Swisscanto Holding AG to the Zurich Cantonal Bank and from the sale of a building for CHF 1.8 million.

The excellent ordinary and extraordinary income allowed the Bank to contribute CHF 6 million to the BancaStato Centennial Foundation, whose goal is to promote economic development projects at the cantonal level, as well as to allocate CHF 22 million to the reserve for general banking risks in order to bolster the Bank's equity and therefore its capital adequacy.

In spite of these major allocations, net income grew by 12.4% and stood at CHF 43.8 million. As already mentioned, this is to the advantage of the Bank's owner.

²⁰ The new FINMA 2015/01 Circular "Accounting - Banks" no longer considers the item "Gross profit" as compulsory (<https://www.finma.ch/en/documentation/circulars/#Order=2>). For the purpose of analytical continuity, this item, resulting from the difference between "Net revenues" and "Operating expenses", is reported here.

The Canton thus benefits from a payment of CHF 33.2 in 2015 as compared to CHF 29.3 million in 2014 (+13.3%). Added to this is the interest on the subordinated loan of CHF 60 million granted by the Canton to BancaStato. Interest matured in 2015, and injected a further CHF 1.8 million into the State coffers. Overall, BancaStato paid out CHF 35 million to the Canton in 2015.

This payment is a valuable source of income for the public body. An analysis of the evolution of this item in the last decade demonstrates that the payment to the Canton has practically doubled from CHF 17.3 million in 2005 to CHF 33.2 million in 2015 (CHF 35 million if considering the remuneration on the above-mentioned loan). Over the same ten-year period, BancaStato paid out a total of CHF 270 million. Considering that the endowment capital amounts to CHF 240 million, it can be said that the Institute repaid considerably more than the Canton's initial investment.

As for the results of Axion SWISS Bank SA²¹, net revenues saw a slight contraction of CHF 0.3 million (-2.6%) on the back of a CHF 0.3 million (+3.4%) increase in operating expenses.

Among revenue items, results from interest operations exhibited sound stability in spite of the negative impact of low market rates (as regards short and medium term) as well as of a close to CHF 0.9 million drop in income from commission business and services. This was due primarily to decreased revenue from securities trading on the part of clients in an uncertain market as well as to the CHF 0.35 million growth in income from trading activities as a result of major volumes traded by clients on the forex market, a trend similar to that observed for BancaStato.

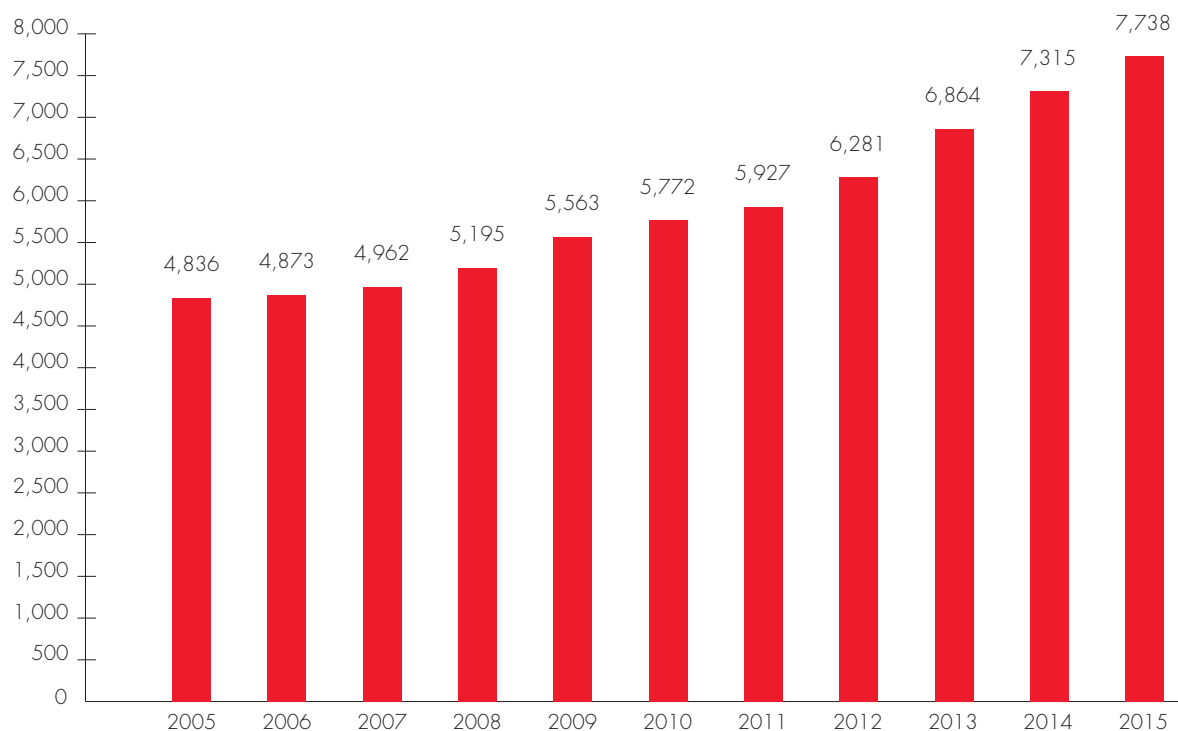
The increase in operating expenses is due to both personnel expenses (+CHF 0.1 million) and other operating expenses (+CHF 0.2 million).

Operating results decreased by CHF 0.6 million (-23.7%), while net income regressed by CHF 0.5 million (-25.5%) also as a result of the tax burden for 2015 (-CHF 0.1 million).

At the consolidated level, the Group's profit increased by CHF 4.8 million (+12.6%), from CHF 38 million in 2014 to CHF 42.8 million.

EVOLUTION OF MORTGAGE LENDING

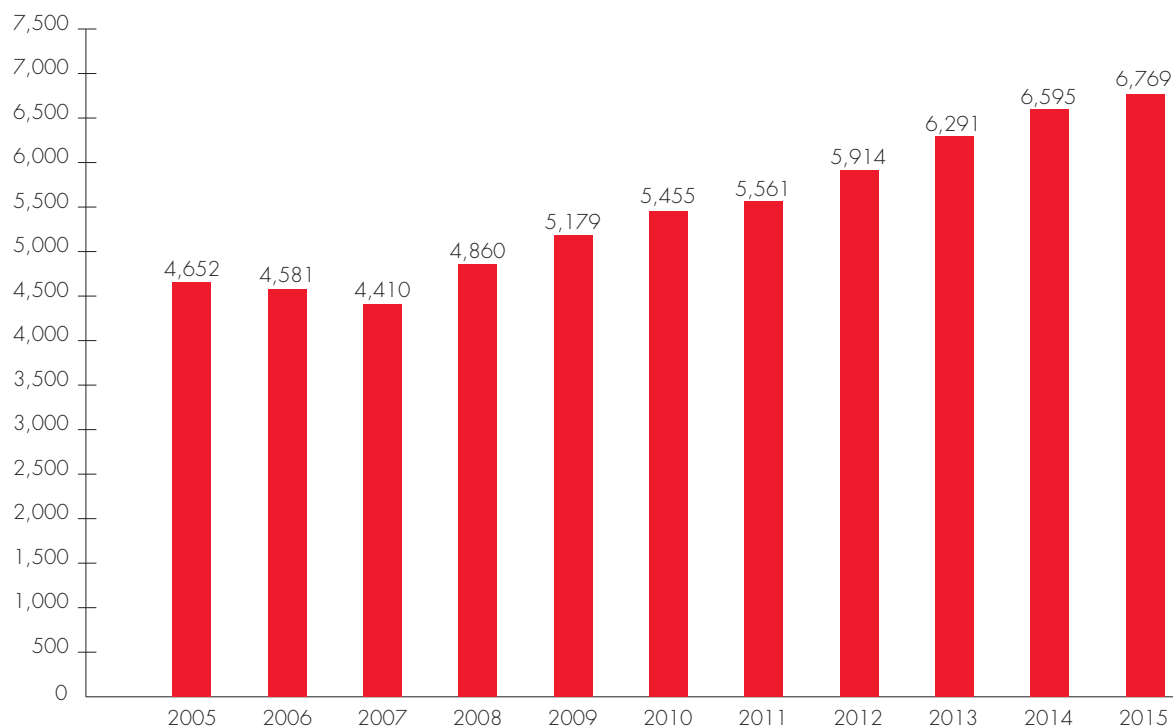
(CHF millions)



²¹ For further information on the results of Axion SWISS Bank SA, refer to its Annual Report.

EVOLUTION OF TOTAL AMOUNTS DUE TO CUSTOMERS

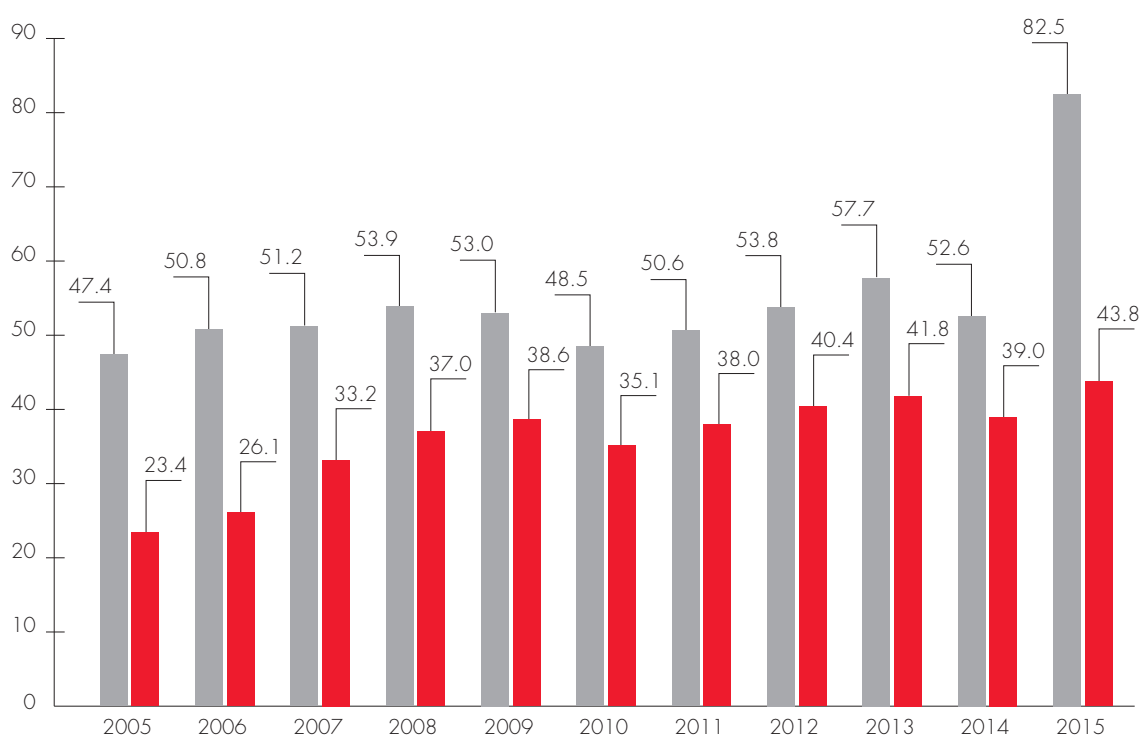
(CHF millions)



EVOLUTION OF GROSS PROFIT AND NET INCOME

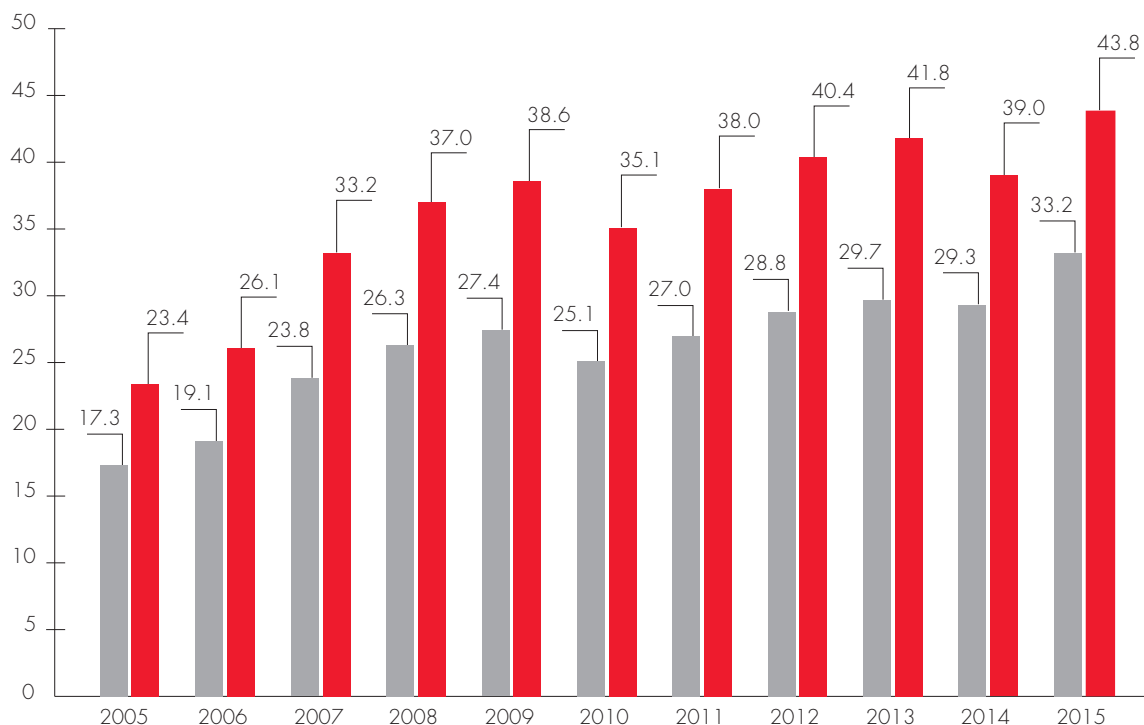
(in CHF millions)

■ Gross profit ■ Net income



EVOLUTION OF THE PAYMENT TO THE CANTON

(in CHF millions) ■ Payment to the Canton ■ Net income



Profitability, Efficiency and Financial Strength

BancaStato's profitability in terms of Return on Equity (ROE)²² continued the positive evolution it had shown in previous years, improving from 5.5% in 2010 to 6.1% in 2013, while in 2014 it had been affected by non-recurring costs connected to staff pre-pension and stood at 5% (7.4% net of these elements). This trend continued in 2015, with ROE exceeding 7.9%. Return on Risk Adjusted Capital (RORAC) further improved to 13.8% in 2015 after having regressed to 9.3% in 2013 and 8.2% in 2014 (12.4% net of non-recurring elements).

The favourable evolution of the efficiency indicator, a measure of the cost to income ratio, was already evidenced in the 2010-2013 period. It progressively decreased from 67.4% in 2010 to 62.4% in 2013, continuing in 2014 down to 59.1% (net of expenses for the early retirement plan). In 2015 it improved substantially by dropping down to 54.8%, thanks to the positive evolution of net revenues generated by the development of the Bank's business and by the cost containment policy that had been implemented over the last several years.

Staff levels fell from 421.95 full time equivalents (FTEs) at 31 December 2014 to 400.85 FTEs at the end of 2015.

After a phase of regression of indicators from 196% at the end of 2011 to 178.1% at the end of 2013 resulting from stricter requirements on the part of surveillance authorities (in spite of the increase in endowment capital by the Canton), the Bank's capital adequacy, as determined by the ratio of required capital to available funds²³, further increased with respect to the already comfortable level achieved in 2014 (190.9%), and stood at 211.9%. This improvement is a result of the AT1 perpetual subordinated credit of CHF 80 million with PONV clause granted by the Canton at the end of 2015. Other contributing factors were the above-mentioned allocation of CHF 22 million to reserves for general banking risks and the attribution of part of the 2015 net income (CHF 10.6 million) to the general legal reserves. These are set off by a reduction of CHF 17.5 million in the eligible value of the AT2 subordinated bond issued in 2010. All adequacy indicators set by the Bank of International Settlements were particularly positive in the reporting year as a result of the above-mentioned contributing elements.

²² The reference used to calculate ROE is net revenues before allocation to the reserve for general banking risks, while the reference capital comprises average core capital in the reporting year (net of the allocation to reserves for general banking risks for that year).

²³ Calculated on the basis of Basel III rules.



Taking into account the countercyclical capital buffer which was introduced by the Federal Council in 2013 and doubled in 2014, Core Tier 1 (CET1) evolved from 11.9% to 12.5%, Tier 1 was up from 12.9% to 14.9%, and Tier 2 rose from 15.3% at the end of 2014 to 17.0% at the end of 2015.

At the consolidated level, capital adequacy is slightly better with a coverage ratio improving from 199.3% at the end of 2014 to 219.2% at the end of 2015, taking into account the anticyclical capital buffer introduced by the Federal Council in order to dampen an overheated real estate market. The Bank for International Settlements indicators evolved as follows with regard to the Group:

BIS adequacy indicators	Without anticyclical buffer		With anticyclical buffer	
	2015	2014	2015	2014
Core Tier 1 (CET1)	13.9%	13.4%	13.2%	12.6%
Tier 1 (T1)	16.3%	14.4%	15.5%	13.6%
Total regulatory capital	18.3%	16.7%	17.5%	15.9%

Group Financial Statements

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1. Consolidated Balance Sheet

(CHF thousands)	Notes	31.12.2015	31.12.2014	Change
Assets				
Liquid assets		1,292,663	948,681	343,982
Amounts due from banks		184,333	443,253	-258,920
Amounts due from customers	5.9.2	1,784,253	1,838,792	-54,539
Mortgage loans	5.9.2	7,738,404	7,314,789	423,615
Trading portfolio assets	5.9.3	30,973	28,921	2,052
Positive replacement values of derivative financial instruments	5.9.4	47,194	40,420	6,774
Financial investments	5.9.5	266,866	356,245	-89,379
Accrued income and prepaid expenses		17,067	21,893	-4,826
Participations	5.9.6 and 5.9.7	4,816	7,071	-2,255
Tangible fixed assets	5.9.8	75,898	90,523	-14,625
Intangible assets	5.9.9	6,462	9,640	-3,178
Other assets	5.9.10	259,129	27,832	231,297
Total assets		11,708,058	11,128,060	579,998
Total subordinated claims		17,145	7,129	10,016
<i>of which subject to mandatory conversion and/or debt waiver</i>		-	-	-
Liabilities				
Amounts due to banks		680,550	611,297	69,253
Liabilities from securities financing transactions	5.9.1	76,139	-	76,139
Amounts due in respect of customer deposits		7,472,615	7,275,859	196,756
Negative replacement values of derivative financial instruments	5.9.4	41,459	44,062	-2,603
Cash bonds		5,765	10,288	-4,523
Bond issues and central mortgage institution loans	5.9.11 and 5.9.13	2,461,000	2,262,000	199,000
Accrued expenses and deferred income		38,042	36,426	1,616
Other liabilities	5.9.10	40,641	25,052	15,589
Provisions	5.9.14	5,402	12,075	-6,673
Reserves for general banking risks	4 and 5.9.14	387,886	365,886	22,000
Bank's capital	4 and 5.9.15	240,000	240,000	-
Statutory retained earnings reserve	4	215,773	207,129	8,644
Group profit	4	42,786	37,986	4,800
Total liabilities		11,708,058	11,128,060	579,998
Total subordinated liabilities		315,273	235,273	80,000
<i>of which subject to mandatory conversion and/or debt waiver</i>		140,000	60,000	80,000
Off-balance sheet transactions				
Contingent liabilities	5.9.2 and 5.10.23	137,674	158,349	-20,675
Irrevocable commitments	5.9.2	87,840	85,338	2,502
Obligations to pay up and make further contributions	5.9.2	8,944	8,944	-

2. Consolidated Income Statement

(CHF thousands)	Notes	2015	2014	Change
Income and expenses from ordinary banking activities				
Result from interest operations				
Interest and discount income	5.11.26	185,992	180,104	5,888
Interest and dividend income from trading portfolios		31	44	-13
Interest and dividend income from financial investments		4,984	8,988	-4,004
Interest expense	5.11.26	-55,732	-68,359	12,627
Gross result from interest operations		135,275	120,777	14,498
Changes in value adjustments for default risks and losses from interest operations		-2,177	3,158	-5,335
Net result from interest operations		133,098	123,935	9,163
Result from commission business and services				
Commission income from securities trading and investment activities		31,704	36,595	-4,891
Commission income from lending activities		4,417	3,438	979
Commission income from other services		11,361	8,577	2,784
Commission expense		-8,085	-9,202	1,117
Result from trading activities	5.11.25	16,712	14,520	2,192
Other results from ordinary activities				
Result from the disposal of financial investments		327	847	-520
Income from participations		1,045	443	602
<i>of which non-consolidated participations</i>		1,045	443	602
Result from real estate		256	383	-127
Other ordinary income		1,758	1,857	-99
Other ordinary expenses		-809	-426	-383
Net revenues		191,784	180,967	10,817
Operating expenses				
Personnel expenses	5.11.27	-73,437	-94,166	20,729
Other operating expenses	5.11.28	-35,505	-33,408	-2,097
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	5.9.8 and 5.9.9	-21,680	-20,802	-878
Changes to provisions and other value adjustments, and losses	5.11.29.05	1,786	-641	2,427
Operating result		62,948	31,950	30,998
Extraordinary income	5.11.29.02	8,503	756	7,747
Extraordinary expenses	5.11.29.02	-6,000	-339	-5,661
Changes in reserves for general banking risks	5.11.29.04	-22,000	6,500	-28,500
Taxes	5.11.30	-665	-881	216
Group profit		42,786	37,986	4,800

3. Cash Flow Statement

(in CHF thousands)	2015		2014	
	Cash inflow	Cash outflow	Cash outflow	Cash outflow
Cash flow from operating activities (internal financing)		158,815		272,954
Group result	42,786	-	37,986	-
Change in reserves for general banking risks	22,000	-	-	6,500
Depreciation of fixed assets	21,680	-	20,802	-
Change in value adjustments for default risks and losses	-	6,673	-	6,309
Accrued income and prepaid expenses	4,826	-	-	3,629
Accrued expenses and deferred income	1,616	-	7,580	-
Other assets and liabilities	-	215,708	-	293,201
Interest on the endowment capital of the previous year	-	10,000	-	5,500
Previous financial year dividend	-	19,342	-	24,183
Cash flow from equity transactions	-	-	40,000	-
Bank's capital	-	-	40,000	-
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets	-	1,622	-	14,378
Participations	2,255	-	39	436
Real estate	563	835	112	2,510
Other tangible fixed assets	-	3,717	-	10,583
Intangible assets	112	-	-	1,000
Cash flow from banking operations	504,419	-	272,738	-
Medium and long-term business (> 1 year)	-	259,960	-	336,907
Amounts due to banks	-	30,000	10,000	-
Amounts due in respect of customer deposits	-	62,248	45,473	-
Cash bonds	-	4,523	-	8,739
Bond issues and central mortgage institution loans	267,000	68,000	347,000	257,000
Amounts due from customers	-	27,953	-	68,738
Mortgage loans	-	423,615	-	450,497
Financial investments	89,379	-	45,594	-
Short-term business	764,379	-	609,645	-
Amounts due to banks	99,253	-	-	36,483
Liabilities from securities financing transactions	76,139	-	-	-
Negative replacement values of derivative financial instruments	-	2,603	-	-
Amounts due in respect of customer deposits	259,004	-	367,200	-
Trading portfolio	-	2,052	-	5,700
Positive replacement values of derivative financial instruments	-	6,774	-	-
Amounts due from banks	258,920	-	189,464	-
Amounts due from customers	82,492	-	95,164	-
Liquidity	-	343,982	-	25,406
Changes in liquidity	-	343,982	-	25,406
	504,419	504,419	312,738	312,738

4. Statement of Changes in Equity

(CHF thousands)	Bank's capital	Statutory retained earnings reserve	Statutory retained earnings reserve	Result of the period	Total
Equity at 1.1.2015	240,000	207,129	365,886	37,986	851,001
Appropriation of retained earnings 2014					
<i>Assignment to the statutory retained earnings reserve</i>	-	+8,644	-	-8,644	-
<i>5% interest on the endowment capital</i>	-	-	-	-10,000	-10,000
<i>Additional payment to the Canton</i>	-	-	-	-19,342	-19,342
Allocation to reserves for general banking risks	-	-	+22,000	-	22,000
Profit 2015	-	-	-	+42,786	42,786
Total equity at 31.12.2015	240,000	215,773	387,886	42,786	886,445

5. Notes to the Financial Statements

5.1 GROUP ACTIVITIES AND PERSONNEL

5.1.1 Group Activities

Banca dello Stato del Cantone Ticino, based in Bellinzona, is an autonomous banking institution under public law which operates as a universal bank, whose primary aim is to favour the development of the economy in Ticino.

Its operations have evolved over 100 years and comprise the full range of banking services provided by universal banks. These activities are geared towards facilitating access to capital for small and medium-sized companies as well as individuals.

In the last quarter of 2010, as part of a move to diversify its sources of revenue, BancaStato acquired a majority stake (80%) in the capital of AHSA Holding SA, Lugano, in order to gain indirect control over Axion Swiss Bank SA, Lugano. In 2013 BancaStato concluded the acquisition of the remaining 20% share in the capital of AHSA Holding SA.

Axion Swiss Bank SA's core business is asset management for private and institutional clients, and it is active in the principal international markets.

5.1.1.1 Balance sheet transactions

Interest-earning transactions are largely executed with customers and they represent the Group's primary source of revenue. Loans to customers are generally secured by mortgages, and most lending is used to finance housing properties. Commercial loans are either secured against collateral or are unsecured.

Interbank operations almost entirely consist of short-term transactions. In consideration of the current financial crisis, interbank exposure has been reduced by giving preference to deposits at the Swiss National Bank. For medium and long-term funding, BancaStato turns to the capital market. In addition, it is a member of the Central Mortgage Bond Issuing Body of the Swiss Cantonal Banks and therefore regularly utilises bond issues floated by this institution.

The Banks of the Group hold a strategic security portfolio in medium to long-term investments, booked under financial investments.

5.1.1.2 Trading operations

The Group performs, on behalf of its customers, the full array of foreign exchange trading services offered by banks. Moreover, it trades on its own account in foreign exchange as well as, to a limited extent, in debt securities (bonds), equity securities (shares and participation certificates), investment funds and metals.

Currency trading operations on foreign currencies on the Bank's

own account are limited to a small number of currencies for which a liquid market exists.

5.1.1.3 Commission business and services

Asset management and administration, payment transactions, as well as trading in securities and financial instruments on behalf of customers and loan related business, constitute the bulk of the Bank's commission activities and other services.

5.1.2 Group personnel

As at 31 December 2015, the Group had a total of 470 employees on payroll, i.e. 427.05 full-time equivalents (FTEs) with apprentices calculated at 50%, compared to 487 employees at the end of 2014 (448.25 FTEs).

5.1.3 Outsourcing

BancaStato outsources a number of its business services as defined by the FINMA Circular 2008/7 "Outsourcing - Banks". This includes payment transaction services, securities administration, the printing and sending out of banking documents and the management of IT systems (central informatics and work stations) which are performed by the service provider B-Source in Bioggio.

In addition to the activities listed in the FINMA Circular, BancaStato has, for several years, contracted out activities pertaining to building management and maintenance as well as supplies.

5.2 ACCOUNTING AND VALUATION PRINCIPLES

5.2.1 General principles

The accounting and valuation principles referred to by the various entities of the Group comply with the provisions of the Swiss Code of Obligations (CO), the Swiss Federal Law on Banks and Savings Banks (Banking Act), the Ordinance on Banks and Savings Banks (Banking Ordinance) and the guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA), in particular the FINMA Circular 2015/1 "Accounting - Banks".

The Group's financial statements are prepared on the basis of regular reporting and comply with the true and fair view principle.

All transactions are recorded at the time they are concluded.

5.2.2 General valuation principles

The financial statements are prepared on the going-concern assumption. The accounting is therefore based on going-concern values.

Assets are defined as laid down in Art. 959.2 CO. If a reliable estimate of an asset is not possible, this item is considered a contingent asset and is commented on in the Notes to the Financial Statements.

Liabilities are defined as laid down in Art. 959.5 CO. If a reliable estimate of a liability is not possible, this item is considered a contingent liability and is commented on in the Notes to the Financial Statements.

Balance sheet items and off-balance sheet items are valued individually. The Group does not apply the transitional provision of Art. 69.2 of the Banking Ordinance.

In principle, neither assets and liabilities nor expenses and income are allowed to be offset.

Receivables and payables are offset only in the following cases:

- deduction of value adjustments from the corresponding asset item;
- own debt securities and similar instruments are offset with the corresponding items in the liabilities;
- offsetting of positive and negative changes in book value with no income effect in the current period in the compensation account.

5.2.3 Financial instruments

5.2.3.1 Liquid assets

Liquid assets are recognized at their nominal value.

5.2.3.2 Securities financing transactions

The item "Amounts due from securities financing transactions" comprises any receivables or payables from securities repurchase agreements effected with other banks through the Eurex REPO platform. The guarantees, which are part of the SNB basket, are revaluated on a daily basis, and any excess or shortage of coverage is settled directly through the clearing-house (SIX Group AG).

5.2.3.3 Amounts due from banks, amounts due from customers and mortgage loans

These are entered at their nominal value. Receivables are evaluated individually according to uniform standards established to analyse the borrowers' solvency and the value of the collateral provided. Risk of default is covered by individual

provisions. For non-performing and impaired loans, value depreciation is covered by individual value adjustments which are directly offset by assets, with collateral considered at its liquidation value.

Value adjustments for risk of default that are no longer economically necessary, and are not used for other similar requirements, are released through the income statement via the item "Change in value adjustments for default risk and losses from interest operations".

Precious metal account deposits are valued at fair value provided the precious metal concerned is traded on a price-efficient, liquid market.

5.2.3.4 Amounts due to banks and amounts due in respect of customer deposits

These items are recognised at their nominal value.

Amounts due in respect of precious metal account deposits are valued at fair value if the precious metal concerned is traded on a price-efficient, liquid market.

5.2.3.5 Trading activities and trading portfolio liabilities

The valuation of the portfolio of securities and metals held for trading purposes is at fair value. If, in exceptional cases, fair value cannot be determined, the valuation and recognition will be based on the lower of cost or market principle.

Gains and losses, as well as adjustments to the above-mentioned rate changes and the revenue from interest, are booked under "Result from trading operations".

5.2.3.6 Positive and negative replacement values of derivative financial instruments

Derivative financial instruments include options, futures and forward contracts concluded on behalf of customers and on own account. These instruments are recorded at their fair value (mark to market).

Gross positive and negative replacement values of derivative instruments open at the balance sheet date are recorded in the corresponding item of the balance sheet.

At closing date, the derivative financial instruments held were primarily for hedging purposes.

The gain or loss from the revaluation of hedging positions is taken to the same item in the income statements as the gain or loss from the transaction hedged. For trading positions, resulting gains or losses form part of "Result from trading operations".

For netting agreements, positive and negative replacement values of derivative financial instruments are offset.

5.2.3.7 Financial investments

Fixed-interest-bearing securities acquired in view of subsequent sale before maturity (securities which are not in the trading portfolio) are valued at the lower of their cost or market value. The balance of price changes is included in "Other ordinary expenses" (if the market value is lower than the purchase value) or in "Other ordinary income" (for revaluations up to the acquisition cost). Any losses are booked in the income statement under "Result from the disposal of financial investments".

Fixed-interest-bearing securities purchased to be held until maturity are recognised at acquisition cost, with the allocation of premiums and discounts over the duration of the instrument. Any profit or loss resulting from early disposal of these securities is spread over their residual duration, i.e. until their original maturity. Any value adjustment resulting from the deterioration of the debtor's solvency is booked to the income statement under "Changes in value adjustments for default risk and losses from interest operations".

Participations and precious metals are valued at the lower of their cost or market value.

Buildings reacquired by the Bank in connection with lending activities and intended for sale are entered in the balance sheet at the lower of purchase or sale price.

5.2.4 Participations

This item comprises company equity stakes, in terms of capital, held as long-term investments.

These participations are accounted for in the balance sheet at cost less economically necessary value adjustments. An impairment test is performed annually.

5.2.5 Tangible fixed assets

This item includes Group premises, computer hardware and telecommunication equipment, licenses and software, technical facilities, furniture and vehicles.

Depreciation rates are calculated over the estimated useful life as follows:

- | | |
|---|----------|
| • terreni
(up to the official estimated value) | 40 years |
| • buildings (masonry) | 40 years |
| • equipment | 15 years |
| • banking facilities | 5 years |

- | | |
|-------------------------|---------|
| • hardware | 5 years |
| • licenses and software | 2 years |
| • furniture | 5 years |
| • works of art | 5 years |
| • vehicles | 3 years |

The evaluation of fixed assets is updated every half-year.

Fixed assets which are no longer in use, or under extraordinary depreciation, are written down (impairment of fixed assets).

Fixed assets are valued at cost less economically necessary amortization.

Depreciation is calculated by applying a straight-line amortisation method which starts when the items are first utilised.

5.2.6 Intangible fixed assets

Goodwill is recognised on the balance sheet applying a straight-line depreciation over a 5-year period. An analysis is performed on a yearly basis in order to define the possible need for extraordinary depreciation.

5.2.7 Provisions

This item includes probable commitments whose amounts and/or due date are uncertain, but can be reliably estimated. This item also comprises a provision for deferred taxes resulting from consolidation activities.

5.2.8 Reserves for general banking risks

In compliance with the FINMA guidelines on financial statement reporting (FINMA Circ. 2015/1 Accounting Rules - Banks), the reserves for general banking risks are prudently created reserves set aside to cover latent risks related to banking activities.

As laid down in Art.21c of the Swiss Federal Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Traders (CAO) such reserves are considered as equity. Any addition or release is booked in the income statement under "Changes in reserves for general banking risks".

5.2.8.1 Taxes

Current income and capital taxes are booked under "Accrued expenses and deferred income".

5.2.9 Off-balance sheet

Off-balance sheet operations are reported at their nominal value.

Individual provisions are made under "Provisions" for any risk of loss.

5.2.10 Own debt instruments and equity securities

Own debt and cash bonds are offset with the corresponding items in liabilities.

5.2.11 Pension benefit obligations

The Group does not have a pension institute of its own.

At the end of the accounting period, the Group calculates and books any economic obligation arising from pension funds.

5.2.12 Changes in accounting and valuation principles

The presentation of accounts closed on 31 December 2015 is based on the new provisions issued by FINMA (Swiss Financial Market Supervisory Authority) which came into force on 1 January 2015. The comparative data have therefore also been restated to comply with the same presentation mode.

5.2.13 Recording of business transactions

All transactions concluded by the balance sheet date are recorded daily and evaluated according to accepted accounting principles. The result of all completed transactions is included in the income statement.

5.2.14 Treatment of past-due interest

Interest which is more than 90 days overdue is considered non-performing and is no longer considered as interest income. A provision is recorded and directly offset by assets.

5.2.15 Foreign currency translation

The Group accounts are in Swiss francs.

Assets and liabilities denominated in foreign currency are converted into Swiss francs at the rate of exchange at the balance sheet closing date. Resulting gains or losses are taken to the income statement under "Result from trading operations".

Proceeds and expenses generated in foreign currency are converted at the exchange rate applicable at the time the

individual transactions are entered or the single economic flows are effected.

Maturing proceeds and maturing expenses (pro-rata) are accounted for in the income statement at the exchange rate applicable at the balance sheet closing date.

Exchange rates applied at the end of the financial year for the major currencies were as follows:

EUR/CHF 1.0877 (2014: 1.2024)

USD/CHF 1.0012 (2014: 0.9935)

5.2.16 Treatment of the refinancing of trading positions

Income from interest and dividend from the trading portfolio is not offset against refinancing costs of the trading portfolio.

5.2.17 Consolidation principles

5.2.17.1 Consolidation perimeter

Banks and finance companies in which BancaStato directly or indirectly holds a majority of voting rights or capital, or in which it has a controlling interest, are consolidated by the full consolidation method.

Minority participations (i.e. below 20%) or participations in non-financial activities, as well as participations held solely with a view to their future disposal, are excluded from the consolidation perimeter and are evaluated at their purchase value less appropriate depreciation. If the participation share is comprised between 20% and 50% of voting rights, the evaluation is based on the equity method.

5.2.17.2 Consolidation method

Capital is consolidated following the purchase method. Acquisition costs of the stake are offset by existing equity at the time of purchase. Any goodwill is recognised on the balance sheet under "Intangible assets" and depreciates over a five-year period. Conversely, any negative goodwill (badwill) is shown under equity as statutory retained earnings reserves. An impairment test is performed annually. Should this test reveal that an asset value is no longer justified, a supplemental amortisation would be effected at that time.

In the case of partial equity participation, the "minority interests" of the other participants, both in terms of capital participation and share in yearly results, would be shown on the balance sheet.

Following the full consolidation method, the amounts of all balance sheet, off-balance sheet and income statement items of

the subsidiaries are aggregated with the corresponding amounts of the Parent Bank's balance sheet, off-balance sheet and income statement.

Transactions between the various entities within the Group are eliminated through compensation among those entities.

5.2.17.3 Consolidation period

The consolidation period corresponds to the calendar year beginning 1 January and ending 31 December. Acquisitions effected during the year are included in the income statement from the date of purchase.

5.3 RISK MANAGEMENT

The Group, like any other financial institute, is subject to various banking-specific risks, namely credit, market, liquidity and operational risks.

Risk management is a priority for the Group. Its goal is to identify, measure and monitor banking risks in order to preserve the Group's assets and to enhance profitability.

Risk management is defined in the Group's Rules and Regulations and in the Rules and Regulations of the single legal entities, and is reviewed annually.

The key elements of risk management are:

- a comprehensive risk policy;
- the use of recognized risk measurement and risk management principles;
- the definition of various risk limits and the corresponding monitoring and reporting measures;
- ensuring timely and comprehensive reporting on all risks;
- the allocation of adequate financial, technical and human resources to risk management;
- highlighting risk awareness and promoting a risk-sensitive corporate culture at all staff levels.

The Board of Directors exercises the ultimate responsibility, supervision and control and as such is the supreme organ for managing risk. It defines the key elements of risk management. The Executive Board is responsible for implementing the Board of Director's policies. In particular, it is the Executive Board's duty to ensure that a suitable risk management organisation is in place and that an effective risk monitoring system is activated.

Risk is identified, measured and monitored by operationally independent units that report to the Executive Board which in turn reports to the Board of Directors on a regular basis.

An information system ensures that the members of the Board of Directors and the Executive Board are updated regularly on the Bank's and the Group's asset and financial position, as well as on the meeting of set targets, and on credit, market, liquidity and operational risks assumed.

In its meeting of 15 April 2015, the Audit Committee of the Board of Directors of the Parent Bank and, subsequently, the Board of Directors of the Parent Bank in its meeting of 24 April 2014, assessed the Group's risk profile.

In this regard, the Board of Directors annually reviews the "level of accepted risk" laid down in BancaStato's Organisation and Risk Management Regulations. The observance of this limit is verified on a regular basis.

Capital planning is prepared annually for a minimum period of three years.

5.3.1 Credit risk

Credit risk stems from the inability of a counterparty to fulfil its contractual obligations, or from the reduced value of collateral or financial instruments issued by a third party (value of equity-type securities, interest rate instruments, shares in collective capital investments) due to the worsening of its financial standing.

The Group's exposure to credit risk is primarily linked to lending activities, mostly mortgage, commercial and Lombard loans granted to clients.

BancaStato operates essentially in the local market of Ticino and only marginally in other Cantons and abroad. However, the operations of Axion Swiss Bank SA are primarily international with the granting of Lombard loans.

Credit risk is managed by setting prudent lending margins on collateral and credit granting procedures at different hierarchical levels on the basis of the aggregate amounts granted and risk incurred.

Procedures for the delegation of competences on the part of the Board of Directors, as well as the specific internal organisational structure, ensure that the units that assume risk are independent from those that manage risk.

The Board of Directors is responsible for approving large credit exposures as well as loans to members of the governing bodies. Other loan granting competencies are entrusted to the Executive Board who may delegate them in part *ad personam*. At BancaStato, competencies are delegated to credit officers who are independent of client advisory units. At BancaStato, the specific authority to grant loans involving low risk profiles is delegated to client advisers. However, such loans may be granted only within the limits of the predefined parameters used in the IT-based decision-making process. An internal control system ensures loan granting processes and competency delegation rules are complied with. Loans reviewed and approved by the competent authorities are managed by Credit Administration which is independent of client advisers and credit officers.

Credit risk management and monitoring are defined in the Banks' loan policies. These state that the Group's Banks assume credit risk only after an in-depth analysis of the operation, including a review of credit-worthiness, transaction structure, integrity of the counterparties and collateral, has been carried out. Each credit application is treated on the basis of standardised criteria set within each institute. Credit policies are reviewed annually and supplemented by internal directives and operational manuals.

To assess creditworthiness, the Group's Banks refer to external ratings prepared by first-class rating agencies when available. BancaStato also utilises a rating model for granting mortgage and business loans to its private and commercial clients. The rating model ensures a classification of clients based on standard criteria divided into 10 rating classes, assigning a probability of default to each counterparty. This rating is used to determine borrowing capacity as well as to define the interest rate on the loan as a function of risk.

Credit exposure to counterparties are restricted by credit limits. Sustainability calculation procedures are regulated by internal rules and regulations. The maximum loan amount granted to businesses is determined on the basis of a calculation of their financing potential which, in turn, is closely linked to the durable income (cash flow) that the business is able to generate to remunerate debt capital. This same sustainability (cash flow over capital) principle is applied to calculate loans to private clients. In particular, sustainability calculations for mortgage loans are performed by comparing durable available income with expenses (i.e. interests, loan amortisation and maintenance costs) associated to collateral.

Maximum loan values are set for each type of collateral on the basis of common banking standards. The maximum amount for a mortgage loan is established based on the debtor's ability to pay and on the value of the real estate being mortgaged. The valuation principles applied to collateral are described in the following section. For Lombard loans, the assigned limit is determined on the basis of a foreseeable value of pledged assets which are revalued at market value on a daily basis.

The Group's Rules and Regulations and the Banks' Rules and Regulations set the limits within which the various Group entities are authorised to assume a country risk.

The credit risk on financial instruments owned by the Group's Banks is managed by adhering to product, diversification and quality restrictions as established by the Board of Directors.

Interbank business, which is derived from client and own business, is carried out within a predefined limit system with primary Swiss and international banks. The maximum amount set depends on the counterparty's solvency which is constantly monitored. Counterparty limits are reviewed at least once a year. The compliance to these limits is monitored by a unit which is independent from the risk assuming unit.

On a monthly basis, BancaStato's Financial and Risk Management Department provides the Executive Board with updated information on the profile of the loan portfolio in terms of exposure and major risks. The Executive Board subsequently informs the Board of Directors.

5.3.2 Interest rate risk

As the Group is heavily involved in balance sheet transactions, interest rate risk may have a significant impact on the interest margin. The Group's exposure to rate risk is primarily due to the time lapse between fundraising and application. The measurement and control of risk resulting from this imbalance are of primary importance. This task is part of the assets & liabilities management (ALM) performed by the ALCO, which is composed of members of the Executive Board and the Head of Treasury and the Head of Financial and Risk Management.

As regards the ALM activity, the Group's risk policy, as approved by the Board of Directors, defines the modes of operation and limitations, and regulates risk monitoring. The rate risk related to balance and off-balance sheet operations is managed and monitored centrally by the ALCO which was assigned an operational limit.

Competencies are determined in terms of current equities for a 1% sudden parallel shift in market rates (value effect) and a movement in interest margin in the following 12 months still with the same market parameter variations (income effect). On the basis of the chosen methodology, monitoring refers to the present value of equity and to the variation of net interest income in the 12 months following measurement. A software feature enables Risk Management to provide the ALCO with information on risk exposure, simulations of the interest margin, as well as to perform stress tests, i.e. analyses based on predetermined potentially negative scenarios.

For the management of the rate risk inherent to variable rate products without fixed maturity, replication models are used to assess such risk. These models take into consideration both the correlation with the evolution of interest rates and the impact on balance sheet volumes as a result of client behaviour.

To cover or mitigate exposure to interest rate risk, the ALCO may use hedging derivative instruments (they are substantiated and designed to match the hedged item, and their effectiveness is periodically monitored by the Risk Management unit).

The "treasury" function guarantees long-term refinancing and manages the interest rate risk by taking into account the Bank's objectives, i.e.:

- record, measure and manage all interest rate risks arising from client transactions with the Bank;
- generate risk-adjusted income within the risk limits;
- ensure cost-effective refinancing in line with the development of the balance sheet;
- monitor liquidity and avoid potential liquidity shortfalls.

5.3.3 Other market risks

5.3.3.1 Currency risk

The Group's currency risk management serves to minimise any negative impact on its earnings due to interest rate changes. Basically, the goal is to balance the assets denominated in foreign currencies with the liabilities in the same currency. This exposure is under constant monitoring.

5.3.3.2 Trading operations

The Group's exposure to other market risks arises from trading operations which are limited and mostly in relation to client requirements. In this respect, prudent limits of maximum exposure have been established based on the asset value at risk (position and loss limits).

The Group does not engage in market making activities. The limits for trading positions are verified by Risk Management.

The Risk Management unit submits to the Executive Board on a monthly basis, detailed information on exposures and compliance to the set limits. The latter subsequently informs the Board of Directors.

5.3.4 Liquidity risk

Liquidity risk is managed and monitored actively by setting a minimum reserve of liquidity, a system of limits and indicators, diversification of refinancing (sources and durations) and the implementation of stress scenarios. In fact, liquidity risk policy prescribes that the Group must have available the needed liquidity on a permanent basis to fulfil its own payment commitments, even in stress situations, as well as comply with the applicable banking provisions.

The ALCO manages liquidity and draws up the strategy, the limits and the objectives in compliance with the mandate received by the Board of Directors. The treasury function guarantees that limits and objectives are adhered to. Risk Management monitors liquidity, the financing situation and concentration risks.

The emergency liquidity plan is a key aspect of the crisis management plan. It includes an assessment of financing sources in a stressed market situation, taking into account liquidity indicators and ratios, and outlining emergency procedures.

5.3.5 Operational risk

Operational risk is directly related to banking operations and includes the possibility of direct or indirect losses resulting from inadequate or incorrect internal processes, inappropriate business conduct on the part of individuals, system malfunctions or external events. Operational risk also comprises legal and compliance risks.

The management of operational risk consists primarily in the adoption of risk mitigating measures aimed at eliminating or reducing risk. Through the management of its operational risk the Group is aiming to achieve the goal of ensuring the trust of the Canton of Ticino, the owner, clients, partners, the public in general and the surveillance authority in its operations and provision of services.

In-house rules and guidelines define the organisation of work and limit the extent of such risk.

An appropriate system of controls at various levels, as well as specific structures designed to oversee the application of established rules and procedures have been implemented so as to limit the exposure to operational risk. Key controls are documented in a standardised manner.

The Legal and Compliance Office is responsible for verifying the adherence to applicable regulatory provisions, as well as due diligence duties on the part of financial intermediaries. The Legal and Compliance Office also ensures that the internal guidelines are continually being adapted to new legal and regulatory provisions.

The Security Service sets up appropriate organisational and technical measures in order to mitigate risks related to external and internal events or actions (natural occurrences, criminal acts of any kind, both physical and IT-related). This service also prepares and regularly updates a corporate continuity plan.

The Parent Company records and analyses all information on occurrences of operational malfunction which result in a financial impact (gain and loss), and classifies these data on the basis of standardised criteria. The frequency, seriousness and causes of the various events are duly assessed, and corrective measures implemented as needed.

Periodic reporting to the Group's authorities is carried out by independent units.

The Banks perform periodic reviews of internal control procedures during which they assess the operational effectiveness of control with regard to existing risks, implementing improvement measures as needed.

The Group invests in training staff and in the promotion of risk-awareness, particularly for those employees who are in direct contact with customers.

The Group has established a specific organization and defined processes and responsibilities in order to oversee the providers of outsourced services.

Every month, "Risk Management", "Internal Control", "Security", "Service Center" and "Legal and Compliance" submit to the Parent Company's Risk Committee their findings resulting from the internal priority control system within the various Group entities along with the analyses performed. The Risk Committee is responsible for ensuring appropriate surveillance of overall risks and particularly operational risks.

A condensed analysis of information on major operational risk incurred during the month under review is forwarded to the Board of Directors.

5.4 METHODS USED FOR IDENTIFYING DEFAULT RISK AND DETERMINING THE NEED FOR VALUE ADJUSTMENTS

Credits are monitored in a differentiated manner according to established procedures based on the risk profile of exposures.

In order to guarantee the periodic and seamless monitoring of all assumed credit risks, all credit facilities must be renewed. Credit monitoring is performed through a variety of periodic analysis carried out by the responsible client adviser, the credit officer and the Recovery service with the aim of identifying any sign of reduced creditworthiness, and forestalling circumstances which might impair loans or require action to reduce risk. The prerequisites for the renewal of credit facilities are modelled on those for the granting of new loans. The results of these periodic analyses determine whether the limit can be maintained or requires adjustments.

The renewal conditions are established for each individual loan based on the type of client and product, as well as the collateral and loan characteristics.

Moreover, each loan will be subject to an additional review in those circumstances affecting the debtor's solvency or if the debtor is more than 90 days overdue in interest, amortisation or commission payments or is unable to fully reimburse capital (non-performing loan).

Non-performing or impaired loans that have been granted by BancaStato are monitored by a designated unit specialising in recovery and independent of client interface.

Outstanding loans and value of collateral for securities-based loans are monitored daily. If the collateral value of the securities falls below the amount of the credit line, the amount of the loan is either reduced or additional securities are requested. In the absence of a settlement, the securities are utilised and the credit position is closed out.

Non-performing and impaired loans are assessed individually, considering existing collateral at its liquidation value. Any risk of default is provisioned individually. The provision represents the expected loss with the counterparty with regard to the corresponding transaction. The organisational unit proposing the loan is responsible for setting any necessary provisions which will be decided upon by the credit officer or the Executive Board. Similarly, the Recovery unit which is in charge of litigation procedures at BancaStato is tasked with proposing adequate provisions or adjustments with regard to the credits it was entrusted with.

The ALCO monitors the risk of loss in BancaStato's financial investment portfolio on the basis of market values or specific analysis.

Portfolio analyses, along with stress tests performed by Risk Management, are used to identify any possible risk of loss present in the loan portfolio.

5.5 VALUATION OF COLLATERAL

5.5.1 Mortgage-based loans

Only BancaStato grants mortgage-based loans.

An up-to-date valuation of the collateral exists for each loan which is secured by real estate. Real estate pledged as loan collateral is re-evaluated periodically.

Both the characteristics of the asset pledged and its present and future economic use are taken into account in the appraisal of real estate. As a general rule, the valuation is based on market value, an amount corresponding to the price that may be obtained within a period of one year under normal market conditions as a result of offer and demand.

Owner-occupied residential properties are evaluated with the help of client advisers internal appraisers and hedonic valuation models that compare property transactions data on the basis of the detailed characteristics of each property. In the case of multi-family housing, commercial buildings and special properties, internal real estate appraisers, as well as any external certified appraiser, calculate these values amongst others by taking into consideration rental income. If the credit rating is low, a liquidation value is calculated.

The lowest value resulting from the internal valuation, purchase price and any external estimate, defines the value of the pledged collateral.

Properties pledged as collateral against impaired loans are estimated at their current liquidation value.

Any foreseeable cost in connection with the liquidation of the property is deducted from its appraised value.

5.5.2 Securities-based loans

In general terms, transferable financial instruments (such as bonds and shares) that are liquid and actively traded, are accepted for Lombard loans and other securities-based loans. Similarly, transferable structured products for which there is

regular market information and a market maker, are also accepted.

To calculate the value of liquid and negotiable securities, the Banks apply a discount to the market value in order to cover the market risk associated with these securities. Discounts may vary depending upon the type of product, the counterparty's rating, the residual duration of the financial instrument and the currency.

For life insurance policies or bank guarantees, these discounts are determined on the basis of the product and counterparty.

5.6 BUSINESS POLICY REGARDING THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments are used for trading and hedging purposes.

Derivative financial instruments are traded exclusively by specially trained traders. The Banks do not act as market makers. Trading is undertaken both with standardised and OTC instruments on own account and on behalf of clients, especially interest-, currency-, equity-/index-based instruments. There is no trading in credit derivatives.

Derivative financial instruments are used for risk management purposes, primarily to hedge interest rate and foreign currency risks.

In general, recognition in the income statement of the result of a hedging transaction follows the same principles applied to the secured underlying. As a consequence, results from hedging operations with derivative financial instruments within the framework of the structural management of the balance sheet are booked on a pro rata basis (accrual method).

If the impact of a hedging transaction exceeds that of the hedged items, the excess fraction of the derivative instrument is considered as a trading transaction. This revaluation is booked under "Results from trading operations".

The use of interest rate swaps (IRS) in the structural management of the balance sheet is used to hedge rate variations or changes in present values of specific items. Primarily plain vanilla swaps, both payer and receiver, may be used. In general, receiver swaps are used to hedge specific individual fixed rate items in liabilities and are therefore considered micro hedges. On the other hand, portfolio items or fixed rate positions under assets are hedged through payer swaps and are therefore considered macro hedges.

Short term interest rate swaps and tom next / overnight interest rate swaps are used to manage the gap between assets and liabilities with maturities below 12 months as well as for the

current management of liquidity.

Treasury swaps are used within the framework of the structural management of the balance sheet in order to manage currency risk resulting from the conversion of the available liquidity in foreign currency into Swiss francs or from the need to refinance loans in foreign currency. This instrument is used as an alternative to either an interbank investment in foreign currency of excess liquidity, particularly in the case of uncertainty with regard to the quality of foreign counterparts or interbank refinancing in foreign currency. With a treasury swap, the Bank can transform excess liquidity in foreign currency into Swiss francs, for a fixed period, thus enabling its placement in domestic currency without incurring an exchange rate risk, or convert excess liquidity in domestic currency into foreign currency in order to finance loans in foreign currency.

Spot exchange and forward forex are used within the framework of the structural management of the balance sheet to hedge currency risk on economic flows (whether interest margins or commissions) in foreign currency. The acquisition of forex options is preferred over the use of spot exchange or forward forex whenever there is major uncertainty with regard to the future evolution of exchange rates against the Swiss franc.

5.7 MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

No major event occurred after the balance sheet date that would have a decisive impact on assets, the financial position or the income of the Group as at 31 December 2015.

5.8 PREMATURE RESIGNATION OF THE AUDITOR

PricewaterhouseCoopers AG, Lugano was designated as the Group's auditor. The auditor continues to fulfil this function.

5.9 INFORMATION ON THE BALANCE SHEET

5.9.1 Breakdown of securities financing transactions (assets and liabilities)

(CHF thousands)	31.12.2015	31.12.2014
Securities lending, securities borrowing and repurchase agreements		
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	-	-
Book value of obligations from cash collateral received in connection with securities lending and repurchase agreements	76,139	-
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements.	73,889	-
<i>of which with unrestricted right to resell or repledge</i>	73,889	-
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	-	-
<i>of which market value of resold or repledged securities</i>	-	-

5.9.2 Presentation of collateral for loans / receivables and off-balance sheet transactions, as well as impaired loans / receivables at 31.12.2015

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
Loans				
Amounts due from customers	192,386	325,429	521,958	1,039,773
Due from public corporations	4,717	1,317	770,309 ¹	776,343
Mortgage loans	7,760,419			7,760,419
<i>Residential property</i>	5,741,570			5,741,570
<i>Office and business premises</i>	987,674			987,674
<i>Commercial and industrial premises</i>	396,704			396,704
<i>Other</i>	634,471			634,471
Total loans (before netting with value adjustments)	7,957,522	326,746	1,292,267	9,576,535
Previous year	7,523,549	314,154	1,373,388	9,211,091
Total loans (after netting with value adjustments)	7,935,506	317,007	1,270,144	9,522,657
Previous year	7,499,292	305,071	1,349,218	9,153,581
Off-balance sheet				
Contingent liabilities	3,832	64,374	69,468	137,674
Irrevocable commitments	52,624	-	35,216 ²	87,840
Obligations to pay up shares and make further contributions	-	-	8,944	8,944
Total off-balance sheet	56,456	64,374	113,628	234,458
Previous year	50,031	60,901	141,699	252,631

(CHF thousands)	Gross debt amount	Estimated liquidation value	Net debt amount	Individual value adjustments
Impaired loans				
Current year	159,747	105,869	53,878	53,878
<i>of which with collateral</i>	135,950	104,210	31,740	31,740
<i>of which unsecured</i>	23,797	1,659	22,138	22,138
Previous year	161,386	103,876	57,510	57,510
<i>of which with collateral</i>	134,480	101,140	33,340	33,340
<i>of which unsecured</i>	26,906	2,736	24,170	24,170

¹ Including loans to entities related to public institutions for CHF 131.9 million (2014: 158.5 million).

² Including CHF 37.3 million (2014: CHF 35.4 million) as a deposit guarantee.

5.9.3 Breakdown of trading portfolios

(CHF thousands)	31.12.2015	31.12.2014
Assets		
Trading portfolio assets		
Debt securities, money market securities	4,605	1,345
of which, listed	2,211	438
unlisted	-	907
Equity-type securities	39	45
Shares in investment funds	14,171	17,195
Precious metals and commodities	11,198	10,336
Other financial instruments at fair value	960	-
Total trading portfolio assets	30,973	28,921
<i>of which, determined using a valuation model</i>	-	-
<i>of which, securities eligible for repo transactions in accordance with liquidity requirements</i>	-	-

5.9.4 Presentation of derivative financial instruments (assets and liabilities)

(CHF thousands)	Trading instruments			Hedging instruments		
	Replacement values		Contract volume	Replacement values		Contract volume
	positive	negative		positive	negative	
Interest rate instruments						
IRS	-	-	-	23,757	38,262	894,000
Total	-	-	-	23,757	38,262	894,000
Foreign currencies / precious metals						
Forward contracts	1,086	1,043	92,764	-	-	-
Swaps	1,384	707	184,397	20,967	1,447	1,667,824
Options (OTC)	-	-	4,329	-	-	-
Total	2,470	1,750	281,490	20,967	1,447	1,667,824
Total before netting agreements	2,470	1,750	281,490	44,724	39,709	2,561,824
<i>of which, determined using a valuation model</i>	-	-	-	-	-	-
Total previous year	6,945	4,766	380,837	33,475	39,296	2,142,097
<i>of which, determined using a valuation model</i>	-	-	-	-	-	-
	Positive replacement values (cumulative)			Negative replacement values (cumulative)		
Total after netting agreements	47,194			41,459		
<i>Total previous year</i>	40,420			44,062		

No netting contracts existed at the balance sheet date.

Breakdown by counterparty

(CHF thousands)	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	-	46,034	1,160

5.9.5 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Debt securities	242,044	326,517	244,425	340,519
<i>of which, intended to be held to maturity</i>	242,044	326,517	244,425	340,519
<i>of which, not intended to be held to maturity</i>	-	-	-	-
Shares in investment funds	23,053	21,032	23,641	21,323
Equity-type securities	171	164	279	245
Precious metals	133	367	133	367
Real estate	1,465	8,165	1,465	8,165
Total of financial investments	266,866	356,245	269,943	370,619
<i>of which, securities eligible for repo transactions in accordance with liquidity requirements</i>	114,475	123,635	116,515	127,453

Breakdown of counterparties by rating

(CHF thousands)	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Book value of debt securities	63,757	16,106	35,788	1,127	-	125,266

The valuations are based on ratings by Standard & Poor's.

5.9.6 Presentation of participations

(CHF thousands)	Acquisition cost	Accumulated value adjustments (equity method)	Book value 31.12.14	2015			Book value 31.12.15	Market value
				Additions	Disposals	Value adjustments		
Other participations								
listed	-	-	-	-	-	-	-	-
unlisted	15,630	8,559	7,071	-	2,255	-	4,816	-
Total participations	15,630	8,559	7,071	-	2,255	-	4,816	-

As a result of the sale of its participation in Swisscanto Holding AG, the Group realised substantial proceeds of approximately CHF 6.8 million which were booked under "Extraordinary income".

5.9.7 Disclosure of companies in which the Bank holds a permanent or indirect significant participation

Companies are recognized on the basis of the full consolidation method.

Company name	Head office	Business activity	Capital (CHF thousands)	Share of		Held	
				capital	votes	direct	indirect
AHSA Holding SA	Lugano	Financial company	7,500	100.0%	100.0%	100.0%	-
Axion SWISS Bank SA	Lugano	Banking	43,000 ¹	100.0%	100.0%	-	100.0%

¹ AHSA Holding SA owns 100% of the share capital of Axion SWISS Bank SA.

Participations recorded in the balance sheet under "Financial investments"

Company name	Head office	Business activity	Capital (CHF thousands)	Share of		Held	
				capital	votes	direct	indirect
Geneva Cantonal Bank	Geneva	Banking	360,000	0.01%	0.01%	0.01%	-
Swiss National Bank	Bern		25,000	0.10%	0.10%	0.10%	-

Participations recorded in the balance sheet under "Participations"

Company name	Head office	Business activity	Capital (CHF thousands)	Share of		Held	
				capital	votes	direct	indirect
Financial and services companies held with cantonal banks							
Aduno Holding SA	Zurich	Financial company	25,000	0.40%	0.40%	0.40%	-
Caleas SA	Zurich	Financial company	800	2.24%	2.24%	2.24%	-
Central mortgage bond institution of SCB	Zurich	Mortgage bond issuing institution	1,025,000	1.09%	1.09%	1.09%	-
Financial and services companies held with Swiss banks							
SIX Group AG	Zurigo	Service company	19,500	0.15%	0.15%	0.15%	-
Swiss Bankers Prepaid Services SA	Grosshöchstetten	Financial company	10,000	0.20%	0.20%	0.20%	-
Other participations							
Alloggi Ticino SA	Bioggio	Real estate company	15,200	2.11%	2.11%	2.11%	-
Autosilo Piazza del Sole SA	Bellinzona	Car park	2,000	10.0%	10.0%	10.00%	-
Società svizzera di credito alberghiero	Zurich	Financial company	26,511	1.41%	1.41%	1.41%	-
Teleticino SA	Melide	Radio and television productions	4,950	23.15%	16.98%	16.98%	-

5.9.8 Presentation of tangible fixed assets

(CHF thousands)	Acquisition cost	Accumulated depreciation	Book value 31.12.14	2015			Book value 31.12.15
				Additions	Disposals	Depreciation	
Bank buildings	176,415	108,917	67,498	835	563	4,150	63,620
Other real estate	16,116	12,125	3,991	-	-	210	3,781
Other tangible fixed assets	104,189	100,838	3,351	761	-	1,316	2,796
Software	73,725	58,042	15,683	2,956	-	12,938	5,701
Total tangible fixed assets	370,445	279,922	90,523	4,552	563	18,614	75,898

5.9.9 Presentation of intangible assets

(CHF thousands)	Cost value	Accumulated amortisation	Book value 31.12.14	2015			Book value 31.12.15
				Additions	Disposals	Amortisation	
Goodwill	16,804	7,164	9,640	-	112	3,066	6,462
Total intangible assets	16,804	7,164	9,640	-	112	3,066	6,462

5.9.10 Breakdown of other assets and other liabilities

(CHF thousands)	31.12.2015	31.12.2014
Other assets		
Compensation account	14,308	9,260
Indirect taxes	736	913
Various other assets	244,085 ¹	17,659
Total other assets	259,129	27,832
Other liabilities		
Direct/indirect taxes	8,693	10,617
Unredeemed cash bonds	3,478	3,833
Various other liabilities	28,470 ²	10,602
Total other liabilities	40,641	25,052

5.9.11 Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership

(CHF thousands)	Book value		Effective commitments	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Effective commitments (excluding advances and repurchase agreements with securities)				
Book value of securities delivered as collateral in connection with Repo Light credit with SNB	23,935	23,913	-	-
Book value of securities delivered as collateral to SIX Group AG	1,301	1,057	-	-
Book value of assets pledged to secure own commitments	9,385	6,469	2,763	5,005
Book value of mortgages set as collateral for bonds and loans with the SCB Central	2,327,028	2,372,689	1,936,000	1,887,000

¹ of which a balance of CHF 244 million in banking operations awaiting execution.

² of which a CHF 19.3 million supplementary payment to the Canton for 2014 not yet paid out.

5.9.12 Disclosure of liabilities relating to own pension schemes

a) Economic situation of own pension schemes

The Group does not have a pension institution of its own.

b) Economic benefit / obligation and pension expenses

	Over- / underfunding at the end of the current year	Economic interest of the Bank		Change in economic interest (benefit and/or commitment)	Contributions paid for in the current year	Pension expenses in personnel expenses	
		Current year	Previous year			Current year	Previous year
BancaStato Pension plans without overfunding/ underfunding	-	-	-	-	7,765	7,112	27,591
Axion Swiss Bank Pension plans with overfunding	10.9%	-	-	-	434	468	418

Contributions are paid to the insurance company. The employer's contributions are carried under "Personnel expenses".

BancaStato has opted for affiliation to the Group Plan LPP Swiss Life, a legally independent pension fund. The pension plan is a defined-contribution scheme and provides the basic compulsory coverage as stated in the Swiss LPP (Federal Law on Occupational Benefits), as well as complementary coverage.

Axion Swiss Bank provides coverage for all its employees through the Vita Joint Foundation from "Zurich".

At the end of the accounting period the Group had no obligation towards the pension funds. There are no contribution reserves on the part of the employers and the relationships between the Group's banks and their pension funds are based on global affiliation contracts.

The pension funds reinsure all pension risks by means of a comprehensive insurance contract. Within the framework of these contracts, no possibility of under-coverage exists and, consequently, there are no obligations in this regard on the part of the employers.

5.9.13 Disclosure of bonds outstanding, mortgage bonds with the Central mortgage bond issuing body and mandatory convertible bonds

(CHF thousands)				
Interest rate	Type of bond	Issue year	Due date	Nominal value
3.00%	Non subordinated loan ¹	2007	15.06.17	200,000
3.75%	Subordinated loan without PONV clause ²	2011	15.12.21	175,000
0.50%	Non subordinated loan ¹	2015	24.06.24	150,000
	Bonds and loans from central mortgage institutions			1,936,000
Total bonds and loans from central mortgage bond institutions and mandatory convertible bonds				2,461,000

¹ No early repayment.

² Early repayment only under certain conditions.

5.9.14 Presentation of value adjustments, provisions and reserves for general banking risks and changes therein during the current year

(CHF thousands)	Status 31.12.2014	2015				Status 31.12.2015
		Use in conformity with designated purpose	Currency differences on past due interest, and recoveries	Releases to income	New creations charged to income	
Provisions						
Provisions for default risks	488	8	-	23	-	457
Value adjustments and provisions for other operating risks	6,139	3,619	-	2,099	-	421
Additional pension provision	3,930	853	-	-	338	3,415
Provisions for deferred taxes	900	-	-	-	-	900
Other provisions	618	385	-	24	-	209
Total provisions	12,075	4,865	-	2,146	338	5,402
Reserves for general banking risks	365,886	-	-	-	22,000	387,886
Value adjustments for default and country risks	59,213	7,386	14	7,677	9,932	54,096
of which value adjustments for default risk from impaired loans	59,213	7,386	14	7,677	9,932	54,096
of which value adjustments for latent risks	-	-	-	-	-	-
Total value adjustments for default and country risks	59,213	7,386	14	7,677	9,932	54,096

5.9.15 Presentation of the Bank's capital

(CHF thousands)	Current year			Previous year		
	Total par value	Quantity	Capital eligible for dividend	Total par value	Quantity	Capital eligible for dividend
Bank's capital						
Bank's capital	240,000	240,000	240,000	240,000	240,000	240,000
of which, paid up	240,000	240,000	240,000	240,000	240,000	240,000

5.9.16 Disclosure of amounts due from / to related parties

(CHF thousands)	Amounts due from		Amounts due to	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Holders of qualified participations	12,000	110,000	196,277	138,248
Linked companies	23,352	27,133	138,105	135,632
Transactions with members of governing bodies	88,853	80,273	6,545	8,033

Loans to companies or entities related to the Canton consist of operating and investment loans granted on the basis of standard lending parameters. Receivables from and payables to companies or entities related to the Canton are concluded at market conditions.

Loans to governing bodies primarily consist of mortgage loans and are granted in compliance with standard lending parameters.

5.9.17 Disclosure of holders of significant participations and of groups of holders of participations with pooled voting rights

(CHF thousands)	Current year		Previous year	
	Nominal	% of equity	Nominal	% of equity
Holders of significant participations				
Canton Ticino With voting rights	240,000	100	240,000	100

5.9.18 Presentation of the maturity structure of financial instruments

(CHF thousands)	At sight	Callable	Due				No maturity	Total
			within 3 months	within 3 to 12 months	within 1 to 5 years	after 5 years		
Assets / Financial instruments								
Liquid assets	1,292,663	-	-	-	-	-	-	1,292,663
Amounts due from banks	143,486	-	40,847	-	-	-	-	184,333
Amounts due from customers	15,621	368,509	367,358	218,292	469,208	345,265	-	1,784,253
Mortgage loans	4,503	217,892	936,750	814,268	3,677,397	2,087,594	-	7,738,404
Trading portfolio	30,973	-	-	-	-	-	-	30,973
Positive replacement values of derivative financial instruments	47,194	-	-	-	-	-	-	47,194
Financial investments	23,357	-	16,303	48,748	98,164	78,829	1,465	266,866
Total current assets	1,557,797	586,401	1,361,258	1,081,308	4,244,769	2,511,688	1,465	11,344,686
Previous year	1,322,785	601,065	1,584,953	1,042,663	4,470,616	1,940,854	8,165	10,971,101
Debt capital / Financial instruments								
Amounts due to banks	333,708	-	282,842	30,000	34,000	-	-	680,550
Liabilities from securities financing transactions	-	-	76,139	-	-	-	-	76,139
Amounts due in respect of customer deposits	4,230,645	2,609,760	94,969	65,728	361,704	109,809	-	7,472,615
Negative replacement values of derivative financial instruments	41,459	-	-	-	-	-	-	41,459
Cash bonds	-	-	1,380	1,168	3,217	-	-	5,765
Bond issues and central mortgage institution loans	-	-	140,000	148,000	883,000	1,290,000	-	2,461,000
Total debt capital	4,605,812	2,609,760	595,330	244,896	1,281,921	1,399,809	-	10,737,528
Previous year	5,017,258	2,033,817	322,181	318,160	1,246,256	1,265,834	-	10,203,506

5.9.19 Presentation of assets and liabilities by domestic and foreign origin (domicile principle)

(CHF thousands)	31.12.2015		31.12.2014	
	Switzerland	Foreign	Switzerland	Foreign
Assets				
Liquid assets	1,292,260	403	948,137	544
Amounts due from banks	90,983	93,350	304,090	139,163
Amounts due from customers	1,627,908	156,345	1,662,185	176,607
Mortgage loans	7,738,404	-	7,314,789	-
Trading portfolio assets	14,845	16,128	12,869	16,052
Positive replacement values of derivative financial instruments	43,336	3,858	39,885	535
Financial investments	140,472	126,394	88,860	267,385
Accrued income and prepaid expenses	15,352	1,715	16,082	5,811
Participations	4,808	8	7,063	8
Tangible fixed assets	75,898	-	90,523	-
Intangible assets	6,462	-	9,640	-
Other assets	259,129	-	25,921	1,911
Total assets	11,309,857	398,201	10,520,044	608,016
Liabilities				
Amounts due to banks	518,316	162,234	526,271	85,026
Liabilities from securities financing transactions	76,139	-	-	-
Amounts due in respect of customer deposits	5,628,878	1,843,737	5,390,070	1,885,789
Negative replacement values of derivative financial instruments	40,788	671	43,849	213
Cash bonds	5,765	-	10,288	-
Bond issues and central mortgage institution loans	2,461,000	-	2,262,000	-
Accrued expenses and deferred income	37,967	75	36,199	227
Other liabilities	40,641	-	21,912	3,140
Provisions	5,402	-	12,075	-
Reserves for general banking risks	387,886	-	365,886	-
Bank's capital	240,000	-	240,000	-
Statutory retained earnings reserve	215,773	-	207,129	-
Group profit	42,786	-	37,986	-
Total liabilities	9,701,341	2,006,717	9,153,665	1,974,395

5.9.20 Breakdown of total assets by country or group of countries (domicile principle)

(CHF thousands)	31.12.2015		31.12.2014	
	Absolute	Share as %	Absolute	Share as %
Assets domiciled abroad				
Europe	248,934	2.13	386,106	3.47
Luxembourg	71,639		81,168	
France	22,317		49,848	
United Kingdom	38,628		46,032	
Italy	34,207		47,168	
Netherlands	21,581		38,387	
Liechtenstein	8,633		12,629	
Germany	8,554		53,824	
Denmark	5,908		6,544	
Bulgaria	7,160		5,537	
Croatia	6,894		6,931	
Other countries	23,413		38,038	
North America	69,138	0.59	132,612	1.20
United States	62,716		127,633	
Other countries	6,422		4,979	
Asia	50,982	0.44	44,562	0.40
Kazakhstan	40,176		29,922	
Singapore	5,025		-	
South Korea	1,262		10,223	
Other countries	4,519		4,417	
Caribbean	15,822	0.14	28,881	0.26
Panama	15,398		23,856	
Other countries	424		5,025	
South America	5,715	0.05	186	0.00
Mexico	5,610		4	
Other countries	105		182	
Oceania	6,535	0.06	13,779	0.12
Australia	6,491		13,596	
Other countries	44		183	
Other countries	1,075	0.01	1,890	0.01
Total assets abroad	398,201	3.40	608,016	5.46
Switzerland	11,309,857	96.60	10,520,044	94.54
Total assets	11,708,058	100.00	11,128,060	100.00



5.9.21 Breakdown of total assets by credit rating of country groups (risk domicile view)

Bank's own country rating (CHF thousands)	Moody's Rating	31.12.2015		31.12.2014	
		Amount	Share as %	Amount	Share as %
1 Excellent and high quality	Aaa - to Aa3	11,583,177	98.9%	10,991,122	98.8%
2 Above-average quality	A1 to A3	10,211	0.1%	3,747	0.0%
3 Average quality	Baa1 to Baa3	101,995	0.9%	124,464	1.1%
4 Risk of default	Ba1 to Ba2	12,603	0.1%	8,184	0.1%
5 Significant risk of default	Ba3	-	0.0%	-	0.0%
6 Speculative, high risk of default	B1 to B3	7	0.0%	4	0.0%
7 Poor quality, very high risk	Caa1 to C	16	0.0%	523	0.0%
8 Unrated	Unrated	49	0.0%	16	0.0%
Total assets		11,708,058	100.0%	11,128,060	100.0%

5.9.22 Presentation of assets and liabilities broken down by the most significant currencies for the Bank

(CHF thousands)	Currency				Total
	CHF	USD	EUR	Other	
Assets					
Liquid assets	1,255,626	2,246	33,095	1,696	1,292,663
Amounts due from banks	10,513	81,624	10,279	81,917	184,333
Amounts due from customers	1,480,573	68,307	215,574	19,799	1,784,253
Mortgage loans	7,738,404	-	-	-	7,738,404
Trading portfolio assets	8,569	959	8,541	12,904	30,973
Positive replacement values of derivative financial instruments	47,146	37	3	8	47,194
Financial investments	175,065	41,580	50,206	15	266,866
Accrued income and prepaid expenses	15,410	467	1,135	55	17,067
Participations	4,808	-	8	-	4,816
Tangible fixed assets	75,898	-	-	-	75,898
Intangible assets	6,462	-	-	-	6,462
Other assets	259,064	-	64	1	259,129
Total assets	11,077,538	195,220	318,905	116,395	11,708,058
Delivery entitlements from spot exchange, forward forex and forex options transactions	56,144	613,550	1,173,065	106,555	1,949,314
Total assets	11,133,682	808,770	1,491,970	222,950	13,657,372
Liabilities					
Amounts due to banks	457,670	37,928	184,041	911	680,550
Liabilities from securities financing transactions	-	-	76,139	-	76,139
Amounts due in respect of customer deposits	5,393,924	694,227	1,183,904	200,560	7,472,615
Negative replacement values of derivative financial instruments	41,232	13	56	158	41,459
Cash bonds	5,765	-	-	-	5,765
Bond issues and central mortgage institution loans	2,461,000	-	-	-	2,461,000
Accrued expenses and deferred income	38,023	6	8	5	38,042
Other liabilities	39,933	8	696	4	40,641
Provisions	5,402	-	-	-	5,402
Reserves for general banking risks	387,886	-	-	-	387,886
Bank's capital	240,000	-	-	-	240,000
Statutory retained earnings reserve	215,773	-	-	-	215,773
Group's profit	42,786	-	-	-	42,786
Total liabilities	9,329,394	732,182	1,444,844	201,638	11,708,058
Delivery obligations from spot exchange, forward forex and forex options transactions	1,782,142	76,795	47,312	20,600	1,926,849
Total liabilities	11,111,536	808,977	1,492,156	222,238	13,634,907
Net position per currency	22,146	-207	-186	712	22,465
Net position per currency in the previous year	-2,725	-352	7,351	2,089	6,363

5.10 INFORMATION ON OFF-BALANCE SHEET TRANSACTIONS

5.10.23 Breakdown of contingent liabilities and contingent assets

(CHF thousands)	31.12.2015	31.12.2014
Contingent liabilities		
Guarantees to secure credit and similar	76,540	62,304
Performance guarantees and similar	33,780	36,028
Irrevocable commitments arising from documentary letters of credit	27,354	60,017
Total contingent liabilities	137,674	158,349

5.10.24 Breakdown of fiduciary transactions

(CHF thousands)	31.12.2015	31.12.2014
Fiduciary investments with third-party companies	90,021	168,243
Fiduciary loans	26,721	27,410
Total fiduciary transactions	116,742	195,653

5.11 INFORMATION ON THE INCOME STATEMENT

5.11.25 Breakdown of the result from trading activities

(CHF thousands)	2015	2014
Result from trading activities from:		
Foreign exchange	19,493	12,651
Banknote trading	-2,047	1,373
Commodities / precious metals	-1,133	414
Securities trading	399	82
Total result from trading activities	16,712	14,520

5.11.26 Disclosure of material refinancing income in the item Interest and discount income as well as material negative interest

(CHF thousands)	2015	2014
Refinancing income in the item "Result from interest operations"		
Income and dividend income from trading portfolio is not offset with costs of refinancing of that portfolio.		
Negative interest		
Negative interest on assets (decrease in interest and discount income)	425	-
Negative interest on commitments (decrease in interest expenses)	31	-

5.11.27 Breakdown of personnel expenses

(CHF thousands)	2015	2014
Salaries	57,336	57,758
Contributions to pension institutions ¹	7,580	28,009
Other social benefits	6,110	6,016
Other personnel expenses	2,411	2,383
Total	73,437	94,166

5.11.28 Breakdown of general and administrative expenses

(CHF thousands)	2015	2014
Office space expenses	5,756	6,206
Expenses for information and communications technology	14,874	14,888
Expenses for vehicles, equipment, furniture and other fixtures	381	477
Fees of audit firm	728	1,166
<i>of which, for financial and regulatory audits</i>	722	670
<i>of which, for other services</i>	6	496
Other operating expenses	13,766	10,671
<i>of which, compensation for guarantee by Canton Ticino</i>	-	-
Total	35,505	33,408

5.11.29 Explanations regarding material losses, extraordinary income and expenses, material releases of hidden reserves, reserves for general banking risks, and value adjustments and provisions no longer required

Financial year 2015
5.11.29.01 Material losses No material losses were incurred during the financial year.
5.11.29.02 Extraordinary income and extraordinary expenses The extraordinary amount of CHF 8.5 million is mainly due to the sale of our participation in the capital of Swisscanto Holding AG (approximately CHF 6.8 million) and the sale of one building (approximately CHF 1.8 million). The CHF 6 million contribution to BancaStato's Centennial Foundation was booked as an extraordinary expense.
5.11.29.03 Hidden reserves The Group does not hold any hidden reserve.
5.11.29.04 Reserves for general banking risks The item "Changes in reserves for general banking risks" was used to constitute a CHF 22 million reserve for general banking risks.
5.11.29.05 Value adjustments and provisions no longer required As a result of the agreement reached with the US Department of Justice in relation to the US program, the surplus amount of CHF 2 million of the fine was released in the 2015 income statement via the item "Changes in provisions and other value adjustments and losses".

5.11.30 Presentation of current and deferred taxes, and disclosure of tax rate

(CHF thousands)	31.12.2015	31.12.2014
Current taxes	665	881
Provisions for deferred taxes	-	-
Total taxes	665	881
Average tax rate weighted on the basis of the operating result²	1.1%	2.8%

¹ The year 2014 includes a CHF 19.8 million provision for an early retirement plan to be implemented over 3 years (2015, 2016 and 2017).

² The Parent company Banca dello Stato del Cantone Ticino is exempt from cantonal taxation. It is subject to capital and real estate taxation.

6. Information on Capital Adequacy Basel III

6.1 Additional information on risks and capital adequacy (Basel III)

For the calculation of capital adequacy requirements, the Group applies the following approaches:

- **Credit Risks:**

Basis: international approach (SA-BRI)

Value adjustments and provisions: exposures are risk-weighted net of specific provisions

Derivatives: current exposure method

Credit risk mitigation: simple approach

External credit assessment: external credit assessment was not used; FiRE for some types of exposures, use of SERV ratings

Lombard loans: simple approach

Netting: the net exposure of loans and deposits was not used as the basis for capital adequacy calculation

- **Market Risks:**

Basis: standardised approach for market risks

Derivatives: delta-plus approach

General market risk on changes in market interest rates within the trading portfolio: maturity method

- **Operational Risks:**

Basis: basic indicator approach (BIA)

Qualitative information required by the Ordinance on Capital Adequacy can be found in Section 5.3 Risk Management of the Notes to the Group Financial Statements.

The information on risk and capital in the following tables is based on the above methods and reflects the rules and approaches defined in Basel III. This information may differ from that presented in the previous tables due to these specific calculation rules.

6.2 Composition of regulatory capital

The consolidated Group accounts of BancaStato comprise the following:

- Banca dello Stato del Cantone Ticino, as Parent Bank;
- AHSA Holding SA, Lugano, entirely owned by BancaStato;
- Axion Swiss Bank SA, Lugano, entirely owned by AHSA Holding SA, Lugano.

No difference exists between the accounting scope of consolidation and the scope of consolidation for the calculation of own funds.

(CHF thousands)	as per balance sheet closing	as per scope of consolidation	Notes
Balance Sheet			
Assets			
Liquid Assets	1,292,663	1,292,663	
Amounts due from banks	184,333	184,333	
Amounts due from customers	1,784,253	1,784,253	
Mortgage loans	7,738,404	7,738,404	
Trading portfolio	30,973	30,973	
Positive replacement values of derivative financial instruments	47,194	47,194	
Financial investments	266,866	266,866	
Accrued income and prepaid expenses	17,067	17,067	
Participations	4,816	4,816	
Tangible fixed assets	75,898	75,898	
Intangible assets	6,462	6,462	6.3
<i>of which goodwill</i>	6,462	6,462	
Other assets	259,129	259,129	
Total assets	11,708,058	11,708,058	
Debt capital			
Amounts due to banks	680,550	680,550	
Liabilities from securities financing transactions	76,139	76,139	
Amounts due in respect of customer deposits	7,472,615	7,472,615	
Negative replacement values of derivative financial instruments	41,459	41,459	
Cash bonds	5,765	5,765	
Bond issues and central mortgage institution loans	2,461,000	2,461,000	
Accrued expenses and deferred income	38,042	38,042	
Other liabilities	73,876	73,876	
Provisions	5,402	5,402	
<i>of which latent taxes</i>	-	-	
<i>of which latent taxes of other intangible assets</i>	-	-	
Debt capital	10,854,848	10,854,848	
Capital (after appropriation of available earnings)			
Reserves for general banking risks	387,886	387,886	6.3
Bank's capital	240,000	240,000	6.3
<i>of which CET1</i>	240,000	240,000	
<i>of which AT1</i>	-	-	
Retained earnings reserve	225,324	225,324	6.3
Total capital	853,210	853,210	
of which subordinated liabilities available as additional Tier 1 capital (AT 1)	140,000	140,000	6.3
of which subordinated liabilities available as complementary capital (T2)	122,500	122,500	6.3

6.3 Presentation of recognised regulatory capital

(CHF thousands)	Net amounts	Impact of transitional provisions	Notes
1 Bank's capital	240,000	-	6.2
2 Statutory retained earnings reserves	225,324	-	6.2
3 Reserves for general banking risks	387,886	-	6.2
= Total eligible core capital	853,210	-	
4 - Other elements to be deducted from eligible core capital	-6,462	-	6.2
= Total eligible prime quality core capital (net CET1)	846,748	-	
5 + Additional Tier 1 capital (AT1)	140,000	-	6.2
= Net Tier 1	986,748	-	
6 + Tier 2 capital (T2)	122,500	-	6.2
= Recognised regulatory capital	1,109,248	-	
Total risk-weighted positions	6,073,463		

6.4 Ratios on regulatory capital

(as a % of risk-weighted positions)	31.12.2015
CET1 ratio	13.9%
T1 ratio	16.3%
Total regulatory capital ratio	18.3%
CET1 requirements under the terms of CAO transitional provisions	5.2%
of which capital buffer	0.0%
of which anticyclical capital buffer (% of risk-weighted positions)	0.7%
CET1 available for the coverage of minimum requirements and buffers, after deduction of AT1 and T2 requirements covered by CET1	13.9%
CET1 target based on FINMA Circular 11/2 "Capital buffer and capital planning" plus countercyclical capital buffer	8.1%
Available CET1	13.9%
T1 target based on FINMA 11/2 plus countercyclical buffer	9.7%
Available T1	16.1%
Regulatory capital target based on FINMA Circular 11/2 plus anticyclical buffer	11.9%
Available regulatory capital	18.3%

6.5 Ratio leverage effect and calculation of global exposure subject to ratio leverage effect

(CHF thousands)	31.12.2015
Global exposure subject to ratio leverage effect (compared to assets)	11,978,222
Net Tier 1 capital	986,748
Basel III ratio leverage effect	8.2%

6.6 Information on short-term liquidity ratio

(CHF thousands)	31.12.2015
Total high quality liquid assets (HQLA)	1,238,774
Net outflows	1,854,422
Short-term liquidity coverage ratio (LCR)	124.4%



Report of the statutory Auditor
To the Council and
To the Cantonal Parliament of the Republic
and Canton of Ticino
Bellinzona

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Banca dello Stato del Cantone Ticino, which comprise the balance sheet, income statement, cash flow statement, statement of change in equity and notes (pages 36-67), for the year ended 31 December 2015.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with accounting rules for banks and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with accounting rules for banks and comply with Swiss law.

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Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (art. 728 CO and art. 11 AOA) and that there are no circumstances incompatible with our independence.

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

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA



Beresford Caloia
Audit expert
Auditor in charge



F. Vanoni
Farah Vanoni

Lugano, 31 March 2016



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1. Balance Sheet

(CHF thousands)	Notes	31.12.2015	31.12.2014	Change
Assets				
Liquid assets		1,186,234	860,686	325,548
Amounts due from banks		68,163	312,876	-244,713
Amounts due from customers	5.6.2	1,667,843	1,738,617	-70,774
Mortgage loans	5.6.2	7,738,404	7,314,789	423,615
Trading portfolio	5.6.3	24,551	25,579	-1,028
Positive replacement values of derivative financial instruments	5.6.4	46,321	38,208	8,113
Financial investments	5.6.5	259,970	350,959	-90,989
Accrued income and prepaid expenses		15,837	21,322	-5,485
Participations		62,816	65,071	-2,255
Tangible fixed assets		75,794	90,385	-14,591
Intangible assets		6,573	8,977	-2,404
Other assets	5.6.6	259,026	26,685	232,341
Total assets		11,411,532	10,854,154	557,378
Total subordinated claims		17,145	7,129	10,016
<i>of which subject to mandatory conversion and/or debt waiver</i>		-	-	-
Liabilities				
Amounts due to banks		1,094,617	1,031,964	62,653
Liabilities from securities financing transactions	5.6.1	76,139	-	76,139
Amounts due in respect of customer deposits		6,763,279	6,584,794	178,485
Negative replacement values of derivative financial instruments	5.6.4	41,226	43,972	-2,746
Cash bonds		5,765	10,288	-4,523
Bond issues and central mortgage institution loans	5.6.7	2,461,000	2,262,000	199,000
Accrued expenses and deferred income		35,884	34,509	1,375
Other liabilities	5.6.6	39,692	22,749	16,943
Provisions	5.6.9	4,502	10,960	-6,458
Reserves for general banking risks	5.6.9	387,886	365,886	22,000
Bank's endowment capital	4 and 5.6.10	240,000	240,000	-
Statutory retained earnings reserve	4	217,690	208,019	9,671
Profit	4	43,852	39,013	4,839
Total liabilities		11,411,532	10,854,154	557,378
Total subordinated liabilities		315,273	235,273	80,000
<i>of which subject to mandatory conversion and/or debt waiver</i>		140,000	60,000	80,000
Off-balance sheet transactions				
Contingent liabilities	5.6.2	132,077	134,536	-2,459
Irrevocable commitments	5.6.2	87,092	84,626	2,466
Obligations to pay up and make further contributions	5.6.2	8,944	8,944	-

2. Income Statement

(CHF thousands)	Notes	2015	2014	Change
Income and expenses from ordinary banking activities				
Result from interest operations				
Interest and discount income	5.8.16	183,441	177,569	5,872
Interest and dividend income from financial investments		4,862	8,817	-3,955
Interest expense	5.8.16	-55,223	-67,774	12,551
Gross result from interest operations		133,080	118,612	14,468
Changes in value adjustments for default risk and losses from interest operations		-2,097	3,167	-5,264
Net result from interest operations		130,983	121,779	9,204
Result from commission business and services				
Commission income from securities trading and investment activities		23,603	27,549	-3,946
Commission income from lending activities		4,326	3,354	972
Commission income from other services		10,215	7,607	2,608
Commission expense		-6,655	-7,829	1,174
Result from trading activities	5.8.15	15,509	13,666	1,843
Other results from ordinary activities				
Result from the disposal of financial investments		50	826	-776
Income from participations		2,763	2,292	471
Result from real estate		256	383	-127
Other ordinary income		2,436	2,347	89
Other ordinary expenses		-809	-426	-383
Net revenues		182,677	171,548	11,129
Operating expenses				
Personnel expenses	5.8.17	-67,528	-88,276	20,748
Other operating expenses	5.8.18	-32,609	-30,651	-1,958
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		-20,829	-19,608	-1,221
Changes to provisions and other value adjustments, and losses		1,813	-636	2,449
Operating result		63,524	32,377	31,147
Extraordinary income	5.8.19.02	8,503	742	7,761
Extraordinary expenses	5.8.19.02	-6,000	-339	-5,661
Changes in reserves for general banking risks	5.8.19.04	-22,000	6,500	-28,500
Taxes	5.8.20	-175	-267	92
Profit		43,852	39,013	4,839

3. Proposed Appropriation of Retained Earnings

(CHF thousands)	2015	2014	Change
Proposed appropriation of retained earnings			
Net income	43,852	39,013	4,839
Amount carried forward	-	-	-
Balance sheet profit	43,852	39,013	4,839
Proposal of the Board of Directors			
Assignment to the statutory retained earnings reserve	10,617	9,671	946
5% interest on the endowment capital	12,000	10,000	2,000
Additional payment to the Canton	21,235	19,342	1,893
Amount carried forward	-	-	-

4. Statement of Changes in Equity

(CHF thousands)	Bank's capital	Statutory retained earnings reserve	Reserves for general banking risks	Result of the period	Total
Equity at 1.1.2015	240,000	208,019	365,886	39,013	852,918
Appropriation of retained earnings 2014					
<i>Assignment to the statutory retained earnings</i>		+9,671	-	-9,671	-
<i>5% interest on the endowment capital</i>		-	-	-10,000	-10,000
<i>Additional payment to the Canton</i>		-	-	-19,342	-19,342
Changes in reserve for general banking risks	-	-	+22,000	-	22,000
Profit 2015	-	-	-	+43,852	43,852
Total equity at 31.12.2015	240,000	217,690	387,886	43,852	889,428

5. Notes to the Financial Statements

5.1 ACTIVITIES OF THE BANK AND PERSONNEL

5.1.1 Activities of the Bank

Banca dello Stato del Cantone Ticino, based in Bellinzona, is an autonomous banking institution under public law which operates as a universal bank, whose primary aim is to favour the development of the economy in Ticino.

Its operations have evolved over 100 years and comprise the full range of banking services provided by universal banks. These activities are geared towards facilitating access to capital for small and medium-sized companies as well as individuals.

In the last quarter of 2010, as part of a move to diversify its sources of revenue, BancaStato acquired a majority stake (80%) in the capital of AHSA Holding SA, Lugano, in order to gain indirect control over Axion Swiss Bank SA, Lugano. In 2013 BancaStato concluded the acquisition of the remaining 20% share in the capital of AHSA Holding SA.

Axion Swiss Bank SA's core business is asset management for private and institutional clients, and it is active in the principal international markets.

5.1.2 Personnel

As at 31 December 2015, the Bank had a total of 438 employees on payroll (400.85 FTEs) with apprentices calculated at 50%, compared to 460 staff at the end of 2014 (421.95 FTEs).

5.2 ACCOUNTING AND VALUATION PRINCIPLES

5.2.1 General principles

The financial statements of Banca dello Stato del Cantone Ticino as at 31 December 2015 were prepared in accordance with applicable legal and regulatory provisions as well as the true and fair view principle, in compliance with the provisions of the Swiss Code of Obligations and the Swiss Banking legislation, in particular the guidelines of the Swiss Financial Market Supervisory Authority FINMA and the Swiss listing rules. All business transactions are recorded at the time they are closed.

5.2.2 Accounting and valuation principles for individual financial statements

The evaluation rules for the individual financial statements reflect those of the consolidated financial statements (refer to Section

5.2.2 and following of the Notes to the Group Financial Statements) except for the item below:

5.2.3 Participations

Participations comprise company equity stakes held by the Bank as long-term investments, and are carried at cost less appropriate depreciation, regardless of the share held.

This item also includes a CHF 50.5 million loan granted to the controlled company AHSA Holding SA for the acquisition of the full capital of Axion Swiss Bank SA.

5.3 FOREIGN CURRENCY TRANSLATION

Assets and liabilities denominated in foreign currency are converted into Swiss francs at the rate of exchange as at the balance sheet closing date. Resulting gains or losses are disclosed in the income statement under "Result from trading operations".

Proceeds and expenses are converted at the exchange rate applicable on the date the individual transactions are recorded.

Exchange rates applied at the close of the financial year for the major currencies were as follows:

EUR/CHF 1.0877 (2014: 1.2024)

USD/CHF 1.0012 (2014: 0.9935)

5.4 CHANGES IN FINANCIAL STATEMENTS AND PRESENTATION OF ACCOUNTS

There were no changes in the accounting principles in 2015, except as follows:

The presentation of accounts closed on 31 December 2015 is based on the new provisions issued by FINMA (Swiss Financial Market Supervisory Authority) which came into force on 1 January 2015. The comparative data have therefore also been restated to comply with the same presentation mode.

5.5 OTHER INFORMATION

For information on "Risk management", "Methods used for identifying default risks and determining the need for value adjustments", "Valuation of collateral", "Business policy regarding the use of derivative financial instruments and hedge accounting", "Material events after the balance sheet date" and "Premature resignation of the auditor", refer to the Notes to the Group Financial statements as these points are also applicable to BancaStato's Individual Financial Statements.



5.6 INFORMATION ON THE BALANCE SHEET

5.6.1 Breakdown of securities financing transactions (assets and liabilities)

(CHF thousands)	31.12.2015	31.12.2014
Securities lending, securities borrowing and repurchase agreements		
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	-	-
Book value of obligations from cash collateral received in connection with securities lending and repurchase agreements	76,139	-
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements.	73,889	-
<i>of which with unrestricted right to resell or repledge</i>	73,889	-
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	-	-
<i>of which market value of resold or repledged securities</i>	-	-

5.6.2 Presentation of collateral for loans / receivables and off-balance sheet transactions, as well as impaired loans / receivables at 31.12.2015

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
Loans				
Amounts due from customers	192,386	209,055	521,877	923,318
Amounts due from public corporations	4,717	1,317	770,309 ¹	776,343
Mortgage loans	7,760,419			7,760,419
<i>Residential property</i>	5,741,570			5,741,570
<i>Office and business premises</i>	987,674			987,674
<i>Commercial and industrial premises</i>	396,704			396,704
<i>Other</i>	634,471			634,471
Total loans (before netting with value adjustments)	7,957,522	210,372	1,292,186	9,460,080
Previous year	7,523,548	214,066	1,373,261	9,110,875
Total loans (after netting with value adjustments)	7,935,506	200,647	1,270,094	9,406,247
Previous year	7,499,292	204,982	1,349,132	9,053,406
Off-balance sheet				
Contingent liabilities	3,832	49,708	78,537	132,077
Irrevocable commitments	52,624	-	34,468 ²	87,092
Obligations to pay up shares and make further contributions	-	-	8,944	8,944
Total off-balance sheet	56,456	49,708	121,949	228,113
Previous year	50,031	48,554	129,521	228,106

(CHF thousands)	Gross debt amount	Estimated liquidation value	Net debt amount	Individual value adjustments
Impaired loans				
Current year	159,666	105,833	53,833	53,833
<i>of which secured against collateral</i>	135,950	104,210	31,740	31,740
<i>of which unsecured</i>	23,716	1,623	22,093	22,093
Previous year	161,257	103,788	57,469	57,469
<i>of which secured against collateral</i>	134,480	101,140	33,340	33,340
<i>of which unsecured</i>	26,777	2,648	24,129	24,129

¹ Including loans to entities related to public institutions for CHF 131.9 million (2014: 158.5 million).

² Including CHF 34.5 million (2014: CHF 34.7 million) as a deposit guarantee.

5.6.3 Breakdown of trading portfolios

(CHF thousands)	31.12.2015	31.12.2014
Assets		
Trading portfolio		
Equity-type securities	39	45
Shares in investment funds	12,354	15,198
Precious metals and commodities	11,198	10,336
Other financial instruments at fair value	960	-
Total trading portfolio	24,551	25,579
<i>of which determined using a valuation model</i>	-	-
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	-	-

5.6.4 Presentation of derivative financial instruments (assets and liabilities)

(CHF thousands)	Trading instruments			Hedging instruments		
	Replacement values		Contract volume	Replacement values		Contract volume
	positive	negative		positive	negative	
Interest rate instruments						
IRS	-	-	-	23,757	38,262	894,000
Total	-	-	-	23,757	38,262	894,000
Foreign currencies / precious metals						
Forward contracts	1,069	1,030	90,691	-	-	-
Swaps	528	487	79,419	20,967	1,447	1,667,824
Options (OTC)	-	-	4,329	-	-	-
Total	1,597	1,517	174,439	20,967	1,447	1,667,824
Total before netting agreements	1,597	1,517	174,439	44,724	39,709	2,561,824
<i>of which determined using a valuation model</i>	-	-		-	-	
Total previous year	4,733	4,676	284,972	33,475	39,296	2,142,097
<i>of which determined using a valuation model</i>	-	-		-	-	

(CHF thousands)	Positive replacement values (cumulative)	Negative replacement values (cumulative)
Total after netting agreements	46,321	41,226
Total previous year	38,208	43,972

No netting contracts existed at the balance sheet date.

Breakdown by counterparty

(CHF thousands)	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	-	45,220	1,101

5.6.5 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Debt securities	235,266	321,269	237,636	335,243
<i>of which intended to be held to maturity</i>	235,266	321,269	237,636	335,243
<i>of which not intended to be held to maturity</i>	-	-	-	-
Shares in investment funds	22,935	20,994	23,047	21,118
Equity-type securities	171	164	279	245
<i>of which qualified participations</i>	-	-	-	-
Precious metals	133	367	133	367
Real estate	1,465	8,165	1,465	8,165
Total financial investments	259,970	350,959	262,560	365,138
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	114,475	123,111	116,515	126,929

Breakdown of counterparties by rating

(CHF thousands)	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Book value of debt securities	63,257	13,760	32,983	-	-	125,266

The valuations are based on ratings by Standard & Poor's.

5.6.6 Breakdown of other assets and other liabilities

(CHF thousands)	31.12.2015	31.12.2014
Other assets		
Compensation account	14,308	9,260
Indirect taxes	693	846
Various other assets	244,025 ¹	16,579
Total other assets	259,026	26,685
Other liabilities		
Direct / indirect taxes	7,755	9,618
Unredeemed cash bonds	3,543	3,898
Various other liabilities	28,394 ²	9,233
Total other liabilities	39,692	22,749

¹ of which a balance of CHF 242 million in banking operations awaiting execution.

² of which a CHF 19.3 million supplementary payment to the Canton for 2014 not yet paid out.

5.6.7 Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership

(CHF thousands)	Book value		Effective commitments	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Pledged / assigned assets (excluding advances and repurchase agreements with securities)				
Book value of securities delivered as collateral in connection with Repo Light credit with SNB	23,935	23,913	-	-
Book value of securities delivered as collateral to SIX Group AG	1,301	1,057	-	-
Book value of mortgages set as collateral for bonds and loans with the SCB Central	2,327,028	2,372,689	1,936,000	1,887,000

5.6.8 Disclosure of liabilities relating to own pension schemes

a) Economic situation of own pension schemes

The Bank does not have a pension institution of its own.

b) Economic benefit / obligation and pension expenses

	Over- / underfunding at the end of the current year	Economic interest of the Bank		Change in economic interest (benefit and/or commitment)	Contributions for the current year	Pension expenses in personnel expenses	
		Current year	Previous year			Current year	Previous year
Pension plans without overfunding / underfunding	-	-	-	-	7,765	7,112	27,591

Contributions are paid to the insurance company. The employer's contributions are carried under "Personnel expenses". BancaStato has opted for affiliation to the Group Plan LPP Swiss Life, a legally independent pension fund. The pension plan is a defined-contribution scheme and provides the basic compulsory coverage as stated in the Swiss LPP (Federal Law on Occupational Benefits), as well as complementary coverage.

At the end of the accounting period the Bank had no obligation towards the pension funds. There are no contribution reserves on the part of the employers and the relationships between the Bank and its pension funds are based on global affiliation contracts.

The pension funds reinsure all pension risks by means of a comprehensive insurance contract. Within the framework of these contracts, no possibility of under-coverage exists and, consequently, there are no obligations in this regard on the part of the employers.

5.6.9 Presentation of value adjustments, provisions and reserves for general banking risks and changes in the current year

(CHF thousands)	Status 31.12.2014	2015				Status 31.12.2015
		Use in conformity with designated purpose	Currency differences on past due interest, and recoveries	Releases to income	New creations charged to income	
Provisions						
Provisions for default risk	488	8	-	23	-	457
Value adjustments and provisions for other operating risks	6,139	3,619	-	2,099	-	421
Additional pension provision	3,930	853	-	-	338	3,415
Other provisions	403	194	-	-	-	209
Total provisions	10,960	4,674	-	2,122	338	4,502
Reserves for general banking risks	365,886	-	-	-	22,000	387,886
Value adjustments for default and country risks	59,173	7,364	-	7,654	9,896	54,051
Value adjustments for default risk from impaired loans	59,173	7,364	-	7,654	9,896	54,051
Total value adjustments for default and country risks	59,173	7,364	-	7,654	9,896	54,051

5.6.10 Presentation of the Bank's endowment capital

(CHF thousands)	Current year			Previous year		
	Total par value	Quantity	Capital eligible for dividend	Total par value	Quantity	Capital eligible for dividend
Endowment capital						
Endowment capital	240,000	240,000	240,000	240,000	240,000	240,000
of which paid up	240,000	240,000	240,000	240,000	240,000	240,000

The Bank did not issue participations.

5.6.11 Disclosure of amounts due from / to related parties

(CHF thousands)	Amounts due from		Amounts due to	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Holders of qualified participations	12,000	110,000	196,277	138,248
Group companies	9,246	10,227	424,744	433,505
Linked companies	23,352	27,133	138,105	135,632
Transactions with members of governing bodies	88,853	80,273	6,545	8,033

Loans to companies or entities related to the Canton consist of operating and investment loans granted on the basis of standard lending parameters.

Receivables from and payables to companies or entities related to the Canton are concluded at market conditions.

Loans to governing bodies primarily consist of mortgage loans and are granted in compliance with standard lending parameters.

5.6.12 Disclosure of holders of significant participations and of groups of holders of participations with pooled voting rights

(CHF thousands)	Current year		Previous year	
	Nominal	% of equity	Nominal	% of equity
Holders of significant participations				
Canton Ticino With voting rights	240,000	100	240,000	100

5.6.13 Breakdown of total assets by credit rating of country groups (risk domicile view)

Bank's own country rating (CHF thousands)	Moody's rating	31.12.2015		31.12.2014	
		Amount	Share as %	Amount	Share as %
1 Excellent and high quality	Aaa - to Aa3	11,374,687	99.7%	10,797,616	99.5%
2 Above-average quality	A1 to A3	6,139	0.1%	1,920	0.0%
3 Average quality	Baa1 to Baa3	25,522	0.2%	53,345	0.5%
4 Risk of default	Ba1 to Ba2	5,134	0.0%	1,253	0.0%
5 Significant risk of default	Ba3	-	0.0%	-	0.0%
6 Speculative, high risk of default	B1 to B3	4	0.0%	2	0.0%
7 Poor quality, very high risk	Caa1 to C	1	0.0%	2	0.0%
8 Unrated	Unrated	45	0.0%	16	0.0%
Total assets		11,411,532	100.0%	10,854,154	100.0%

5.7 INFORMATION ON OFF-BALANCE SHEET TRANSACTIONS

5.7.14 Breakdown of fiduciary transaction

(CHF thousands)	31.12.2015	31.12.2014
Fiduciary investments with third-party companies	15,639	18,809
Total fiduciary transactions	15,639	18,809

5.8 INFORMATION ON THE INCOME STATEMENT

5.8.15 Breakdown of the result from trading activities

(CHF thousands)	2015	2014
Result from trading activities from:		
Foreign exchange	18,474	11,823
Banknote trading	-2,125	1,347
Commodities / precious metals	-1,141	362
Securities trading	301	134
Total result from trading activities	15,509	13,666

5.8.16 Disclosure of material refinancing income in the item Interest and discount income as well as material negative interest

(CHF thousands)	2015	2014
Refinancing income in the item "Result from interest operations"		
Income and dividend income from trading portfolio is not offset with costs of refinancing of that portfolio.		
Negative interest		
Negative interest on assets (decrease in interest and discount income)	36	-
Negative interest on commitments (decrease in interest expenses)	31	-

5.8.17 Breakdown of personnel expenses

(CHF thousands)	2015	2014
Salaries	52,453	52,911
Contributions to pension institutions ¹	7,112	27,591
Other social benefits	5,744	5,580
Other personnel expenses	2,219	2,194
Total	67,528	88,276

¹ The year 2014 includes a CHF 19.8 million provision for an early retirement plan to be implemented over 3 years (2015, 2016 and 2017).

5.8.18 Breakdown of other operating expenses

(CHF thousands)	2015	2014
Office space expenses	5,015	5,475
Expenses for information and communications technology	14,126	14,178
Expenses for vehicles, equipment, furniture and other fixtures	369	468
Fees of audit firm	523	944
<i>of which for financial and regulatory audits</i>	517	448
<i>of which for other services</i>	6	496
Other operating expenses	12,576	9,586
of which compensation for guarantee by Canton Ticino	-	-
Total	32,609	30,651

5.8.19 Explanations regarding material losses, extraordinary income and expenses, material releases of hidden reserves, reserves for general banking risks, and value adjustments and provisions no longer required

Financial year 2015
<p>5.8.19.01 Material losses No material losses were incurred during the financial year.</p>
<p>5.8.19.02 Extraordinary income and extraordinary expenses The extraordinary amount of CHF 8.5 million is mainly due to the sale of our participation in the capital of Swisscanto Holding AG (approximately CHF 6.8 million) and the sale of one building (approximately CHF 1.8 million). The CHF 6 million contribution to BancaStato's Centennial Foundation was booked as an extraordinary expense.</p>
<p>5.8.19.03 Hidden reserves The Bank does not hold any hidden reserve.</p>
<p>5.8.19.04 Reserves for general banking risks CHF 22 million were deducted from "Changes in reserves for general banking risks" to create reserves for general banking risks.</p>
<p>5.8.19.05 Value adjustments and provisions no longer required As a result of the agreement reached with the US Department of Justice in relation to the US program, the surplus amount of CHF 2 million of the fine was released in the 2015 income statement via the item "Changes in provisions and other value adjustments and losses".</p>

5.8.20 Presentation of current and deferred taxes, and disclosure of tax rate

(CHF thousands)	31.12.2015	31.12.2014
Current taxes	175	267
Provisions for deferred taxes	-	-
Total taxes	175	267
Average tax rate weighted on the basis of the operating result	0.0%	0.0%

The Bank is exempt from cantonal taxation. It is subject to capital and real estate taxation.

6. Information on the Bank's Capital

6.1 Presentation of recognised regulatory capital

(CHF thousands)	Net amounts	Impact of transitional provisions	Notes
1 Bank's endowment capital	240,000	-	6.2
2 Retained earnings reserve	228,307	-	6.2
3 Reserves for general banking risks	387,886	-	6.2
= Total eligible core capital	856,193	-	
4 - Other elements to be deducted from eligible core capital	-64,573	-	6.2
= Total eligible prime quality core capital (net CET1)	791,620	-	
5 + Additional Tier 1 capital (AT1)	140,000	-	6.2
= Net Tier 1 capital	931,620	-	
6 + Additional capital (T2)	122,500	-	6.2
= Regulatory capital	1,054,120	-	

6.2 Ratios on regulatory capital

(as a % of risk-weighted positions)	31.12.2015
CET 1 ratio	13.3%
T1 ratio	15.7%
Total regulatory capital ratio	17.7%
CET1 target based on FINMA Circular 11/2 "Capital buffer and capital planning"	8.2%
Leverage ratio (capital in relation to global exposure)	8.0%
Liquidity coverage ratio (LCR)	85.3%

6.3 Information on the calculation of the Bank's capital

The disclosure obligations stated in FINMA Circular 2016/1 are adhered to on a consolidated basis. The information is published in the 2015 Annual Report of the BancaSìto Group (www.bancastato.ch). For information on the liquidity coverage ratio (LCR), refer to the above Annual Report.

Auditors' Report



Report of the statutory Auditor
To the State Council and
To the Cantonal Parliament of the Republic
and Canton of Ticino
Bellinzona

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Banca dello Stato del Cantone Ticino, which comprise the balance sheet, income statement and notes (pages 72-85), for the year ended 31 December 2015.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2015 comply with Swiss law and the company's articles of incorporation.

PricewaterhouseCoopers SA, via della Posta 7, casella postale, CH-6901 Lugano, Switzerland
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Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (art. 728 CO and art. 11 AOA) and that there are no circumstances incompatible with our independence.

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA



Beresford Caloia
Audit expert
Auditor in charge



Farah Vanoni

Lugano, 31 March 2016

Board of Directors

Public Mandate Control Commission

Chairman

Fulvio Pelli¹, attorney at law

Deputy Chairman

Dr. Roberto Grassi^{1,2}

Secretary

Carlo Danzi^{1,2}

Members

Marco Fantoni¹

Giovanni Jelmini¹

Michele Morisoli^{1,2}

Raoul Paglia¹

Chairman

Gabriele Pinoja

Deputy Chairman

Omar Balli

Members

Maurizio Agustoni

Nicola Brivio

Kandemir Bordoli Pelin

Sergio Savoia

¹ Independent members as specified in FINMA Circular 08/24

² Members of the Audit Committee

External Auditors as defined by the Swiss Federal Law on Banks and Savings Banks

PricewaterhouseCoopers SA

Internal Auditors

Chief Auditor

Gabriele Guglielmini

Deputy

Guido Gianetti

Executive Board

President of the Executive Board

Bernardino Bulla

Members of the Executive Board

Daniele Albisetti

Renato Arrigoni

Fabrizio Cieslakiewicz

Claudio Genasci

Members of the Management

Bellinzona Head Office

Domenico Albertoni

Romano Bär

Adrian Baumberger
(until 30.06.2015)

Mauro Bazzotti

Lucamaria Beeler

Renzo Beffa
(until 31.08.2015)

Mary Bernardasci

Enrico Bertozzi

Luca Bordonzotti

Carlo Briccola
(until 31.12.2015)

Dario Caramanica

Medardo Caretti

Curzio De Gottardi

Maurizio Derada

Giovanni Duca
(until 30.09.2015)

Adolfo Genzoli

Luca Ghiringhelli

Manuel Giambonini

Giancarlo Jemini
(until 31.12.2015)

Patrick Lafranchi

Mauro Locatelli

Donato Lucchini
(until 31.01.2016)

Raffaele Marti

Marco Molteni

Massimiliano Morelli

Fabio Pedrazzini

Massimo Pedrini

Massimo Penzavalli

Ivo Pini

Giulio Ruggeri

Michele Schandroch

Lorenzo Squellati

Norman Stampanoni

Fabrizio Stöckli

Carlo Tomasini

Ferruccio Unternährer

Mirko Zoppi

Lugano Branch

Roberto Barbera

Roberto Danzi

Filippo Dotti

Andrea Ferrari

Gabriele Mantegazzi

Alberto Pedrazzi

Carlo Ruggia

Luca Todesco

Tiziana Zanchi-Temperelli

Locarno Branch

Boris Ceschi

Fabrizio Conti-Rossini

Verena Gaggetta

Claudio Gnesa

Stephan Mair

Marco Meschiari

Marco Pellanda

Franco Storni

Chiasso Branch

Claudio Cereghetti

Fabrizio Croci
(until 31.01.2015)

Mario Grassi

Lorenzo Imperiali

Gilberto Pittaluga

Marco Soragni

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Via Pretorio 3

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6715 Dongio

Piazza S. Francini 5

6760 Faido

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Via San Gottardo 77

6596 Gordola

Via Trevano 97

6904 Lugano-Molino Nuovo

6900 Lugano-Piazza Riforma

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