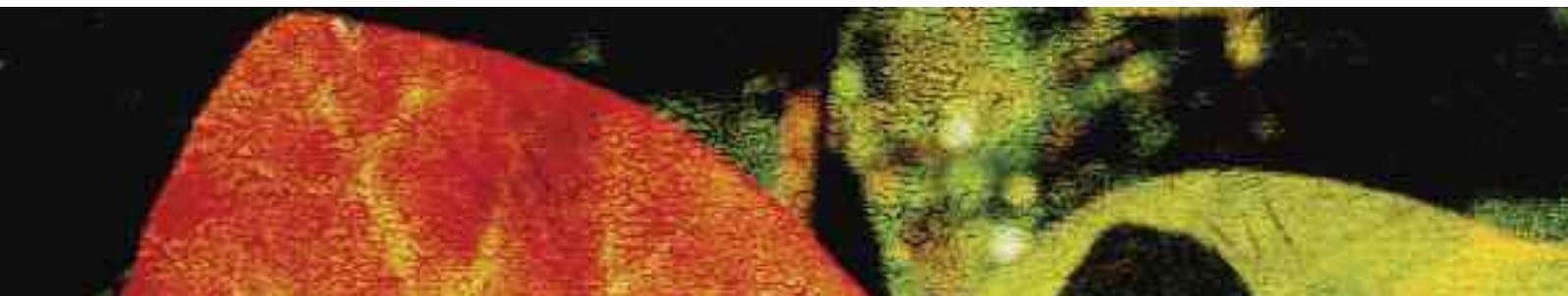


96th ANNUAL REPORT 2010



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BANCA DELLO STATO DEL CANTONE TICINO

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Donato Barbuscia
President
of the Executive Board

Dr. Fulvio Pelli
Chairman
of the Board of Directors

Message from the Chairman of the Board of Directors and the President of the Executive Board

**2010: Concrete answers
for new strategic needs.**



Dear Madam,
Dear Sir,

The first steps towards implementing the new Focus 2014 strategy have been undertaken.

BancaStato becomes a Group after the acquisition of a controlling interest in Axion Swiss Bank SA.

The importance of the support provided to Ticino's economy is demonstrated by the evolution of the principal balance sheet items.

For Banca dello Stato del Cantone Ticino, 2010 was an important year. In July the Bank became a Group following the acquisition of a controlling share of the then UniCredit (Suisse) Bank (USB), the Swiss branch specialising in asset management of the well-known international banking group UniCredit. In addition, in 2010, the Bank began implementing the measures drawn up in its new Focus 2014 strategy, which was approved by the Board of Directors at the end of 2009.

The primary objective of the new corporate strategy is the development of the Bank's present business model based on sustainable growth, in compliance with the public mandate entrusted to it by the State. Sustainable growth also implies a strict control of risks. The analyses undertaken in view of the Focus 2014 strategy have confirmed that BancaStato is exposed to high sectoral concentration risk, as much of its business is focused primarily on the Ticino real estate market. In order to continue to develop its own lending activities in support of the Canton's economy, the Institution needs to accommodate this risk by diversifying its interests. The decision to acquire control over USB, now known as Axion SWISS Bank, is therefore justified by the strategic need to branch out activities and sources of income. In order to meet this important objective, the Bank has undertaken investments to bolster its Private Banking initiatives through the launch of the new "BancaStato Private Banking" trademark and the appointment of new consultants specialising in asset management.

During 2010, BancaStato also initiated several strategic projects, including one on "sales efficiency" which brought about a new segmentation of clientele. Other projects included the introduction of new, structured consulting processes and

an intensive training program for client advisors on banking and salesmanship as well as in-house rules and regulations.

The acquisition of USB, along with the implementation of strategic measures, implied major investments in terms of financial resources. This, coupled with the unstable financial market situation, had a negative impact on earnings. The Bank's net income in 2010 fell by CHF 3.5 million to CHF 35.1 million.

Notwithstanding the efforts dedicated to strategic activities, the Bank continued to provide support to the cantonal economy, as the principal balance sheet items confirm. The volume of mortgage loans rose by approximately CHF 209 million to almost CHF 5.8 billion, while amounts due from customers were up by more than 10% to slightly over CHF 1.5 billion. The balance sheet total ran ahead of CHF 8.5 billion (+6.2%) and amounts due to customers recorded a further sizeable increase (+5.3%) to nearly CHF 5.5 billion. This increase is significant as it shows that clients trust the traditional image of substance and security which has characterised the Bank over the years.

The evolution of business volumes is also conclusive when it comes to assessing the proper fulfilment of the public mandate entrusted to the Bank, the primary requisite of the mandate being the advancement of the Canton's economy. The Canton of Ticino, as the Bank's sole owner, received a lump sum payment of over CHF 25 million from BancaStato. During 2010, and with the aim of strengthening the social and economic fabric of our Canton, several new initiatives were undertaken. One such initiative is the implementation of a cooperation agreement between the Bank and Tecnopolo Lugano SA, a company which provides incentives for the growth of highly technological start-ups whose value-added impact on the Canton's economy is likely to continue in the long term. Another initiative consists of the Bank sponsorship of one of the most popular free musical events in Ticino, Lugano's Estival Jazz. The Bank continued its support of the main hockey clubs in Ticino and the Bellinzona Soccer Association, in addition to several other events and societies of cultural and social significance, including the Orchestra della Svizzera Italiana and JazzAscona. The Bank works together with several research institutions, the University of Lugano (USI) and the Statistics Office of the cantonal administration. It is also committed to publishing, on a regular basis, the values of the only real estate indexes in Ticino: CAEX (for houses) and APEX (for apartments). CAEX and APEX are important tools in promoting transparency in the Ticino real estate market. BancaStato makes these indexes available at no cost, as a benefit to the entire region. The Social and Environmental Report is the principal instrument used by the Public Mandate Control Commission of the Ticino Parliament to assess the extent to which the obligations laid down in the mandate entrusted to the Bank have been fulfilled, and reports on these and other events.

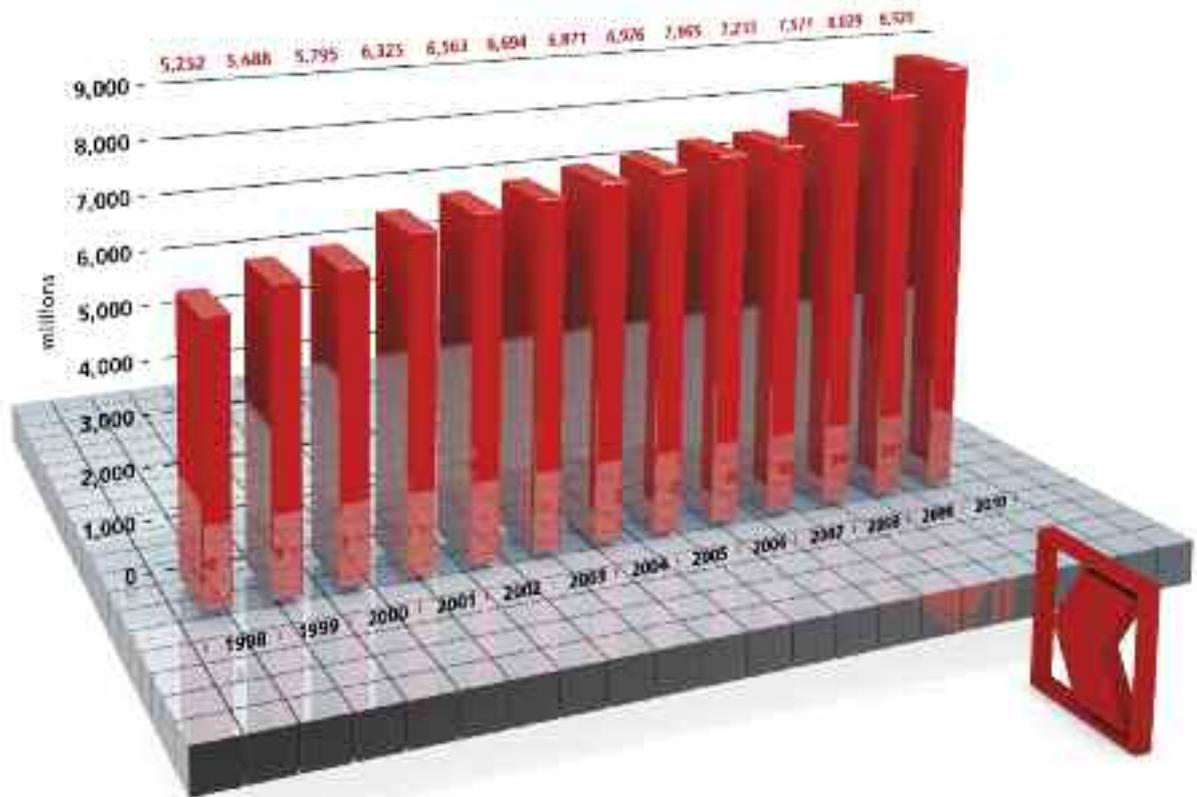
The Social and Environmental Report is attached to the Bank's Annual Report.

2010 was also a year in which the economic recovery was noticeable both in the country in general and in our Canton in particular. After an extremely difficult 2009, the adverse economic trend was reversed and the economy began to recover. This upturn however was fraught with obstacles, both at the international level – for example, the financial aid provided by the European Union to Greece and Portugal – and at the national and cantonal levels. Employment, for instance, did show

2010 was also a year in which the economic recovery was noticeable both in the country in general and in our Canton in particular.

After an extremely difficult 2009, the adverse economic trend was reversed and the economy began to recover. This upturn however was fraught with obstacles.

EVOLUTION OF THE BALANCE SHEET TOTAL (Parent Bank)



some improvement, yet remained far below its 2008 level, prior to the unfortunate financial crisis. Added to this still uncertain backdrop, the Italian tax shield, which has been in effect since the beginning of April, must also be considered in the 2010 results. As a whole, the Ticino banking sector continued to struggle in its recovery and, consequently, in its profit-generating capabilities.

As for BancaStato, the ongoing strong competitive pressure stymied the increase in financial intermediation business, and persistent low interest rates impacted adversely on the earnings from term transformation. These factors combined to offset the positive effect of increased lending volumes. Interest income business decreased by 3.0% to CHF 104.4 million. By the end of 2010, BancaStato was administering CHF 7.144 billion, i.e. an annual increase of CHF 82 million. Although the percentage increase may not be considered as being significant, it must be assessed in a positive light, especially in consideration of the extension of the Italian tax shield and the weak European currency. Worth mentioning in this respect is the fact that net fees and commission income resumed their upward trend albeit modestly (+0.9% to CHF 27.9 million) even though volumes of administered assets continued to remain stable. This modest increase in commission income and service fee activities attests to a renewed confidence on the part of investors who, at long last, have begun to put a portion of their cash into the stock market. This is a significant development which, if confirmed, will lead to even better results for 2011 as regards this item of the income statement.

EVOLUTION OF MORTGAGE LENDING (Parent Bank)

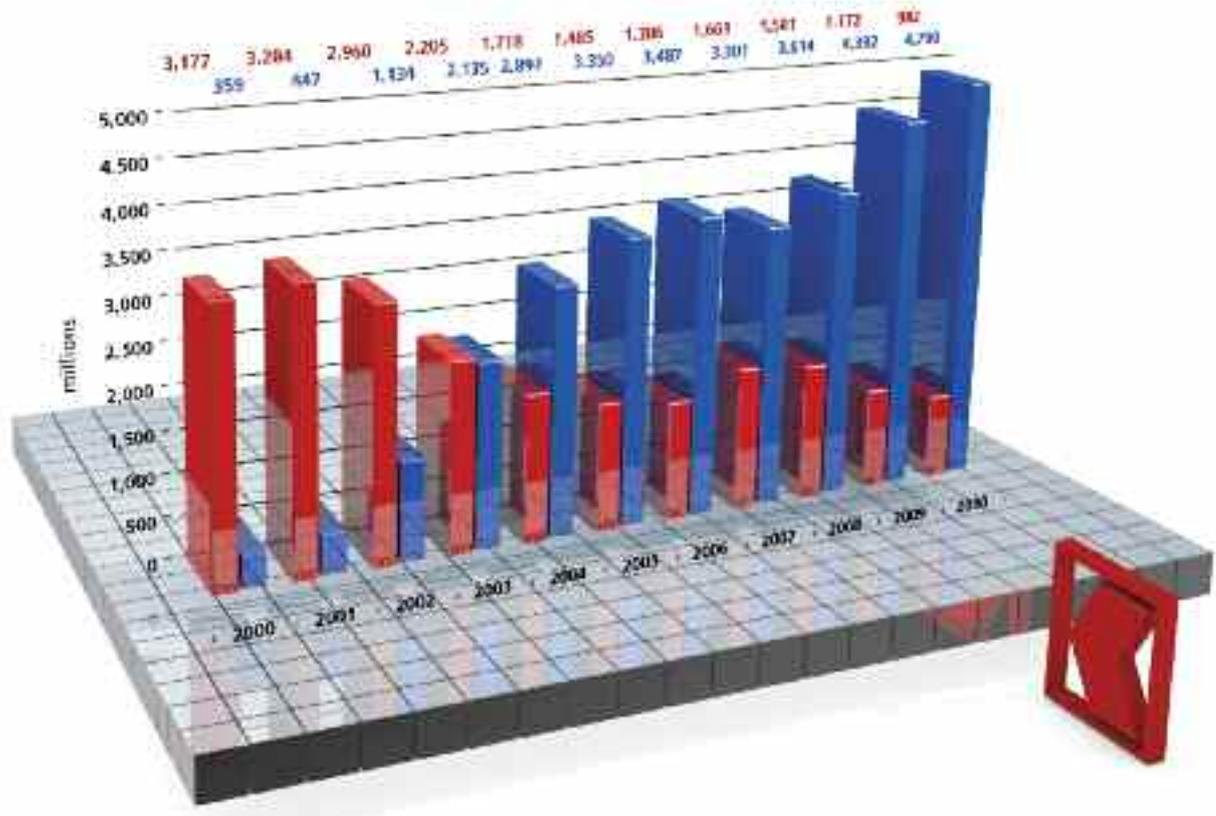


The strong Swiss franc has had a major negative impact on BancaStato’s financial investments, primarily those situated abroad, which explains the 13.7% decrease in currency trading operations (down to CHF 8.9 million). Net revenues, however, remained stable at CHF 148.6 million (+0.3%).

Expenses increased following the launch of several strategic projects modelled on the new Focus 2014 strategy and the acquisition of a controlling interest in Axion SWISS Bank SA. Operating expenses increased by 5.2% to CHF 100.1 million. Largely stable net revenues, along with rising costs, have therefore translated into a decline in net income.

With respect to the balance sheet, it must be stated that BancaStato has continued to report significant increases. As previously mentioned, mortgage loans rose by CHF 208.8 million (+3.8%) to CHF 5.772 billion, while amounts due from customers were up by CHF 141.4 million (+10.1%). This increase in the Bank’s lending business is a positive development in consideration of the fact that the reaction of the real estate sector has always fallen behind that of the GDP and that growing competition in this market tends to reduce commercial margins. It also must be mentioned here that, in 2010, the Swiss National Bank repeatedly expressed its concern over a possible mortgage market bubble. Our Institution has therefore adopted a particularly cautious approach in granting mortgage loans to clients. Overall, the balance sheet total increased by 6.2% (+ CHF 494.4 million) to CHF 8.5

EVOLUTION OF FIXED AND VARIABLE-RATE MORTGAGES (Parent Bank)



■ Variable
■ Fixed

billion. This is a significant amount, even more so considering the fact that the Bank did not undertake any high impact promotion campaign in 2010 similar to the one initiated in 2009 on FERMA mortgages and their attractive interest rates.

Although still strong, the Bank's financial base was reduced from 14.9% to 12.5% as a result of a discount in required capital for cantonal banks, increased commercial volumes, which spelled out a higher demand for equity capital, and the decrease in available equity after acquiring control over Axion SWISS Bank SA. With regard to clients' trust in the Institution, this is signalled by a further important increase in amounts due to customers which rose by 5.3% or CHF 276.1 million to slightly below CHF 5.5 billion, the highest in the history of BancaStato. This once again demonstrates our clients' appreciation of the Bank's business policy which is characterised by prudence, solid structure, stability and proximity to its customers. Lastly, it is worth noting that, in spite of the tax shield and the difficult situation in the banking sector, the Institution was able to draw three times as much capital as in 2009, amounting to CHF 338 million.

As for the future, it is difficult at the moment to place faith in the current forecasts on reconfirmed growth and positive effects on the economy. These expectations are challenged by events which have characterised the first quarter: the revolutionary wave across North Africa and the tragic earthquake in Japan with its death toll of thousands and the emergency due to nuclear contamination.

These conditions add up to a pre-existing uncertainty, especially with regard to public debt, the expanding Euro zone and the ensuing weakening of the single European currency, which we have already witnessed. In such an unstable environment, making forecasts for 2011 will continue to be a difficult task.

Dr. Fulvio Pelli
Chairman
of the Board of Directors

Donato Barbuscia
President
of the Executive Board

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

For the sixth year in a row, Banca dello Stato del Cantone Ticino (BancaStato) chose 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 July 2009¹. All data herein are at 31 December 2010 or refer to the entire 2010 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 1988³.

The Bank is established with no time limit. Its head office is in Bellinzona.

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.

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;

1. Refer to: www.six-exchange-regulation.com/admission_manual/06_15-DCG_en.pdf

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

3. Refer to: www.bancastato.ch/documenti/chisiamo/PUBLIC-legge_d'istituzione.pdf

3. processing transactions with letters of credit and stand-by letters of credit, as well as issuing guarantees, sureties, guarantee commitments;
4. securities trading for third parties and on own account;
5. trading in derivative financial instruments both for third parties and on own account;
6. issuing and participating in the issuance of shares, bonds and other securities, for both Swiss and foreign debtors;
7. 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;
8. setup and distribution of investment funds in Switzerland and abroad, and the acceptance of mandates as a custodian and/or underwriter;
9. advisory, intermediation and asset management, as well as custody and administration of securities and valuables;
10. payment transaction processing in Switzerland and abroad;
11. carrying out the functions of an asset administrator;
12. providing treasury services;
13. providing custody and securities administration services, as well as safe deposit box rentals;
14. carrying out fiduciary transactions, in its own name, but on account and at the risk of customers;
15. 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

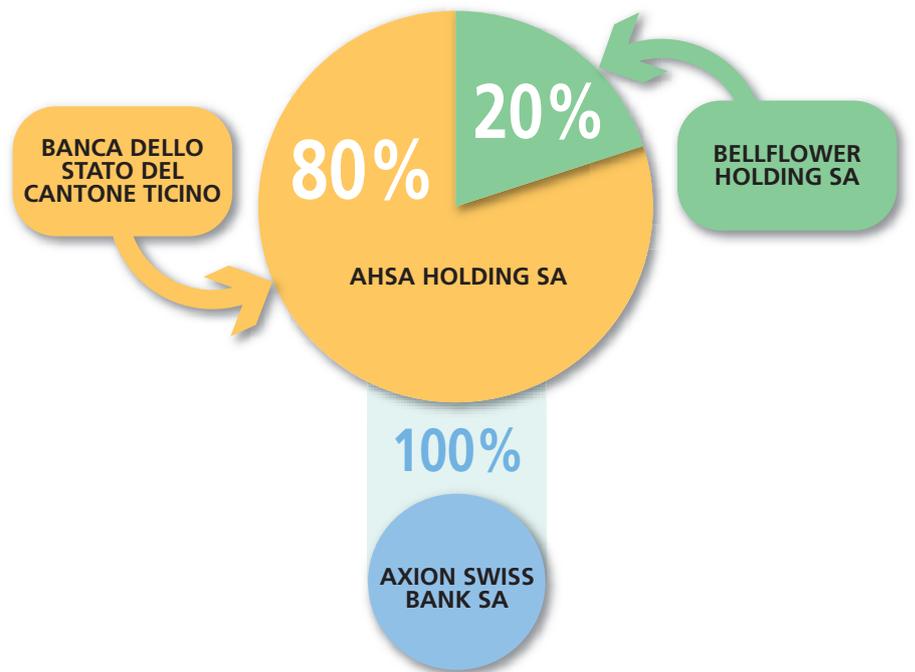
1.1.1. Group operational structure

Banca dello Stato del Cantone Ticino is a Group. As at 31 December 2010 Banca dello Stato del Cantone Ticino held an 80% share in AHSA Holding SA, Lugano (nominal capital: CHF 7.5 million; BancaStato participation: CHF 6 million).

The remaining 20% of AHSA Holding SA's nominal capital is held by Bellflower Holding SA, with headquarters in Lugano. The capital of Bellflower Holding SA is entirely owned by the management of Axion SWISS Bank SA. AHSA Holding SA in turn owns 100% of the share capital of Axion SWISS Bank SA (nominal capital: CHF 43 million). With this structure, Banca dello Stato del Cantone Ticino guarantees its active involvement in the group of the present management of Axion SWISS Bank SA, while at the same time remaining legally autonomous.

As a Group, Banca dello Stato del Cantone Ticino adopted special Group Regulations which lay down its overall organisational rules.

4. Refer to: www.finma.ch/e/regulierung/gesetze/Pages/banken.aspx



Lastly, the Bank holds a single 100% participation in the real estate company Manzoni 7 Srl, Milan.

1.1.2. Bank operational structure

Banca dello Stato del Cantone Ticino is organised⁵ in four divisions: Retail and Corporate Clients, Markets and Private Banking, Logistics, and Risk Control. The Heads of each Division, along with the President, form the Executive Board. The following business units of the Executive Management report to the President of the Executive Board: Legal and Compliance Office, Human Resources, Strategic Planning and Communications, Project Control, and Executive Board Liaison.

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. Capital⁶

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

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 100 million.

5. Refer to: www.bancastato.ch/index/organigramma.htm

6. Refer to: www.bancastato.ch/documenti/chisiamo/PUBLIC-legge_d'istituzione.pdf

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 2010.

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). With the legislative decree of 22 May 1989⁷, the Grand Council of Ticino stipulated that the endowment capital amounts to CHF 110 million. As mentioned earlier, CHF 100 million was paid out.

2.3. Changes in capital

No change in endowment capital was effected in the last three years.

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 2010 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.

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).

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

7. Refer to: <http://www3.ti.ch/CAN/rl/program/books/rst/htm/490a.htm>

members of the Board of Directors simultaneously. This is in line with the provisions of the Swiss Financial Market Supervisory Authority, FINMA Circular 2008/24⁸ and Art. 20 of the Law on Banca dello Stato del Cantone Ticino.

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 a member of the Auditors (previous or present).

Hereunder is a brief presentation of the members of the Board in office as at 31 December 2010, 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 Member 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 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 co-owner of the law and notary firm Pelli e Associati, Lugano.

Other principal activities

- National councillor since 1995, president of the Swiss Liberal Radical Party since 2005;
- Chairman of the Board of Directors of Casram Holding SA, Caslano, and Casram SA, Mezzovico;
- Member of the Board of Directors of the Cooperative, the Holding and three operational companies of the La Mobiliare Group, Bern;
- Member of the Board of Directors of Sogeho International Holding SA, Luxemburg and its controlled company Ars Medica Clinic SA, Gravesano and Salus Medica Clinic SA (Clinica Sant'Anna), Sorengo;
- Member of the Founding Council of the Franklin College, Sorengo.

GABRIELE PADLINA

Function

Deputy Chairman of the Board of Directors, born on 17 September 1945, Swiss. On the Board of Directors since 1999, Deputy Chairman of the Board since 1 July 2004, Deputy Chairman of the Chairman's Office, Member of the Strategy Committee and of the Projects Committee of the Board of Directors.

8. Refer to: www.finma.ch/f/regulierung/Documents/finma-rs-2008-24-f.pdf

Education and professional background

Degree in Economics in 1970 and degree in Law in 1973 from the University of Fribourg. Admitted to Bar and Notary Public Council in 1975.

Owner of the Padlina law firm, Mendrisio-Bellinzona.

Other principal activities

- Chairman of the Water Treatment Syndicate, Mendrisio and surroundings;
- President of the Settlement Office for Rents, Mendrisio;
- Vice-president of the Board of Directors of Axion SWISS Bank SA, Lugano;
- Vice-president of the Dike Consortium for Middle Mendrisiotto;
- President of the Cassinelli-Alpe Forest Roads Consortium.

■ MARCO FANTONI

Function

Member of the Board of Directors, born on 27 October 1957, Swiss.

On the Board of Directors since 10 March 2009, Member 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

No other activities to mention.

■ 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.

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 Rì di Foch Foundation, Prato Leventina.

ROBERTO GRASSI

Function

Member of the Board of Directors, born on 27 February 1963, Swiss. On the Board of Directors since 1 July 2004, Member of the Audit Committee and of the Strategy Committee.

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 SA, Lugano;
- Chairman of the Board of Directors of Pizzarotti SA, Lugano;
- Chairman of the Board of Directors of Edipower SpA, Milan;
- Member of the Board of Directors of Aziende Industriali di Lugano (AIL) SA;
- Member of the Board of Directors of SRP Services SA, Lugano;
- Member of the Chairman's Office of the Chamber of Commerce, Industry and Crafts of Canton Ticino (CCIATI);
- Member of the Board of Directors of SAINT GEORGE CAPITAL MANAGEMENT SA, Lugano;
- Member of the Board of Directors of Tecnopellet SA, Giornico;
- Honorary Consul of France.

MICHELE MORISOLI

Function

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

Education and professional background

Degree 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). He is presently 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).

Other principal activities

- Vice-president of the Casa dell'Accademia Foundation, Mendrisio;
- Member of the Dragonato Foundation, Bellinzona;
- Member of the IT for Persons with Disabilities Foundation, Lugano;
- Member of the Foundation for Care and Research in Cardiovascular Diseases, Bellinzona;
- Member of the Board of Directors of the Bellinzona Soccer Association.

■ MARCO BERNASCONI

Function

Member of the Board of Directors, born on 21 April 1940, Swiss.

On the Board of Directors since 1 October 2009. Member of the Audit Committee.

Education and professional background

Degree and PhD in Political Sciences and History, degree and PhD in History and Master's in Historical Sciences from Milan's Università Cattolica. From 1967 to 1990 he worked for the cantonal administration where, from 1977, he was first vice-director and later director of the Cantonal Tax Administration. He has been teaching taxation law at the Scuola superiore dei quadri e dell'economia since 1989. In 1990 he became the owner of a taxation consulting firm in Lugano. Until 2009 he was full professor and director of the Taxation Institute at SUPSI. He has also taught Taxation Law at the Centre for Banking Studies in Vezia. From 1994 to 1998 he lectured on Taxation Law at the University of Fribourg, and from 1996 to 2001 he was a lecturer without tenure in International Taxation Law at the Università Insubrica in Varese. Since 1998 he has been a sessional lecturer on Taxation Law at the University of Lugano (USI) and, since 2006, sessional lecturer in International Taxation Law at Bocconi University in Milan. Publication of approximately ten books on tax law.

Other principal activities

No other activities to mention.

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 (Articles 21 and 22 of the Law on Banca dello Stato del Cantone Ticino).

Article 6 of the Regulation on committees, working groups and representatives with State Council nomination entities of 6 May 2008 sets the age limit at 70 and maximum term of office at 12 years for members of the Board of Directors.

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 2011
Gabriele Padlina, Deputy Chairman: 1 July 1999 / 30 June 2011
Carlo Danzi, Secretary: 10 July 2007 / 30 June 2013
Marco Fantoni: 10 March 2009 / 30 June 2011
Roberto Grassi: 1 July 2004 / 30 June 2013
Michele Morisoli: 2 December 2008 / 30 June 2011
Marco Bernasconi: 1 October 2009 / 30 June 2012

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 seven 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 defines 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 2010, the Board of Directors convened 16 times. On average, the meetings of the Board of Directors and its committees last half a day.

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 regulations and special regulations;

- laying down special rules and regulations on risk management, expense limitations and organisational responsibilities;
- 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, upon prior consultation with personnel, Bank Rules on Work Contracts and Staff Salaries.

Organisational duties

- establishment of the Bank's organisation;
- definition of the Bank's organisational chart;
- appointment, compensation, adoption of disciplinary measures, suspension, removal 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;
- organisation of accounting, controlling and financial planning;
- establishment and closing of branches, agencies and representative offices;
- 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;
- decision on the issuance of participation certificates as per special regulations and the annual setting of the base dividend on equity;
- decision-making, upon notice to 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 special regulation on the reference framework for risk management;
- 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 Swiss Financial Market Supervisory Authority (FINMA) in the event that capital requirements are not met;
- current operating expenses and investments in infrastructure within specific competency limits.

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 Bank's risk management policy which is drawn up 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. 18 of the Banking Ordinance and Art. 83 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 up on 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, 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 Code, 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 2010, 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 momentous decisions on any matter which the Law or the Rules and Regulations assign to the Board of Directors. In such an event the Chairman's Office will take all necessary steps, insofar as possible, to gather the opinion of the other members of the Board and, in any case, to inform them immediately. The Chairman's Office brings to the attention of the Board of Directors all matters relating to the approval of Rules and Regulations which fall within the authority of the Board of Directors, as well as 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 of the Chairman, Dr. Fulvio Pelli, the Deputy Chairman, Gabriele Padlina, Esq. and the Secretary, Mr. Carlo Danzi. In 2010, the Chairman's Office convened four times.

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 accounting principles to be adopted for the preparation of accounts, approval of accounts and annual reports, 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, as well as the 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 functioning and the results of the internal control and risk management system, compliance with current banking rules and regulations, the system for monitoring irregularities or recommendations issued by the audit authorities, the reports of the Executive Board on risk management as well as reports on the activities and risk-assessment of the Legal and Compliance Office and the Risk Management and Security Service. 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 of the Chairman, Dr. Roberto Grassi, and Messrs. Carlo Danzi and Marco Bernasconi, members. In 2010 the Committee convened seven 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, budget, 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 of the Chairman, Mr. Michele Morisoli and Mr. Marco Fantoni and Gabriele Padlina Esq., members.

In 2010 the Committee met four times.

STRATEGY COMMITTEE

The Strategy Committee examines the issues and submits notices to the Board of Directors in matters of the Bank's strategy. This Committee is composed of the Chairman, Dr. Fulvio Pelli and Gabriele Padlina Esq. and Dr. Roberto Grassi, members. In 2010 the Committee met once to examine the Bank's strategy for the years 2010-2014.

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 as well as 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. 18 of the Ordinance on Banks and Savings Banks and Art. 83 and following of the Capital Adequacy Ordinance. Semi-annually, he must provide the balance sheet and the semi-annual income statement.

On a yearly basis, he must submit the strategic planning, budgets, the financial statements and annual report, the social and environmental report, the risk management policy, a report on the activity and risk assessment of the Legal and Compliance Office, the Risk Management Office, the In-House Control 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 basic principles of information flows have been set also at the level of the Group.

The Bank has External Auditors, in conformity with current banking legislation (cf. Section 8) as well as Internal Auditors. The Internal Auditors' Office (Inspectorate) is independent of the Executive Board and was composed at the end of 2010 of seven 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 annual audit is planned in agreement with the External Auditors and 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. Below are some of these responsibilities:

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 Bank Rules on Work Contracts and Staff Salaries;
- 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, and social and environmental reports;
- 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 Special Regulation on Risk Management;
- decision on risk-incurring, investments and expenditure, within the limits of the relevant Special 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 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;
- 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 special regulations relating to risk management, limits to expenditure and organisational duties;
- formulation and implementation of the risk management policy;
- 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.

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 Commissions 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. The Risk Committee is chaired by the President of the Executive Board, Mr. Donato Barbuscia. Its Deputy Chairman is the Head of the Risk Control Division, Mr. Bernardino Bulla.

CREDIT RISK COMMITTEE

The Credit Risk Committee is responsible for managing the credit risk with the aim of optimising its administration as outlined in the Bank's strategy and budget. This Committee 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. This applies in particular to loan applications beyond the mandate

of the Committee (loan granting, extension, renewal, increase). The Chairman of the Credit Risk Committee is the Head of the Risk Control Division, Mr. Bernardino Bulla and the Deputy Chairman is the Head of the Retail and Corporate Clients Division, Mr. Fabrizio Cieslakiewicz.

ALM COMMITTEE (ASSETS & LIABILITIES MANAGEMENT)

Within the framework of assignments entrusted to it, the ALM Committee is responsible for the market 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 President of the Executive Board, Mr. Donato Barbuscia. The Deputy Chairman is the Head of Markets and Private Banking Division, Mr. Claudio Genasci.

4.1. Members of the Executive Board

The Executive Board is composed of the President of the Executive Board and four 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 2010 along with their functions on the Executive Board, their educational background, their professional record of accomplishments and their other activities.

■ DONATO BARBUSCIA

Function

President of the Executive Board, born on 20 February 1957, Swiss.

Member of the Executive Board since 1999, President of the Executive Board since 9 October 2000.

Education and professional background

"A" level, General Certificate of Education, London, in 1978 after attending the Cantonal Business School in Bellinzona. Teacher of Finance at SSQEA in Manno (now SUPSI) and at the Centre for Banking Studies in Vezia. At the same time as he was teaching, he began a professional career in an international company dealing in raw materials. His banking career started out in 1988 at Banca del Gottardo, Lugano, first with a project to introduce the Swiss electronic stock processing Soffex, and in 1994, as Risk Manager in a project for integrated risk management. At the end of 1994, he joined the UBS SA Group at BDL Banco di Lugano, where he assumed the responsibility for the integrated risk management project, and later as Head of the Markets Division. He joined Banca dello Stato del Cantone Ticino at the end of 1998, first as Head of the Markets Division, and since 2000 as President of the Executive Board. Donato Barbuscia has also published several textbooks on finance. From 16 April 2007 to 31 July 2008, he was interim Head of the Retail and Corporate Division.

Other activities

- Member of the Board of Directors of the Association of Swiss Cantonal Banks, Basle;
- Member of the Board of Governors of Associazione Biopolo Ticino, Bellinzona;
- Member of the Board of Directors of TeleTicino SA, Melide;
- Substitute member of the Board of Directors of the Central Mortgage Bond Issuing Body of the Swiss Cantonal Banks;
- Member of the Board of Directors of Tecnopolo Lugano SA, Lugano.
- Chairman of the Board of Directors of AHSA Holding SA, Lugano.

RENATO ARRIGONI

Function

Member of the Executive Board and Deputy President of the Executive Board, born on 8 March 1954, 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 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 BancaStato as a Member of the Executive Board and Head of Logistics.

Other activities

Colonel of the General Staff in the Swiss Army, former Commander of the Territorial Regiment 96.

BERNARDINO BULLA

Function

Member of the Executive Board, 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-Banca della Svizzera Italiana 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. In 1998 was active at Credit Suisse-Lugano, Corporate Customers Ticino, where he was responsible for corporate customers. He joined BancaStato on 1 October 2000 as a Member of the Executive Board and Head of the Corporate Clients Division. Head of the Risk Control Division as of 16 April 2007.

Other activities

- Member of the Board of Directors of Axion SWISS Bank SA, Lugano;
- Member of the Board of Directors of Società di Fideiussione per lo sviluppo dell'economia Ticinese (Guaranty Company);
- Member of the Founding Committee of the Centre for Banking Studies in Vezia.

■ **CLAUDIO GENASCI**

Function

Member of the Executive Board, born on 26 February 1959, Swiss.

Member of the Executive Board since 1 January 2003.

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 Corner Banca in 1996 as Head of Investment Strategies.

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.

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

Other activities

- Chairman of the Founding Council of the "Risparmio 3" Pension Fund of Banca dello Stato del Cantone Ticino;
- Member of a Board of Directors' Commission of Swisscanto SA.

■ **FABRIZIO CIESLAKIEWICZ**

Function

Member of the Executive Board, born on 4 September 1970, Swiss.

Member of the Executive Board since 1 August 2008.

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 con-

sultant 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 Man-

agement 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

- Secretary of the Board of Directors of the Società di Fideiussione per lo sviluppo dell'economia ticinese (Guaranty Company);
- Member of the Board of the Carlo and Albina Cavargna Foundation;

- Member of the Board of Directors of the Gottardo SA Demonstration Cheese Factory;
- Member of the Board of Directors of Area City Quinto SA;
- Member of the Board of Directors of Gestione Gottardo SA;
- Member of the Board of Governors of the Ticino Cancer League.

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, his Deputy, Members of the Management and Head of Compliance 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. Total compensation for members of the Bank's bodies amounted to CHF 311,684 for the Board of Directors and CHF 2,450,600 for the Executive Board. The highest compensation within the Board of Directors was CHF 68,528 and the highest compensation within the Executive Board was CHF 600,000. 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. In 2010, loans to Bank governing bodies totalled CHF 49.198 million. (See also Table 4.12 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 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.

Moreover, the State Council sends to the Grand Council the specific annual report drawn up by the Bank's Auditor, after examination and after formulating its remarks in this regard. At the same time, it transmits the message on the Bank's income statement and balance sheet. In conformity with Art. 34 of the Law on Banca dello Stato del Cantone Ticino, the Grand Council exercises a supervisory role as regards the fulfilment of the public mandate by way of the Public Mandate Control Commission, which is composed of five members, appointed by the Grand Council for a three-year term.

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, based in particular on its analysis of the Annual Social and Environmental Report.

The Commission may at any time request the Bank governing bodies to supply the explanations and documents which it needs in order to carry out the aforementioned task.

As of September 2010, the Grand Council confirmed the composition of the Public Mandate Control Commission : Giovanni Jelmini (chairman), Manuele Bertoli (deputy chairman), Edo Bobbià (secretary), Michele Foletti (member) and Marco Chiesa (member).

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. 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. 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.

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 2010, Mr. Beresford Caloia, partner at PricewaterhouseCoopers SA, assumed the function of lead auditor for the first time. This mandate is annual.

8.2. Auditing honorarium

For the year 2010, the auditing honorarium of PricewaterhouseCoopers SA for the ordinary audit and other special audits amounted to CHF 624,000 (CHF 356,000 for the ordinary audit and CHF 268,000 for other audits connected to the audit mandate).

8.3. Additional honorariums

In 2010 additional services for CHF 202,000 were required from PricewaterhouseCoopers SA in connection to due diligence activities for the acquisition of Unicredit (Suisse) Bank SA, now Axion SWISS Bank SA.

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 banking report is 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 Strategic Planning and Communications.

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 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), 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. It is sent to the Swiss Financial Market Supervisory Authority (FINMA), the State Council, the Grand Council, the Public Mandate Control Commission, 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.ch⁹ and are available at any BancaStato counter. For the 2010 financial year, the Bank published for the sixth year in a row its Social and Environmental Report¹⁰.

BancaStato can be accessed by the public via their website www.bancastato.ch, which is updated on an ongoing basis and contains the principal information on the Bank. It also publishes the magazine "BancaStato News"¹¹ twice a year (in January and July) and contributes to various publications which deal with financial and economic issues with interviews, presentations and articles. Moreover, representatives of BancaStato participate regularly in conferences and other public events. The Executive Board receives journalists on a regular basis for the presentation of the annual and semi-annual 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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9. Refer to: www.bancastato.ch/index/relazioni_pubbliche/chi_siamo-rapporti_di_esercizio.htm

10. Refer to: www.bancastato.ch/index/relazioni_pubbliche/chi_siamo-rapporti_di_esercizio.htm

11. Refer to: www.bancastato.ch/index/relazioni_pubbliche/chi_siamo-newpage-3.htm

Ticino's economy in 2010 and outlook for 2011

Siegfried Alberton

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(<http://www.panelcode.ch>)



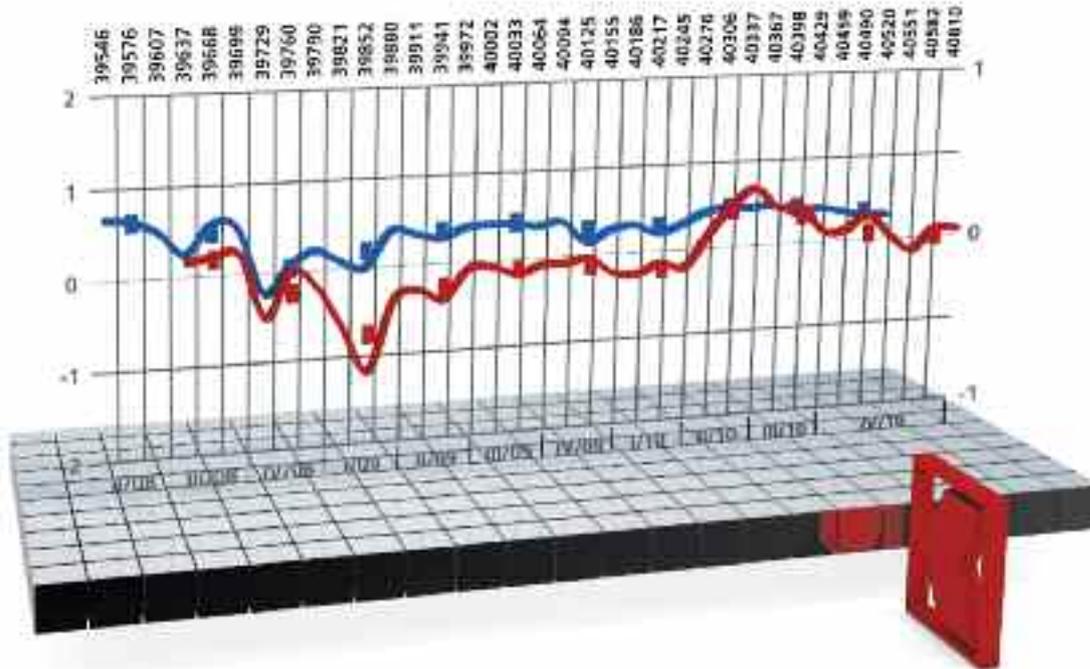
There is one word that uniquely summarises the world economy in 2010: imbalance.

THE INTERNATIONAL OVERVIEW

Growth forecasts for 2011 are still inspired by cautious optimism. The world economy is set to expand at a rate of around 4.5%. In the advanced economies, on the other hand, growth is expected to be very modest, and not strong enough to further the job market.

If there is one word that best sums up the state of the world economy in 2010, and is likely to characterise its evolution in 2011, that word is **imbalance**. Imbalance between the growth paths of emerging and developed countries and within the latter; imbalance in the global finance; imbalance in the balance of payments in many advanced economies; imbalance in the growth and development paths of some euro zone countries burdened by disconcerting levels of public debt (Greece, Ireland, Portugal, and Spain primarily), to the point of undermining the very foundations of the Union built on the Maastricht Treaty. In this respect, the policy guidelines recommended by the International Monetary Fund and the OECD at the close of 2009 (structural reforms and exit strategies) have not yet produced the desired effects: not for these countries and not, more generally, for the advanced states. Nevertheless, the world economy bounced back in 2010, after being nearly wrecked in 2009 by a negative growth of 0.9% (–3.4% in the OECD area; –4% in the euro zone). Its growth rate quickened to around 5% (+2.8% in the OECD area; +1.7 in the euro zone; with an average of +8% in the BRIC economies, i.e. Brazil, Russia, India, and China). Growth forecasts for 2011 are still inspired by cautious optimism. The world economy is set to expand at a rate of around 4.5%, a figure justified, once again, by the contribution of the emerging economies, with the BRICs in the lead. In advanced economies, on the other hand, growth is expected to be very modest (around 2.5%) and not strong enough to further the job market. If we want to see, in future, a stable recovery of the world economy, we had better step up our efforts, where we have so far only made a pious attempt. Our efforts must be directed towards implementing suitable programmes to rescue and reboot the financial sector and the balance of payments of many countries; and towards reforming the international financial sector, and developing structural policies likely to benefit the labour market.

BUSINESS TREND (Source: PanelCode_2011)



- Turnover evolution (Left scale)
- Turnover projections (Right scale)

- Turnover evolution: quarterly average
- Turnover projections: quarterly average

THE NATIONAL OVERVIEW

One theme that conspicuously stands out in Switzerland's economic landscape is the strengthening of the Swiss franc in relation to the main currencies: Euro and US dollar. In spite of this trend and the atmosphere of economic and financial tension permeating the euro zone, the Swiss economy has on the whole coped quite bravely with the repercussions of the worldwide recession; so much so that in 2010 its economy was gradually picking up and registering remarkably high growth rates. This resurgence is due to its own structural assets and to a successful stabilization programme, launched in 2009 (<http://www.seco.admin.ch/stabilisierungsmassnahmen/index.html?lang=fr>). Indeed, projections by SECO and major Swiss forecasting institutes suggest that, in 2010, Switzerland's gross domestic product probably rose by +2.7%, driven by exports (+7%) and by a fresh upturn in investments in plant and machinery (+4.5%). Investment in construction held up quite well (+3.5%) and so did private consumption (+1.7%). Growth had a positive impact on the labour market, too, where the unemployment figure remained relatively low. In December, the rate recorded hovered around 3.8%, compared to 4.4% in the same month a year earlier. Growth expectations for 2011 are decidedly less buoyant. GDP is set to evolve at rates below 2%. The slowdown is largely due to a fragile recovery in the world economy, to continuing tensions on the financial markets, to soaring commodity prices and to the debt crisis in several industrialised countries, including some euro-zone members. In addition, there will be a knock-on effect of these problems on exchange rates, which in turn will penalise Swiss exports.

OUTPUT TREND (Source: PanelCode_2011)



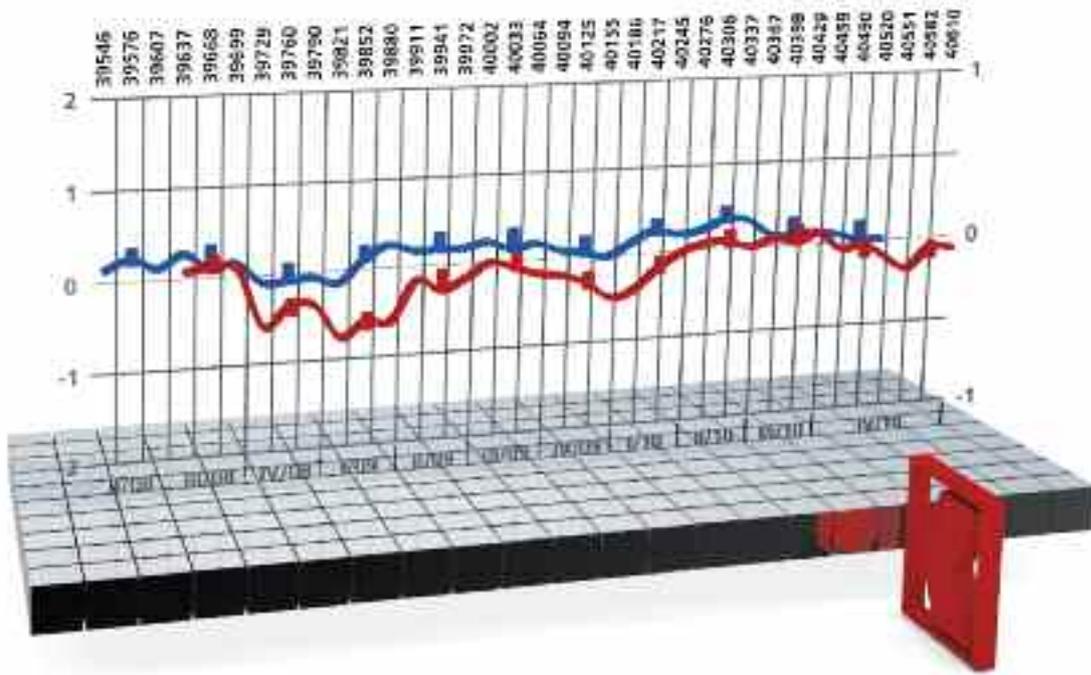
- Output evolution (Left scale)
- Output projections (Right scale)
- Output evolution: quarterly average
- Output projections: quarterly average

Indeed, SECO predicts a drastic decrease in growth figures for exports (only +2.6%). The economic growth figures projected for 2011 and 2012 are a far cry from the levels needed to paint a healthy employment picture.

THE OVERVIEW FOR CANTON TICINO

In line with the national average, in 2010, Ticino's economy saw a rise of about 2.3% in real GDP, while in 2009 the same figure was preceded by the minus sign (BakBasel Economics). Exports contributed substantially to the positive outcome. The sectors where added value plays a significant role (notably: investment goods industry, chemicals and pharmaceutical industry, financial services, and IT services) have been the main drivers of the Canton's economy. The hotel sector had good reasons for gloomy concern in 2010, with a drop in value added and turnover, whereas the construction sector held its ground quite valiantly. Retail trade, however, experienced ups and downs throughout the year. Data gathered in its monthly survey by Panel-Code, IRE (www.panelcode.ch) show that, for 2010, in the Canton as a whole the main economic variables registered a positive trend, at least till the third quarter. In the fourth quarter of 2010, production, orders, and use of technical capacity had to be scaled down. This foreshadowed an economic slowdown, which is set to continue into the first quarter of 2011. These findings, therefore, compare well with estimates issued by national and international institutions for the whole of 2011. According to projections by BakBasel Economics, Ticino's real GDP will grow more slowly

EMPLOYMENT TREND (Source: PanelCode_2011)



- Jobs evolution (Left scale)
- Jobs projections (Right scale)
- Jobs evolution: quarterly average
- Jobs projections: quarterly average

in 2011 (1.5%). A reduced pace of growth – as PanelCode data also suggest – is bound to have a limited beneficial impact on employment, while this had been the case for most of 2010. Let us not hold our breath, therefore: no great surprises in store for unemployment rates, which in the last couple of years have not strayed far from 5%.

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



The reporting year marked a turning point in the implementation of BancaStato's development strategy.

ACTIVITY OF BANCA DELLO STATO DEL CANTONE TICINO IN 2010

Throughout 2010, instability and sectoral imbalances continued to characterise the economies of the major countries around the globe. World economy nevertheless recorded an average growth rate of nearly 5%. The Euro zone, however, was penalised by uncertainties connected to the high indebtedness of the so-called PIGS countries (Portugal, Italy, Greece and Spain), and reported only a modest 1.7% growth. Concerns over excessive national debt have impacted heavily on the evolution of stock markets across Europe, including Switzerland. After an initial upturn, stock markets began losing ground and thus their value in April. In this context, the Swiss economy nonetheless achieved a growth rate of 2.7% and the Ticino GDP stood at +2.3%. This result is in part attributable to the expansive monetary policy maintained by the Swiss National Bank (SNB).

Mention must be made of the SNB's numerous interventions in support of the Swiss franc whose value increased significantly in 2010 with respect to the American dollar and the Euro. This was due in part to the prevailing concerns over the unmanageable public debt in some Euro-zone countries and had a detrimental impact on Swiss investments in these currencies and on Swiss exports due to the increase in the cost of Swiss goods. These circumstances have all contributed to the lowest interest rates ever, which in turn have compressed or maintained moderate margins on the lending operations of many credit institutions.

During a period marked by high uncertainty in financial markets, both in terms of stocks and foreign currencies, and by extremely low market interest rates, Banca dello Stato del Cantone Ticino posted a reduced net income of CHF 35.1 million. The proposal for the appropriation of available earnings provided an allocation to the Canton of CHF 25.1 million, about CHF 2.4 million less than in the 2009 financial year.

In spite of the fact that the Bank has had to deal with the effects of the tax shield, and conduct its business in a financial climate characterised by a great deal of uncertainty, it nonetheless succeeded in generating a modest increase in earnings from commission and service fee activities.

The balance sheet total exceeded CHF 8.5 billion at the end of 2010, marking a 6.2% increase (+CHF 0.5 billion as compared to the previous year), thus confirming the ongoing growth trend over more than a decade.

Lending activities with clients rose by 5%, or CHF 350.2 million, to over CHF 7.3 billion. In 2010, the Bank pursued its lending policy in favour of individuals and the cantonal economy in general. Customer loyalty is demonstrated by encouraging growth, especially in the notoriously difficult current economic situation. Mortgage loans increased by CHF 208.8 million and stood at almost CHF 5.8 billion (+3.8%). Amounts due from customers increased by over 10% (+CHF 141.4 million) and ran ahead of CHF 1.5 billion at the end of 2010. Growth was recorded in both amounts due from public entities and loans for financing the activities of businesses.

By the end of 2010, customer deposits levelled off at just below CHF 5.5 billion, after an increase of 5.3% or CHF 276.1 million, which further confirms our clients' trust in BancaStato and the sense of security conveyed to the general public. Both these elements had already emerged in previous years. Substantial increases were also in evidence in most components of client money inflow. Amounts due to customers in savings and investments accounts rose by 5.5% to almost CHF 2.4 billion (+CHF 123.7 million). "Other amounts due to customers" also progressed positively (+CHF 200.6 million or 7.1%), while "Cash bonds" – which have become increasingly less attractive in times of low market rates as are prevailing at present – fell by CHF 48.2 million (–41.4%).

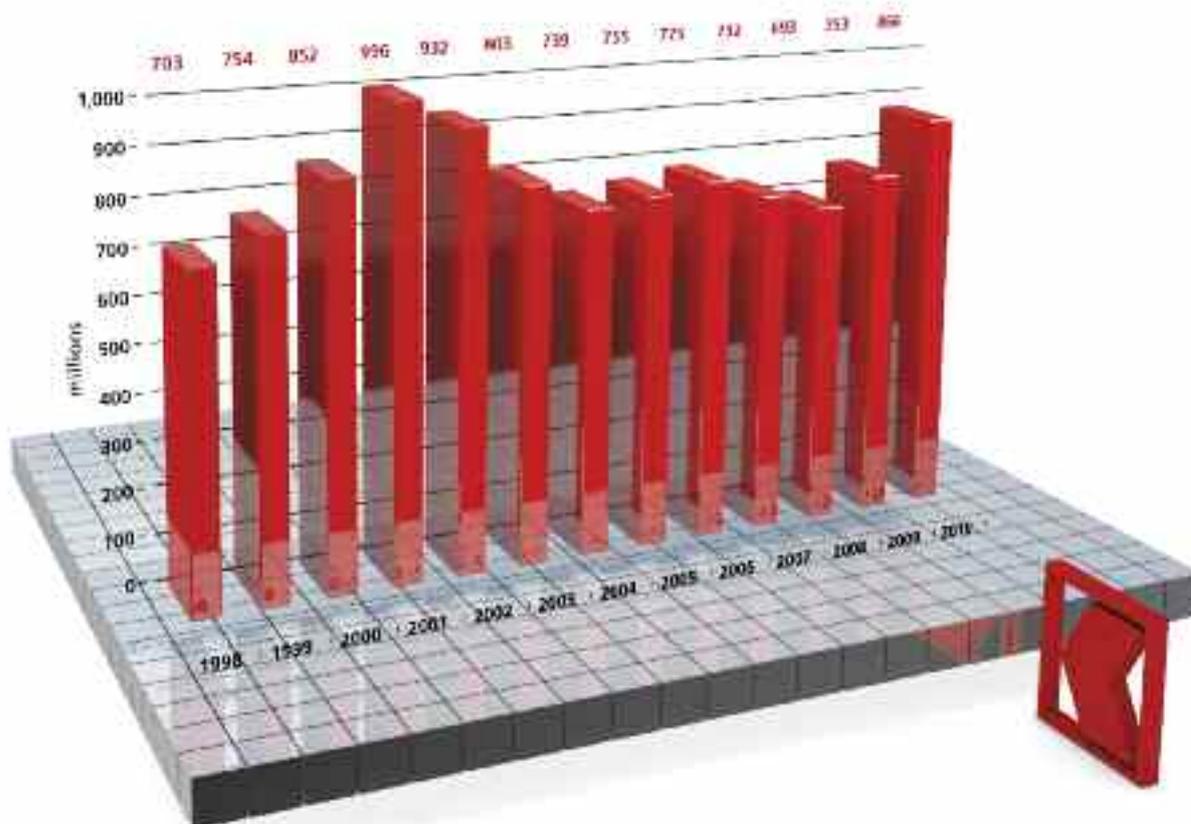
Persistent historically low interest rates in 2010, as well as the BNS's repeated warnings with regard to a possible real estate bubble, are the principal causes of the marked decline in results from interest-earning transactions. In this respect, it must be mentioned that BancaStato has always pursued a strategy of caution in interbank investments, particularly since 2008, the year of the subprime crisis that involved a number of notable internationally active banking institutions. This fact and the risk-averse attitude adopted by the Bank in the structural management of its balance sheet have mitigated the fluctuations in results from interest-earning transactions in the last years.

As a result of the circumstances described above and, less importantly, as a consequence of the depreciation of both the Euro and the American dollar against the Swiss franc, interest margins decreased by CHF 3.3 million (–3%) and stood at CHF 104.4 million.

In spite of the fact that the Bank has had to deal with the effects of the tax shield, and conduct its business in a financial climate characterised by a great deal of uncertainty, it nonetheless succeeded in generating a modest increase in earnings from commission and service fee activities, up by CHF 0.3 million (+0.9%) to CHF 27.9 million. If, on the one hand, the depreciation of the Euro and the American dollar weighed on the value of client assets, BancaStato was nevertheless able to increase the volume of managed assets, with positive effects on achieved results.

Income from trading operations, which is volatile by its very nature, decreased compared to the record posted in 2009, falling by CHF 10.3 million (down by 13.7%) and levelling off at CHF 8.9 million.

The strategy implemented in 2009 with the constitution of a portfolio of selected medium-term investments in bonds from primary companies at the international

EVOLUTION OF LOANS TO INDIVIDUALS AND COMPANIES (excluding public entities, Parent Bank)

level generated substantial capital gains in the first few months of 2010. These investments underpinned the considerable increase in “Other ordinary results”, up by CHF 4.9 million to CHF 7.3 million (+197.3%). As a result, the bank was able to post a slight progression of its net revenues (+CHF 0.4 million or 0.3%) compared to 2009.

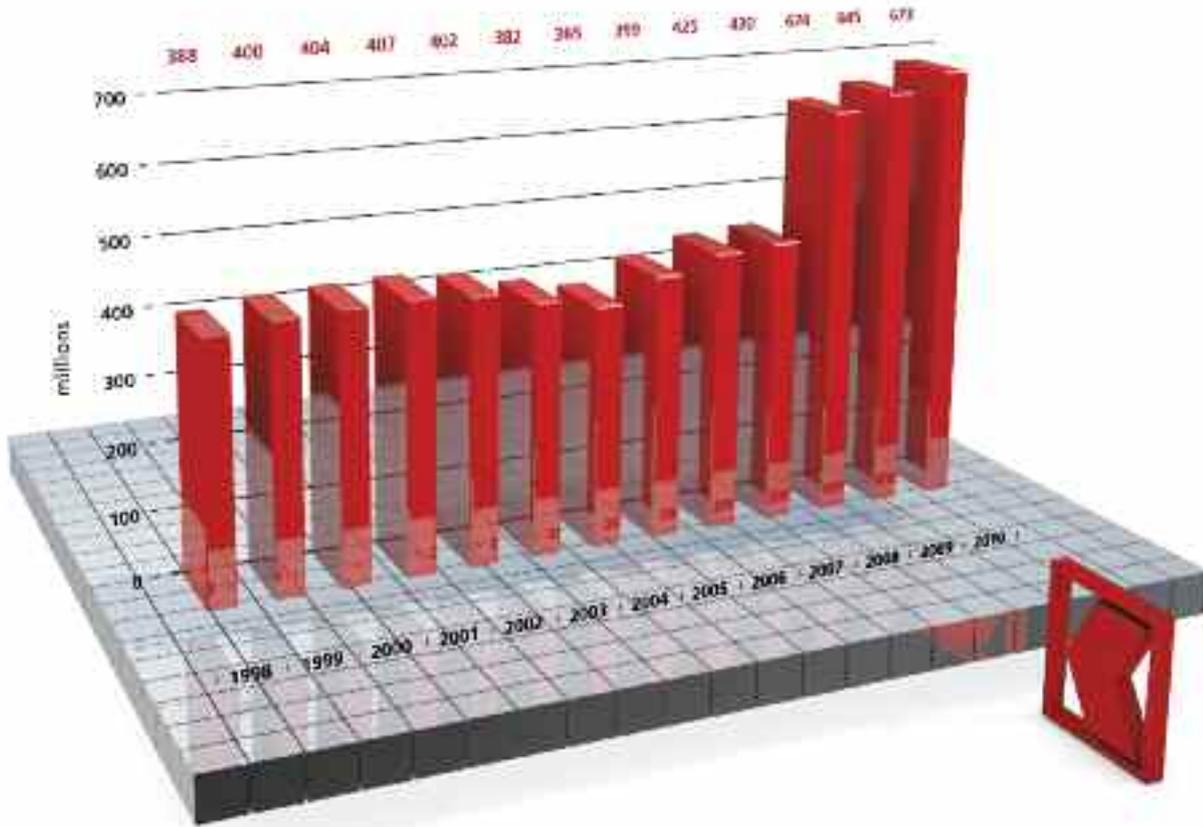
The reporting year marked a turning point in the implementation of BancaStato’s development strategy. A number of important projects, which the Bank had been working on to foster organic and inorganic growth of its Private Banking activities, have become a reality. Highly specialised teams of consultants were instrumental in generating natural growth in deposit volumes thanks to inflows of new assets. BancaStato therefore succeeded in tripling the inflow of fresh monies over the previous year. Thanks to this new capital totalling CHF 338 million, not only was the Bank able to offset the effects of the depreciation of the main currencies against the Swiss franc, but it also generated a slight increase in managed assets, totalling CHF 7.14 billion at the end of 2010.

In addition to the development of Private Banking within the Bank, BancaStato acquired control over UniCredit (Suisse) Bank SA, now Axion Swiss Bank SA, in view of diversifying its own sources of revenues through inorganic growth.

In 2010, BancaStato also launched a number of strategic projects in various fields to improve the quality of its services as well as its operational efficiency. These actions all entailed major spending and investing. Operating costs thus increased by 5.2%, rising above the CHF 100 million threshold in 2010.

This increase in operating expenses led to a CHF 4.5 million decrease in gross profit

EVOLUTION OF LOANS TO PUBLIC ENTITIES (Parent Bank)



(-8.5%), down from CHF 53 million in 2009 to CHF 48.5 million in 2010. Amortization of fixed assets resulting from substantial investments undertaken in the 2002-2005 period has been gradually completed, and its impact is minor as compared to 2009. In fact, total depreciation was reduced by nearly CHF 1 million in 2010.

Finally, the Bank's stringent risk management rules have maintained the need for credit provisions as well as provisions for other risks at moderate levels.

Net provisioning requirements were just below CHF 0.9 million, having increased only slightly over the 2009 figure.

Net income levelled off at CHF 35.1 million, a CHF 3.5 million decrease (-9.2%) with respect to 2009.

Further in this report, we will comment in detail on the evolution of the principal items of the balance sheet and on the income statement for 2010.

The financial statements closed at 31 December 2010 and were prepared in compliance with applicable legal prescriptions.

For further details on accounting and evaluation principles, refer to Section 2 of the Notes to the Group Financial Statements and to Section 2.8 of the Notes to the Individual Financial Statements.

Highlights 2010



BALANCE SHEET

Assets

As at 31 December 2010, the items "Liquid funds" and "Amounts due from money market papers" stood at CHF 82.6 million, the same level as in 2009. The item "Due from banks" was up from CHF 391.7 million at the end of 2009 to CHF 477.1 million on 31 December 2010, a CHF 85.4 million increase or +21.8%. "At sight" positions on correspondents' accounts fell by CHF 28.9 million and levelled off at CHF 60.8 million by the end of 2010. Fixed-term deposits, which are guaranteed almost exclusively by securities (REPO), increased by CHF 114.3 million, up from CHF 302.1 million at 31 December 2009 to CHF 416.3 million at the end of 2010. Only CHF 4.7 million was placed outside the activities of the Group on the traditional interbank market (without collateral), which is further evidence of the Bank's prudent approach to a market still not completely stable after the financial crisis.

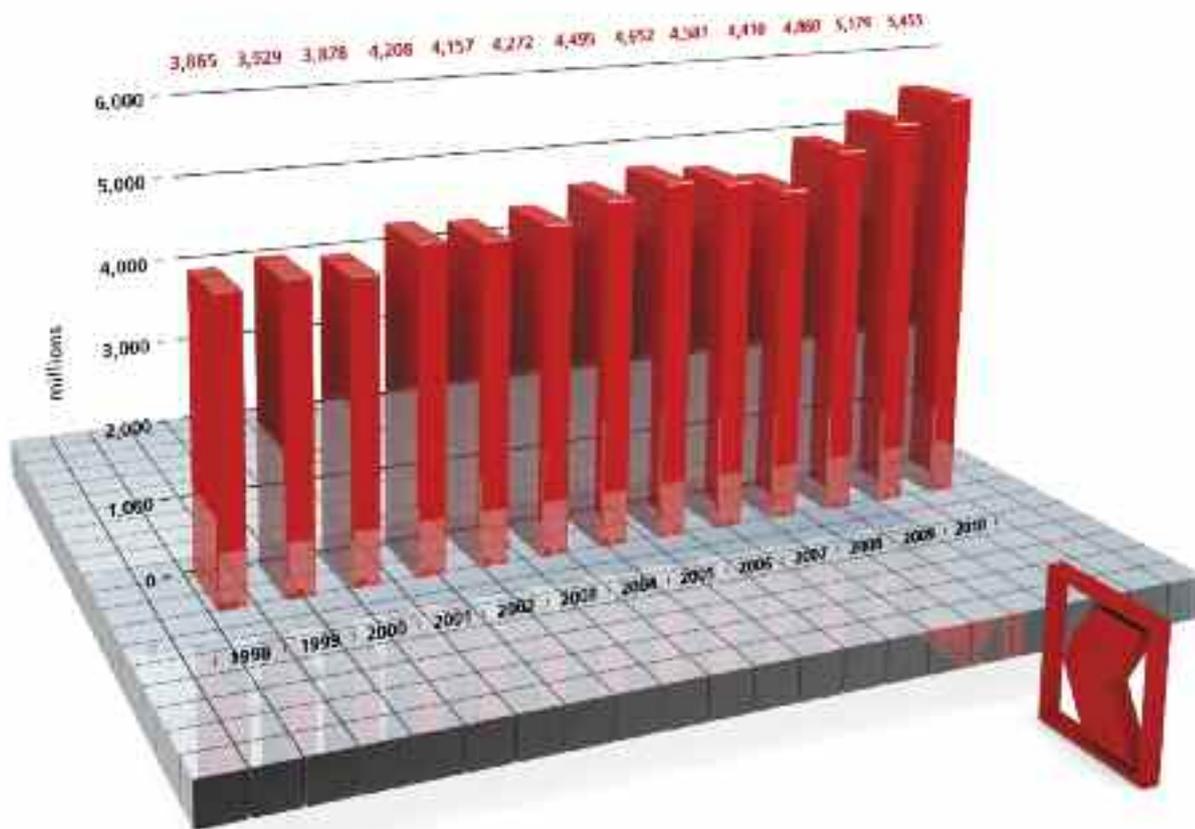
In 2010, BancaStato continued to develop its core activities. "Amounts due from customers" rose from CHF 6.96 billion to CHF 7.31 billion, a CHF 350.1 million increase over the year (+5.0%). This marks a substantial improvement and comes as a repeat performance of the growth evidenced in the past years, further confirming the Bank's institutional role in supporting the Ticinese economy. In spite of the fierce competition in the domestic market of Ticino from major banks, as well as those operating at the regional level, BancaStato nonetheless succeeded in maintaining its relatively sizeable market share of mortgage lending activities.

The item "Mortgages" grew from CHF 5.56 billion to CHF 5.77 billion, a 3.8% progression over the previous 12 months. This CHF 208.8 million increase is less considerable in absolute and relative terms compared to the increase reported in 2009, which demonstrates that, despite persistently low interest rates, the market has not yet completely recovered after the slowdown brought on by the financial crisis.

The trend towards shifting from variable-rate to fixed-rate mortgages continued on its now well-established path, and was only briefly interrupted in the second half of 2007. Variable-rate mortgages fell for the first time below CHF 1 billion (-16.2%) from CHF 1.17 billion at the end of 2009 to CHF 0.98 billion at the end of 2010. Variable-rate mortgages, which represented close to 90% of overall mortgage volumes in 2001, were down 17% in 2010. The volume of fixed-rate mortgages continued to benefit from low interest rates, and rose from CHF 4.39 billion to CHF 4.79 billion (+9.1%). This important shift in the balance sheet structure has again required the utmost care on the part of the Assets and Liabilities Management Committee. During the year under review, the Bank maintained its stringent evaluation criteria in granting loans to its customers as regards both mortgage-backed loans to individuals and operating loans to businesses. With respect to mortgage loans, the Banks favoured non-speculative loans for the construction of single-family homes and duplex housing as well as for improvements and renovations to existing real estate. The loan portfolio is well distributed geographically. Its breakdown into financial segments indicates that most loans granted are in the lower range, i.e. under CHF 500,000.

Apart from a slight decline in 2007, "Amounts due from customers" pursued their upward trend of recent years and levelled off at CHF 1.54 billion. This CHF 141.4 million increase (+10.1%) was primarily the result of developing loan utilisation by the various client segments: the major increases were recorded in activities on private and company accounts (CHF 113 million or +15%) and public entities (CHF 28 million or +4.4%).

EVOLUTION OF TOTAL AMOUNTS DUE TO CUSTOMERS (Parent Bank)



For further details as regards collateral on loans to Bank customers, refer to Section 3.1 of the Notes to the Individual Financial Statements.

The "Securities and precious metals trading portfolio" amounted to CHF 3.55 million at 31 December 2010 and consisted of equity-type securities.

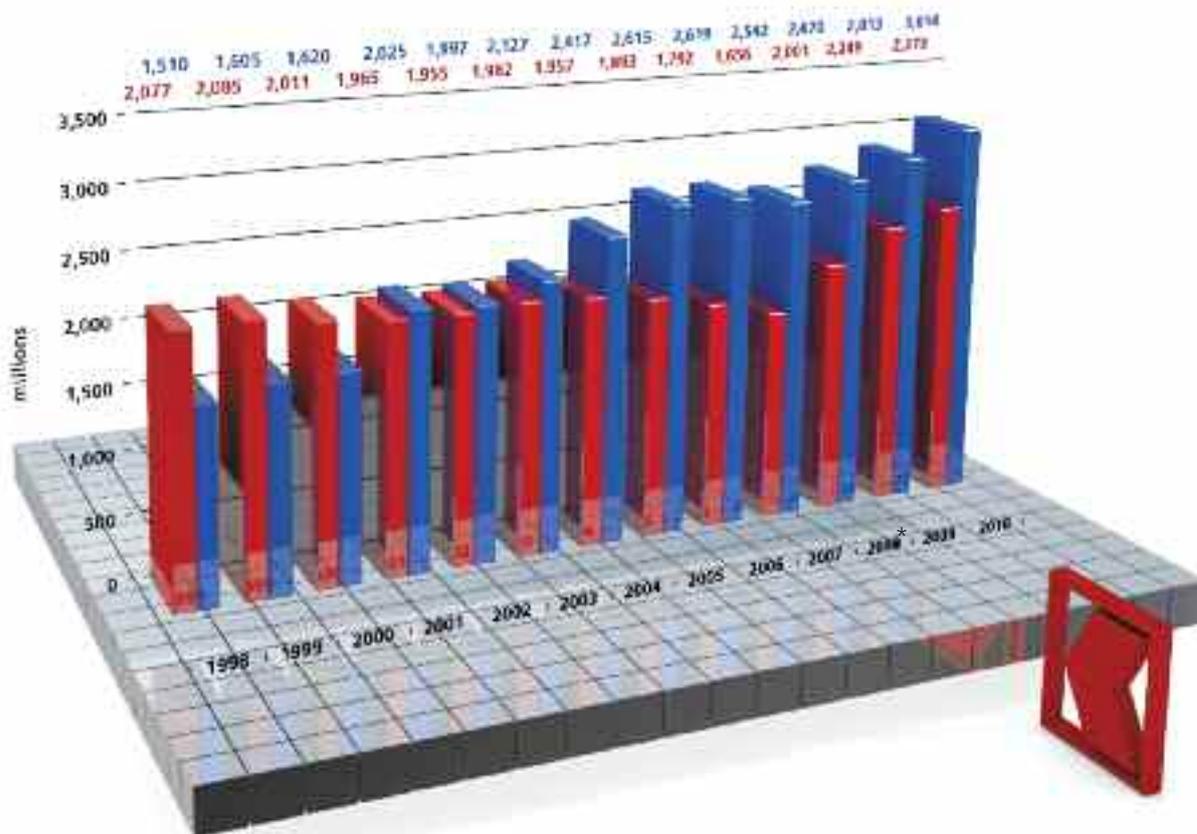
The reduced average size of this portfolio attests to the Bank's policy of extreme caution and risk avoidance.

The value of securities and precious metals in the financial investments portfolio, which also comprises a dominant bond component, remained at the previous year's level because, although securities held in the medium-term were entirely divested, the portfolio was subsequently rebuilt with bonds intended to be held to maturity. The breakdown of the item "Financial investments" is shown in Section 3.2 of the Notes to the Individual Financial Statements.

The item "Participations", which carries the Bank's holdings at purchase value less the economically necessary depreciation, grew substantially following the acquisition of a controlling interest in Axion SWISS Bank SA. This results from the indirect participation in the Private Banking entity acquired through an 80% participation in AHSA Holding SA. This item comprises a CHF 50.5 million credit granted to AHSA Holding SA for the buyout of 100% share capital of Axion SWISS Bank SA from UniCredit Private Banking Spa, Turin. For further information on the Bank's participations and securities portfolio, refer to Sections 3.2, 3.3 and 3.4 of the Notes to the Individual Financial Statements.

The item "Fixed assets" declined by 6.5% from CHF 107.1 million to CHF 100.1 million as a result of new investments totalling CHF 8.1 million, offset by disinvest-

DUE TO CUSTOMERS IN SAVINGS AND INVESTMENT ACCOUNTS (Parent Bank)



- Savings
- Other

* Includes CHF 229 mio in salary accounts, formerly booked under "Other amounts due to customers"

ments amounting to CHF 2.6 million and amortisation of CHF 12.4 million. For further details on the breakdown of purchase costs, accumulated depreciation and book values of real estate and other fixed assets, refer to Section 3.4 of the Notes to the Individual Financial Statements.

"Accrued income and prepaid expenses" remained virtually unchanged at prior year levels, and totalled CHF 18.4 million. The item "Other assets" stood at CHF 49.0 million, up 25%. This gain can be attributed largely to the change in positive replacement values for hedging rate risk within the framework of the structural management of the balance sheet. For further details, refer to Sections 3.5 and 4.2 of the Notes to the Individual Financial Statements.

Liabilities

"Amounts due to banks" on the balance sheet as at 31 December 2010 totalled CHF 365.6 million, up by 19.7% compared to the previous year. Financing from other banks, mostly for the management of liquidity in the medium term, continued to be kept within a moderate range thanks to sourcing from the client base from savings and investments accounts as well as transactions accounts (primarily current and salary accounts). For this reason, and despite a nearly 20% increase, this type of financing has lost its importance in recent years.

"Amounts due to customers in savings and investments accounts" continued their upward trend in 2010, although less markedly. This item of the balance sheet stood at CHF 2.37 billion at the end of 2010, a 5.5% increase or CHF 123.7 million.

Highlights 2010



Within this balance sheet item, the new special savings products introduced in October 2007 have carved out an ever larger niche for themselves, and have continued to grow in terms of volume from CHF 304.4 million at the end of 2009 to CHF 503.8 million (+65.5% or CHF 199.4 million). This growth was partly driven by the attractive remuneration offered. "Fixed savings accounts" and "Cash bonds" bore the brunt of low interest rates, which reduced their attractiveness.

As a result, clients turned to equally remunerative yet less constraining savings options. "Fixed savings accounts" declined by CHF 101.4 million to CHF 106.9 million (-48.7%).

Traditional savings products (savings accounts and books) witnessed a slight increase in 2010, up from CHF 1.39 billion to CHF 1.40 billion (+0.8%). The trend for the past few years shows a growing lack of interest for savings books and a greater attraction to "Classic" or special savings accounts due, in this case as well, to fewer restrictions on operations and more attractive returns.

A less substantial progression was noted for PRIMA salary accounts (CHF 8.9 million or +3.5%), while the considerable increase in pension savings accounts (R3 and vested benefits funds) stemmed largely from a reclassification of the Swisscanto Vested Benefits Foundation.

The positive trend evidenced in the item "Other amounts due to customers" in 2008 continued in 2010 with a further, more substantial growth. This balance sheet item ran over CHF 3 billion, an increase exceeding CHF 200 million or +7.1%.

As regards volume variations in the principal products which make up this item, balances on clients' demand and metal deposits remained largely stable, while deposits of public entities rose by approximately CHF 95 million. Balances on private account term deposits further receded (-CHF 36.9 million) as a result of market yields stagnating around zero for short-term investments. In contrast, term deposits held by public entities increased, although by only a modest CHF 5.6 million.

The Bank thus resumed its refinancing by accepting medium-term deposits from institutional investors seeking quality counterparties, which brought about an increase of approximately CHF 136.3 million in this type of deposit.

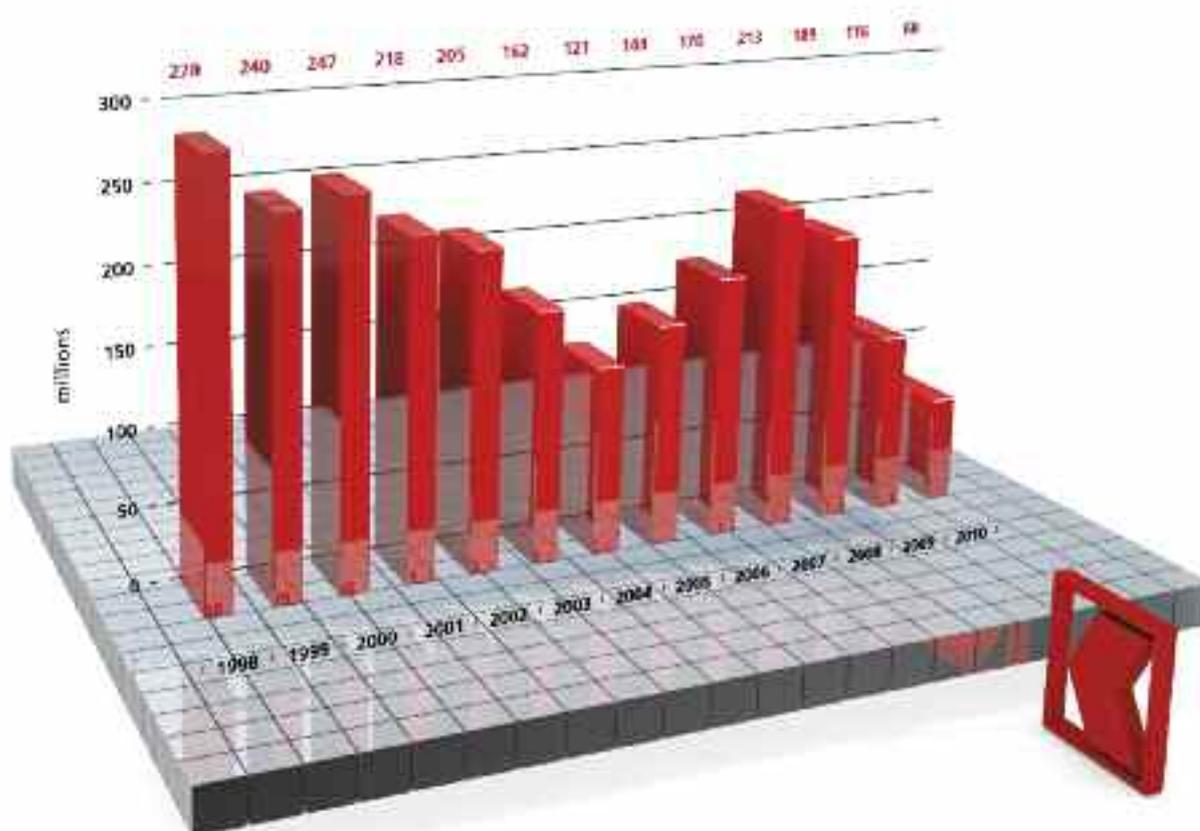
As a result of low interest rates and the availability of customised savings products, the request for "Cash bonds" on the part of clients has been continuously dwindling, and dropped 41.4% in the reporting year. Cash bonds issued shrank from CHF 116.5 million as at 31 December 2009 to CHF 68.3 million at the end of 2010. The balance sheet item "Bonds and loans from the Swiss Cantonal Banks Central Mortgage Bond Issuing Body" is an increasingly important source of financing owing to our clients' growing interest in fixed-rate mortgages. This represents for the Bank an effective and consistent medium- to long-term source of financing. No bonds reached maturity in 2010, and the Bank did not float any new bond issues.

At 31 December 2010, the Bank had two bond issues maturing in 2012 and 2017 respectively, for a total amount of CHF 350 million in outstanding securities.

In 2010, the Bank made ample use of its right to participate in bond issues of the Central Mortgage Bond Issuing Body of the Swiss Cantonal Banks (Pfandbriefzentrale). On the back of 4 maturing loans totalling CHF 89 million, BancaStato participated in 6 bond issues, gathering CHF 240 million at particularly attractive interest rates.

The attraction of this type of medium- to long-term type of financing is evidenced by its growing importance since the turn of the century: at the end of 2000, volumes

EVOLUTION OF CASH BONDS (Parent Bank)



of mortgage bonds stood at only CHF 233 million. They reached their peak at the end of 2010 at CHF 1.41 billion. For a detailed listing of mortgage bonds and bond issues with the Swiss Cantonal Banks Central Mortgage Bond Issuing Body (rates and maturities), refer to Section 3.8 of the Notes to the Individual Financial Statements. The item "Accrued expenses and deferred income" remained unchanged at CHF 34.2 million.

"Other liabilities" grew by 23.2% to CHF 69.6 million, owing primarily to increased negative replacement values inherent in rate risk hedging operations in the management of the balance sheet structure, as previously mentioned in the item "Other assets".

For further details on this item, refer to Sections 3.5 and 4.2 of the Notes to the Individual Financial Statements.

The item "Value adjustments and provisions" decreased by 8.2% to CHF 179.2 million at 31 December 2010 and consisted mostly of provisions for credit risk based on strict prudential parameters. For further details on this item, refer to Sections 2.8.2 and 2.8.10 of the Notes to the Consolidated Financial Statements and Section 3.9 of the Notes to the Individual Financial Statements.

"Reserves for general banking risks", which are considered to be the Bank's equity, totalled CHF 365.4 million at 31 December 2010.

The endowment capital remained unchanged at CHF 100 million.

After the allocation of CHF 11.2 million to the "General legal reserve" (as per appropriation of available earnings for 2009 following approval of the financial report by the Cantonal Parliament on 20 October 2010), this item totalled CHF 163.3 mil-

EVOLUTION OF VALUE ADJUSTMENTS, PROVISIONS AND LOSSES (Parent Bank)



lion (+7.4%). The aggregate of the Bank's equity before appropriation of available earnings thus rose from CHF 656.1 million at 31 December 2009 to CHF 663.7 million at the end of 2010.

For further details concerning the item "Reserves for general banking risks", endowment capital and changes in the Bank's equity, refer to Sections 3.9, 3.10 and 3.11 of the Notes to the Individual Financial Statements.

Off-balance Sheet Transactions

Contingent liabilities were up by 110.7% and stood at CHF 208.3 million. This item's surge resulted largely from a CHF 93.4 million increase (+99.7%) in the volume of guarantees and, to a lesser extent, from commitments under documentary credits (+CHF 16.1 million).

The increased volume of guarantees was largely a result of business undertaken in cooperation with Axion SWISS Bank SA.

The regulatory requirements issued by the Swiss Federal Banking Commission (now FINMA) in January 2006 regarding deposit guarantees, were revised in December 2008. This step was undertaken in view of increasing the aggregate guarantee amount from CHF 4 billion to CHF 6 billion as well as the guarantee for each single depositor from CHF 30,000 to CHF 100,000. In accordance with regulatory requirements, irrevocable commitments must now include a CHF 37.1 million guarantee for privileged deposits at the Bank against CHF 38.5 million at the end of 2009. Moreover, commitments in relation to forward start fixed-rate mortgages increased from CHF 26.5 million at 31 December 2009 to CHF 124.7 million at 31 December 2010.

The volume of fiduciary placements for the account of customers remained at the same low levels as in the preceding year due to the ongoing low market yields on the Swiss franc and foreign currencies. These placements witnessed only a marginal increase, from CHF 64.7 million at the end of 2009 to CHF 67.3 million at 31 December 2010.

At 31 December 2010, the volume of outstanding operations negotiated primarily on behalf of customers in the futures market in foreign currencies and metals, as well as derivative instruments on securities, indexes and currencies grew by 44% from CHF 198.6 million to CHF 286 million. The increased use of derivative instruments, principally for the purpose of rate risk hedging, reflected on volumes, which were up from CHF 1.088 billion at the end of 2009 to CHF 1.139 billion at 31 December 2010. The respective positive and negative replacement values also rose compared to the previous year as mentioned in the comments pertaining to "Other assets" and "Other liabilities".

For more information on off-balance sheet transactions, refer to Sections 3.1 and 4 of the Notes to the Individual Financial Statements.

The Swiss National Bank has pursued an expansive monetary policy with the twofold aim of, firstly, offsetting the growing economic recession which was felt in some economic sectors in Switzerland and, secondly, of avoiding an excessive appreciation of the Swiss franc on foreign exchange markets.

INCOME STATEMENT

Revenues

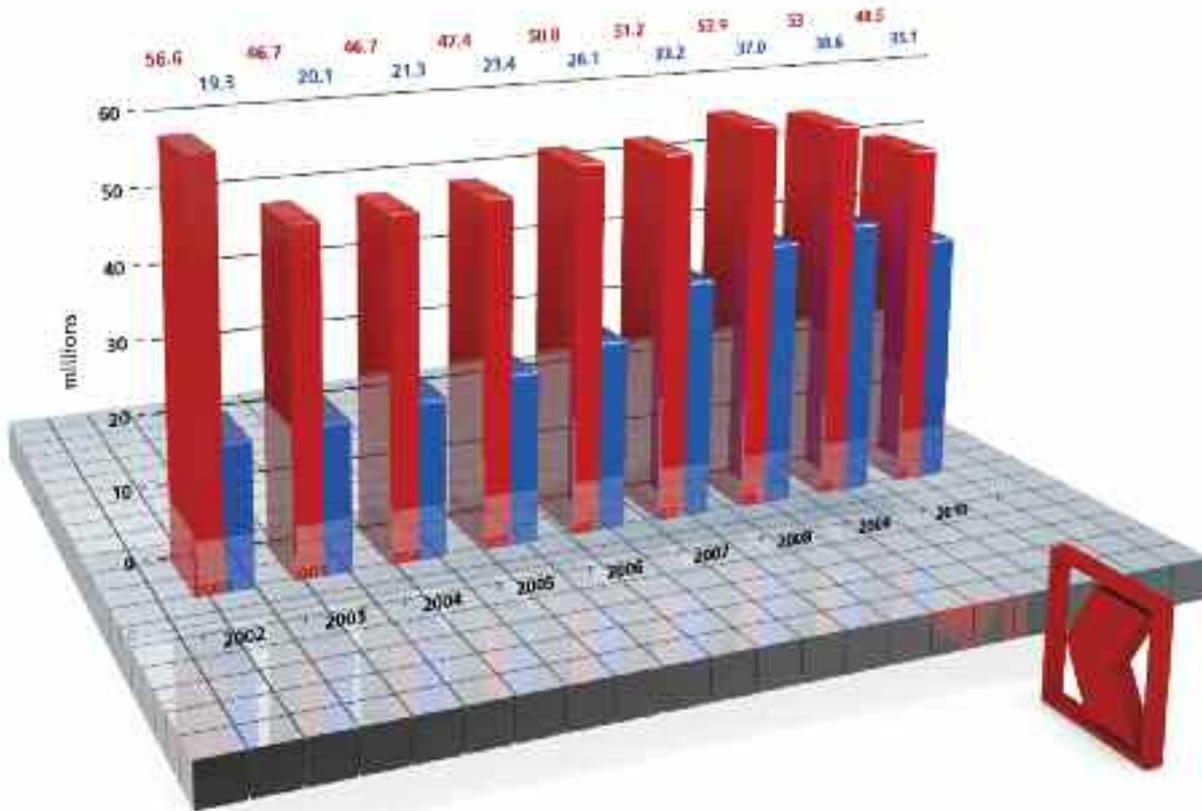
Net interest income for 2010 decreased by 3.0% compared to the previous year and stood at CHF 104.4 million.

Since the crisis in financial markets, which also involved two major Swiss credit institutions in the third quarter of 2008, the Swiss National Bank has pursued an expansive monetary policy with the twofold aim of, firstly, offsetting the growing economic recession which was felt in some economic sectors in Switzerland and, secondly, of avoiding an excessive appreciation of the Swiss franc on foreign exchange markets. As a result, after their plunge in the fourth quarter of 2008, interest rate levels on the Swiss franc remained at historic lows throughout 2009 and 2010. Public debt in many Euro-zone countries compelled the European Central Bank to maintain an expansionist monetary policy entailing major injections of funds, which in turn led to an appreciation of the Swiss franc and necessitated the intervention of the Swiss National Bank.

For this reason, interest rates on the Swiss franc declined sharply across all durations in the first 5 months of 2010. Libor rates under one year fell by –20 to –39 basis points, while longer duration Swap rates showed downward trends varying between –33 and –50 basis points. In the following months, the curve experienced a rotation up until September, with a "pivot" for the 2-year duration, as rates for durations under 2 years increased from +10 to +33 basis points, and those for longer terms fell progressively from –6 to –23 basis points. Between September and December, rates were up across all maturities (variations from –14 basis points for 6 month maturities to 36 basis points for 10 year maturities), with the exception of the 2-year rate. Finally, the year-end rate curve took on a peculiar shape with the 1-year rate soaring 50 basis points above the 2-year term. It must be noted that the 10-year rate progressively declined by 71 basis points from its already low levels of December 2009 over the first 9 months of 2010.

Fixed-rate mortgages continued to be favoured by clients as was shown by the significant growth in mortgages in the 5 to 10-year range. If, on the one hand, this

EVOLUTION OF GROSS PROFIT AND NET INCOME (Parent Bank)



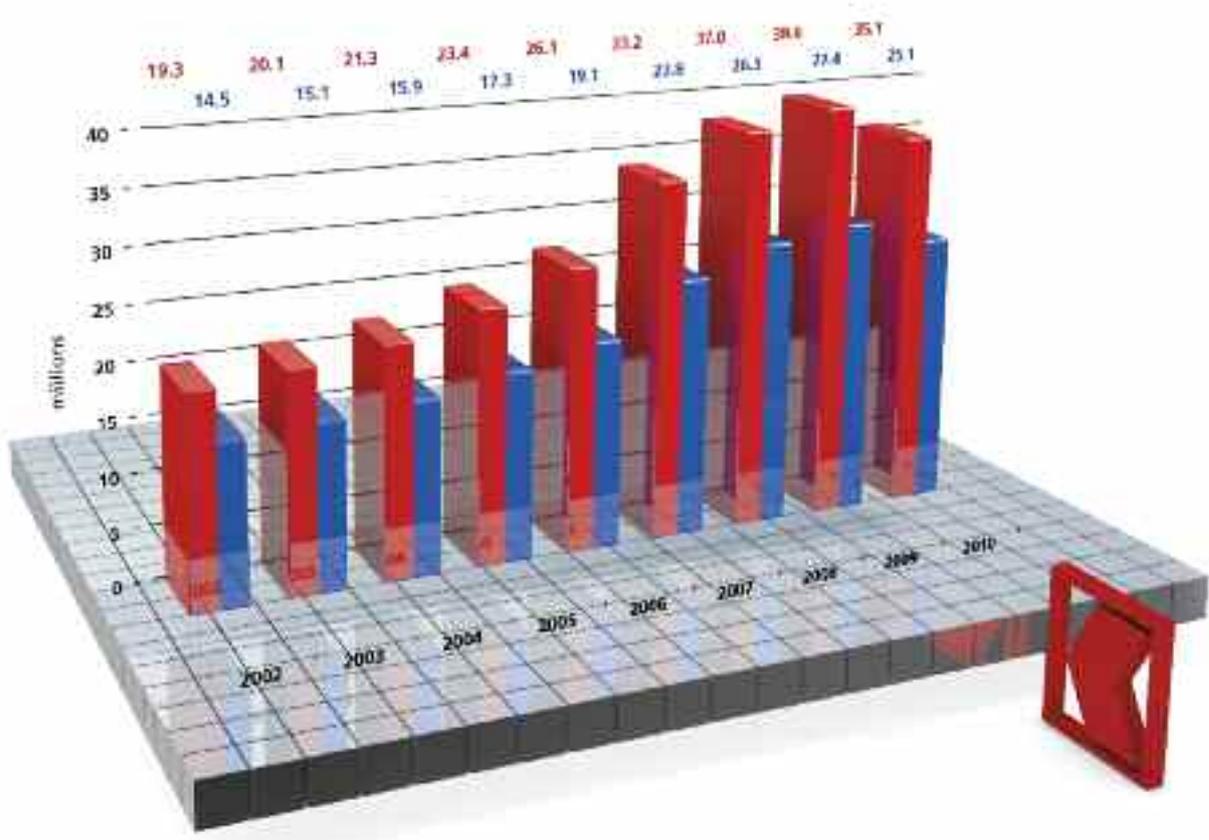
■ Gross profit
■ Net income

trend required an even more careful approach on the part of the Bank in managing rate risk, on the other, it favoured greater customer binding and positive effects on the mortgage volumes on the balance sheet. The shift to fixed-rate mortgages, which has manifested itself almost without interruption since 2002, continued in the year under review.

The substantial influx of fresh capital, combined with the liquidity left in deposit for the past several years on transaction and savings accounts (due to the ongoing cautious attitude of Bank clients and the lack of valid alternatives with return prospects consistent with risks incurred), all contributed to bolstering client asset gathering. These circumstances benefited the new customised accounts, which offer a respectable return on savings, as well as traditional savings accounts. Another contributing factor was the shift to new and traditional savings accounts of funds previously deposited in savings books and cash bonds, both of which are seeing their importance dwindling. The increase in customer deposits at BancaStato is a clear indication that, even in times of high instability in the market and the banking sector, our clients continue to value the Bank's solid foundation as well as its strategy and the prudent policy it applies.

Persistent low rates on the Swiss franc money market, as well as fierce competition which has reduced commercial margins on lending activities and the strict prudent policies applied by the Bank in the management of its balance sheet structure, have not allowed the investment of excess liquidity at favourable risk/return conditions.

EVOLUTION OF THE PAYMENT TO THE CANTON (Parent Bank)



■ Net income
■ Payment to the Canton

This in turn heavily affected net interest income.

The lower average terms applied to customer mortgage loans because of reduced interest rate levels were only partially offset by an increased volume of lending operations.

Furthermore, the margin for manoeuvre to adjust return on transaction and savings accounts, which was already close to zero, allowed for only weak compensation. As a result, “Interest and discount income” fell by 6.0%, from CHF 196.2 million in 2009 to CHF 184.4 million in 2010. “Interest expenses” also declined substantially (–4.9%) and stood at CHF 91.1 million in 2010, compared to CHF 95.8 million in 2009.

“Interest and dividend income from financial investments” showed a substantial increase from CHF 7.3 million in 2009 to CHF 11.1 million in 2010 resulting from placements of excess foreign currency liquidity in bonds from prime quality debtors for a large part of the year.

The reference rate for variable-rate first mortgages remained unchanged throughout 2010. It was scaled down to 3% from the end of November 2008 for new mortgages and from 1 May 2009 for all existing mortgages.

The rates applicable to fixed-rate mortgages are determined daily by conditions in the capital market.

In spite of the considerable increase in mortgage lending volumes, income from interest on mortgage and construction loans declined by 5.5%, down from CHF 157.7 million in 2009 to CHF 149.0 million in 2010. However, this component

Cash bonds have been gradually losing their relevance since the introduction of the new "Risparmio FISSO" fixed savings account which is generally more attractive to customers for the remuneration it offers and to the Bank for its ease of management.

accounts for an increased share (over 80%) of "Interest and discount income", which bears witness to BancaStato's role as a mortgage bank.

Although private client current accounts and advances to individuals increased marginally in volume, proceeds from this item continued to shrink in 2010.

Revenue from current accounts and advances to individuals fell by CHF 1.4 million to CHF 14.0 million (-9.3%), while proceeds from current accounts and advances to public entities showed only a moderate 1.6% decline down to CHF 16.4 million (CHF -0.3 million).

Although volumes of placements with other banks, generally with terms under one year, remained on average at the same level as in the preceding year, revenues from such placements fell by more than one half as a result of extremely low interest rates on the interbanking market and REPO, the latter being more consistent with the Bank's risk profile. Interest income from placements with banks thus decreased by approximately CHF 1.6 million to CHF 1.3 million (-54.5%). The cost for funding provided by other banks rose from CHF 2.8 million to CHF 3.6 million (+29.9%). This year saw a substantial increase in deposits, particularly in the fourth quarter due to intra-group business with Axion SWISS Bank SA.

Basic interest rates on savings accounts and savings books (which had remained unchanged since 1 January 2008 at ½% for the former and ¼% for the latter) were only adjusted to new market conditions in the second half of 2010. As already mentioned, this reduction was only marginal: interest rates on savings accounts were down to ⅜% beginning on 19 July 2010 and ⅛% on savings books as of 1 September 2010.

Increasing volumes of savings, seeking a higher degree of security, were deposited into traditional savings accounts and new special savings products which offer clients full security and an attractive rate of return. This curtailed the effects of marked down interest rates on accounts. Interest expense on savings fell by 3.3% from CHF 14.5 million to CHF 14.1 million in 2010.

Interest expense on demand deposits and fixed-term accounts diminished by approximately CHF 2 million (-5.4%). This came as a result of the progressive non-renewal of fixed-term placements on the part of clients in consideration of their insignificant market return rates. This decrease, which was brought about by lower interest rates, was mitigated by increased volumes, particularly with regard to demand deposits on the part of public entities as well as medium-term financing from institutional counterparties (insurance companies, pension funds, etc.). Expenses on cash bonds stood slightly over CHF 2.0 million in 2010, recording a CHF 1.6 million decline (-43.3%) in parallel with a reduction in subscribed volumes. It must be mentioned that cash bonds have been gradually losing their relevance since the introduction of the new "Risparmio FISSO" fixed savings account which is generally more attractive to customers for the remuneration it offers and to the Bank for its ease of management.

Interest expense for financing in the capital market fell by CHF 3.1 million (-6.8%) as a result of renewals at lower rates compared to the 2010 maturities.

"Net fees and commissions income" witnessed a slight increase in 2010, up from CHF 27.7 million in 2009 to CHF 27.9 million (+0.9%).

Market uncertainties, combined with the low level of interest rates, impacted directly on "Commission income from securities and investment activities".

The tendency of clients to undertake financial operations in bonds and fiduciary

Highlights 2010



A new name within the same continuity

On 15 October 2010, UniCredit (Suisse) Bank SA changed its name and became part of the BancaStato Group.

deposits was significantly reduced due to shrinking returns on these investment instruments. In turn, propensity to operate on the stock markets was dampened by volatility which clashed with customers' lowered enthusiasm for taking risks. Asset management fees, distribution fees on investment funds and custody charges were penalised as, in this particular case, the devaluation of the main currencies against the Swiss franc and the Italian tax shield contributed to eroding the basis on which these commissions are calculated.

Commission income from securities and investment activities shrank from CHF 23.5 million in 2009 to CHF 23.2 million in 2010 (–1.6%). Among the various items which compose this item, portfolio management fees deserve special mention as they took a gratifying turn (+0.4 million to approximately CHF 4 million) thanks to a growing number of clients who entrusted their assets to the high quality of this service offered by BancaStato.

“Commissions on operations” (securities, fiduciary placements and issuances), however, regressed by the same amount to CHF 7.9 million (–4.9%) for the above-mentioned reasons.

“Other fees and commission income” amounted to CHF 6.5 million, a 23.2% increase resulting from the adjustments to services which had so far been offered free of charge, while “Commission income on lending activities” stood slightly below the positive level attained in 2009 (–0.2 million to CHF 1.9 million).

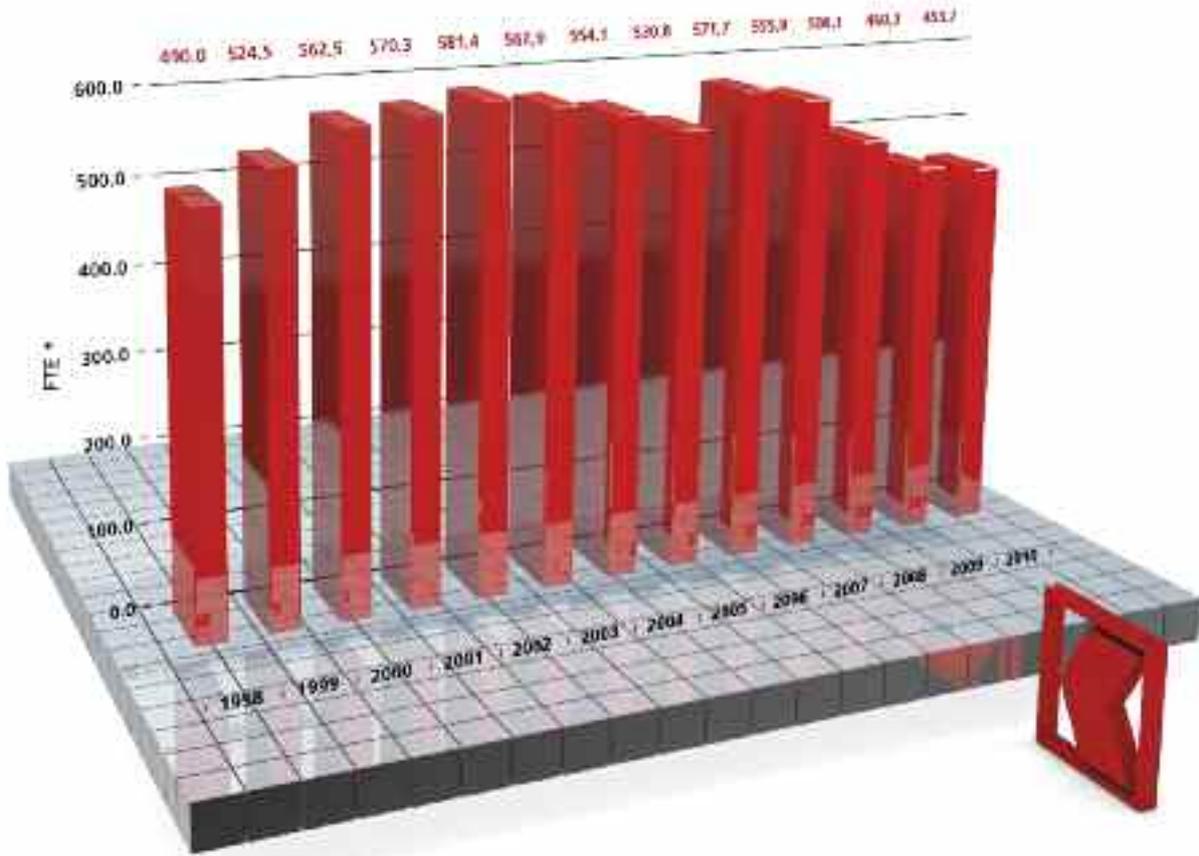
Commission income rose to nearly CHF 0.6 million and “Commission expenses” also increased by CHF 0.35 million to CHF 3.6 million.

“Net trading income”, intrinsically volatile, regressed by 13.7%, from CHF 10.3 million in 2009 to CHF 8.9 million in 2010. This still ranks as one of the best results the Bank has recorded in the past several years, second only to its 2009 financial results. Even though all components of this item contributed to this improved result, the bulk can be attributed to operations in foreign exchange and banknotes, representing close to 85% of this revenue source. Proceeds from foreign currency transactions (CHF 6.8 million in 2010) resulted from business with customers. Although they decreased by approximately CHF 0.4 million over the previous year, their relative importance has nevertheless increased. Income from foreign currency exchange regressed by about CHF 1.1 million down to CHF 0.7 million because of the devaluation of the Euro and the U.S. dollar against the Swiss franc in 2010. Income from precious metals operations improved slightly over the preceding year while revenues from securities trading activities were up by 6.3% to CHF 1 million. For further details, refer to Section 5.2 of the Notes to the Individual Financial Statements.

“Other ordinary results” totalled CHF 7.3 million, showing a substantial improvement with respect to the previous year (+197.3% or CHF 4.9 million) in most components of this item. In particular, the disposal of debt securities in the first months of 2010 generated proceeds of approximately CHF 4 million.

These debt securities of primary foreign debtors had been acquired in 2009 and were to be held in the short or medium term in view of subsequent selling. This explains the surge in income from disposal of financial investments (+685.8%). Included in income from participations amounting to CHF 1.4 million (up CHF 0.8 million), are approximately CHF 0.7 million from the attribution of a share dividend by Swisscanto Holding AG from securities it had acquired in prior years from a bank which no longer belongs to the cantonal banks pool.

EVOLUTION OF THE NUMBER OF STAFF (Parent Bank)



* In full-time equivalents, with trainees calculated at 50%

In aggregate, net revenues increased by 0.3%, from CHF 148.2 million to CHF 148.6 million, primarily as a result of the asynchronous evolution of various components.

Expenses

The significant measures introduced in support of the "Focus 2014" strategy are the primary cause of increased operating expenses which were up from CHF 95.2 million to CHF 100.1 million (+5.2%). Personnel expenses increased by only 2.1% as a result of additional pension provisions, while other operating expenses were impacted by the implementation of the new strategic projects and increased from CHF 29.3 million to CHF 32.8 million (+12.1% or CHF 3.5 million). In light of this, it must be remembered that in the fourth quarter of 2010 BancaStato concluded the acquisition of a controlling interest in UniCredit (Suisse) Bank SA (now Axion SWISS Bank SA) as a means of further developing its Private Banking activity and reducing its dependence on interest margin. The completion of this important strategic component required the implementation of publicising measures for enlarging the customer base as well as the launching of specific projects to improve the quality of services and operational efficiencies. These have all contributed to the rise in marketing, corporate and legal consulting expenses. The other expense items saw only moderate adjustments, primarily owing to the evolution of prices and the availability of a wider range of services being offered to clients.

The number of staff at BancaStato remained almost unchanged, down by one unit to 494 employees. In terms of full-time equivalents (FTE), they dropped from 460.3

Highlights 2010**La Banca dello Stato del Cantone Ticino**

A Bank whose history and traditions are deeply rooted in Ticino.

This is the very principle upon which BancaStato Private Banking has been founded, operating under a solid, State-guaranteed structure.

FTEs at the end of 2009 to 453.7 FTEs at 31 December 2010 in the wake of the Bank's promotion of part-time work.

Gross Profit, Net Income and Appropriation of Available Earnings

The moderate increase in revenues compared to the expenses described above translated into a decline in gross profit from CHF 53 million in 2009 to CHF 48.5 million in 2010 (–8.5%). The evolution of BancaStato's gross profit did not differ significantly from the average results posted by other cantonal banks or those operating in the Ticino market. The latter have been more noticeably affected by the Italian tax shield than banks elsewhere in Switzerland.

Depreciation of fixed assets was down 7.1% compared to 2009 (–CHF 0.9 million), and stood at CHF 12.5 million as a consequence of the reduced effects of the major investments undertaken in previous years in the area of real estate and IT.

BancaStato's stringent risk profile management, along with the implementation of cautious lending policies over the past years, have improved the quality of the Bank's lending portfolio, and have maintained the requirement for new provisioning at the same minimal levels as in the previous year. After consistent gradual shrinking over seven consecutive years, provisioning requirements experienced a slight increase of CHF 0.2 million in the reporting year. The need for new provisions, which was reduced from CHF 25.4 million in 2002 to CHF 0.7 million in 2009, rose to CHF 0.9 million in 2010.

In 2010, the Bank posted an extraordinary income of CHF 0.3 million thanks to the recovery of loans believed to be uncollectible. During the year under review, no extraordinary expenses were recorded.

For further details on extraordinary income, refer to Table 5.5 of the Notes to the Individual Financial Statements.

Net income went from CHF 38.6 million to CHF 35.1 million, a 9.2% decrease compared to the preceding year.

The proposed appropriation of available earnings is as follows: CHF 5 million to the Canton as a 5% return on endowment capital along with an additional allotment of CHF 20.06 million for a total of CHF 25.06 million (a decrease of 8.6% or CHF 2.37 million), and the remaining CHF 10.03 million allocated to the general legal reserve.

GROUP FINANCIAL STATEMENTS

This report does not provide an in-depth analysis of the financial statements of the newly constituted BancaStato Group in consideration of the fact that the Bank has only been in control of Axion SWISS Bank SA since 14 October 2010 with only marginal effects on the consolidated annual results. To a greater extent, the inclusion of accounts pertaining to the consolidated entities would not have allowed a clear comparison on the actual evolution of the Bank's business volumes over time. Lastly, it should be noted that the consolidated financial statements would not have provided reliable information on the functioning of the new Group entity which is still undergoing a period of adjustment.

At the end of 2010, the "InForma" implementation was completed. This project began in 2009 with the goal of enhancing the efficiency and quality of customer service as well as improving internal operational efficiency and aligning staff to the established benchmarks among cantonal banks. The complex and delicate operation reached a positive conclusion after considerable efforts were undertaken in developing training programmes intended for front office operators.

PROFITABILITY, EFFICIENCY AND FINANCIAL STRENGTH

BancaStato's profitability stood just below 5.9% in terms of Return on Equity (ROE), the Bank's return on medium equity having decreased from its peak 2009 performance (6.2%). The Return on Risk-adjusted Capital (RORAC), which is a measure of the profitability of risk-adjusted medium equity, levelled off at 10.0%, compared to 12.3% in 2009. This was a result of decreased net income and increased business volumes with, as a consequence, a major requirement in equity.

Efficiency, which is a measure of the ratio of operating costs to net revenues (cost/income), was affected by expenses deriving from the implementation of strategic objectives in the medium term. This ratio changed from 64.2% in 2009 to 67.4% in 2010.

The Bank's sound financial base, as determined by the ratio between required and available equity, and calculated on the basis of the Basel II rules, diminished with respect to 2009. The Bank was able to count on 155.7% of required equity at 31 December 2010 compared to 186.2% at the end of 2009.

In other words, its Tier I changed from 14.9% at the end of 2009 to 12.5% at 31 December 2010. This was brought about by increased loan volumes on the balance sheet, as well as the acquisition of Axion SWISS Bank SA and the progressive reduction of the discount granted to cantonal banks in connection with the guarantee they are given from their respective canton.

PROJECTS

At the end of 2010, the "InForma" implementation was completed. This project began in 2009 with the goal of enhancing the efficiency and quality of customer service as well as improving internal operational efficiency and aligning staff to the established benchmarks among cantonal banks. The complex and delicate operation reached a positive conclusion after considerable efforts were undertaken in developing training programmes intended for front office operators, a step which is expected to bring about positive results over the coming years. Moreover, staff reductions were successfully implemented with the cooperation of the in-house Staff Committee. This was achieved without any negative social impact, and was undertaken as part of a normal turnover process, promoting part-time work and early retirement.

The year under review has also witnessed the implementation of several strategic projects within "Focus 2014", including sales effectiveness and the development of Private Banking, the efficiency of work processes, the assessment of the IT platform for the future, and improvements in corporate and risk management.

All these projects, which will continue in 2011 and into the first semester of 2012, entail the use of considerable resources, both in-house and external, in 2010.

With respect to the development of Private Banking, substantial efforts were deployed to complete the integration of the subsidiary Axion SWISS Bank SA into the newly constituted BancaStato Group, with particular emphasis on all those issues related to consolidated supervision and to the realisation of synergies between the two banks.

Highlights 2010



La Banca dello Stato del Cantone Ticino

The new lead sponsor of Lugano's Estival Jazz.

BANK GOVERNING BODIES AND STAFF

Improvements to the client interface continued in 2010 as set out in the strategy approved by the Board of Directors. In line with major efforts begun towards the end of 2009 for the development of Private Banking, two Members of the Management, Mr. Roberto Barbera, Team Head Private Banking, and Ms. Daniela Lepori, Private Banking Client Advisor, assumed their duties in the Private Banking unit in Lugano on 1 April 2010.

At the same time, the Retail Division was strengthened: on 1 April 2010 Mr. Marco Meschiari, Member of the Management, took office as Regional Head and Head of Retail and Corporate Clients Division, Locarno Area in place of Mr. Giulio Ruggeri, Member of the Management, who assumed the new position as Head of Planning and Strategic Development, Markets and Private Banking.

In the area of Private Banking, the following promotions to Members of Management were effective as of 1 January 2011: Ms. Tiziana Zanchi-Temperelli as Head of Special Client Advisory and External Asset Managers and Mr. Luca Todesco as Private Banking Client Advisor, Lugano Area. Both appointments further strengthen the client interface and are an important recognition of the quality of work performed at the Institution.

As for departures of Members of the Management, Mr. Claudio Pisoni, Head of the Securities Desk, Markets and Private Banking Division, left the Bank at the end of July to undertake an early retirement. We wish to thank Mr. Pisoni for his work over his 10 years of employment with the Bank.

We wish to take this opportunity to extend our sincerest gratitude to the Executive Board, Members of the Management and the Bank's officers and staff who, in a persistently challenging and uncertain market environment, have done their utmost to ensure the implementation of the strategic measures identified by the Bank. Thanks to the commitment and dedication of its staff, the Bank has been able to achieve a remarkable performance, pursuing growth and consolidating its roots within the economic and social fabric of Canton Ticino.

BANCASTATO: A SPECIALISED, WELL-INTEGRATED AND MOTIVATED TEAM

TEAM



Group Financial Statements

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CONSOLIDATED BALANCE SHEET

(CHF thousands)	Notes	31.12.2010
Assets		
Liquid funds		75,409
Amounts due arising from money market papers		8,679
Due from banks		540,034
Due from customers	4.1	1,642,612
Mortgages	4.1, 4.6	5,771,841
Securities and precious metals held for trading purposes	4.2	3,832
Financial investments	4.2, 4.6	419,734
Non-consolidated participations	4.3.2	5,746
Fixed assets	4.4	100,637
Intangible assets	4.4	4,443
Accrued income and prepaid expenses		19,263
Other assets	4.5	50,325
Total assets		8,642,555
Total subordinated loans		500
Total receivables from non-consolidated participations and from owners of significant holdings		60,265
<i>of which total amounts due from the Canton</i>		<i>10,150</i>
Liabilities		
Due to banks	2.8.9	307,312
Due to customers in savings and investment accounts		2,372,902
Other amounts due to customers		3,184,254
Cash Bonds		68,262
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	4.6, 4.8	1,756,000
Accrued expenses and deferred income		37,203
Other liabilities	4.5	71,558
Value adjustments and provisions	4.9	179,800
Reserves for general banking risks	4.9, 4.10	365,386
Corporate capital	4.10	100,000
Reserves and retained earnings	4.10	163,263
Minority stakes in equity	4.10	1,500
Group available earnings	4.10	35,115
<i>of which minority shares in Group available earnings</i>		<i>5</i>
Total liabilities		8,642,555
Total due to non-consolidated participations and to owners of significant holdings		81,063
<i>of which total amounts due to the Canton</i>		<i>80,345</i>
Off-balance sheet transactions		
Contingent liabilities	4.1, 5.1	183,913
Irrevocable commitments	4.1	170,709
Commitments for calls on shares and other equities	4.1	7,725
Outstanding derivative financial instruments (contracts volume)	5.2	1,491,233
Positive replacement values	5.2	37,134
Negative replacement values	5.2	45,639
Fiduciary transactions	5.3	875,081

CONSOLIDATED INCOME STATEMENT

(CHF thousands)	Notes	2010
Income and expenses from ordinary banking operations		
Net interest income		105,117
Interest and discount income		185,102
Interest and dividend income from trading portfolio	6.1	3
Interest and dividend income from financial investments		11,144
Interest expenses		-91,132
Net fees and and commissions income		30,319
Commission income from lending activities		1,907
Commission income from securities and investment activities		25,617
Other fees and commission income on other service fee activities		6,629
Commission expenses		-3,834
Net trading income	6.2	9,177
Other ordinary results		7,066
Income on disposal of financial investments		4,361
Participation income		1,111
<i>of which non-consolidated participations</i>		<i>1,111</i>
Real estate income		-128
Other ordinary income		2,104
Other ordinary expenses		-382
Net revenues		151,679
Operating expenses		-102,464
Personnel expenses	6.3	-68,402
Other operating expenses	6.4	-34,062
Gross profit		49,215
Depreciation of fixed assets	4.4	-12,935
Value adjustments, provisions and losses	4.9	-992
Result before extraordinary items and taxes		35,288
Extraordinary income	6.5	321
Extraordinary expenses	6.5	0
Taxes		-494
Net income		35,115
<i>of which minority shares in Group available earnings</i>		<i>5</i>

CONSOLIDATED STATEMENT OF CASH FLOWS

	2010	
	Source	Application
Cash flow from operating activities (internal sources)	10,691	
Group income	35,115	
Depreciation of fixed assets	12,634	
Value adjustments and provisions		15,792
Accrued income and prepaid expenses	1,223	
Accrued expenses and deferred income	1,282	
Other assets and liabilities	3,653	
Interest on endowment capital of the previous year		5,000
Additional payment to the Canton (prior year)		22,424
Reserves for general banking risks		
Cash flow resulting from capital transactions	-	-
Cash flow from changes in fixed assets and participations		64,036
Participations		54,184
Fixed assets	2,640	8,206
Intangible assets	226	4,512
Cash flow from banking activities	55,337	
Medium and long-term transactions (> 1 year)		8,552
Due to banks		
Other amounts due to customersa	69,743	
Cash bonds	7,329	55,523
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	240,000	89,000
Due to customers in savings and investments accounts	58,731	
Due from customers		36,594
Mortgages		208,754
Financial investments	5,516	
Short-term transactions	63,889	
Due to banks		124,918
Other amounts due to customers	196,099	
Amounts due arising from money market papers	1,348	
Due from banks	87,379	
Due from customers		95,531
Securities and precious metals held for trading purposes		488
Liquid funds		1,992
Liquidity variation		1,992
	66,028	66,028

NOTES TO THE GROUP FINANCIAL STATEMENTS

1. GROUP - ACTIVITIES AND PERSONNEL

1.1. Group

Banca dello Stato del Cantone Ticino 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 activities have evolved over more than 90 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 in the capital of AHSA Holding SA, Lugano, in order to gain indirect gain control over Axion Swiss Bank SA, Lugano. The controlled bank's core business is asset management for private and institutional clients, and it is active in the principal international markets.

Since 2009, BancaStato has been outsourcing a number of its business activities as defined by the FINMA Circular 2008/7 "Outsourcing - Banks", in particular, payment transaction services that have been transferred to Postfinance. In addition to the activities listed in the FINMA Circular, the Bank outsourced activities pertaining to building management and maintenance as well as supplies and dispatch.

1.1.1. Balance sheet transactions

Interest-earning transactions are largely executed for our customers and 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 primarily consist of short-term transactions. In consideration of the current financial crisis, interbank exposure has been reduced by making ample use of security repurchase agreements (REPO) and short-term money market book claims with 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. BancaStato holds a strategic security portfolio in medium- to long-term investments, booked under financial investments.

1.1.2. Trading operations

Banca dello Stato del Cantone Ticino provides, on behalf of its customers, a 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) and equity securities (shares and participation certificates). Currency trading operations on the Bank's own account are limited to a small number of currencies for which a liquid market exists.

1.1.3. Commission activities and other services

Asset management, fiduciary placements, 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.

1.2. Group personnel

As at 31 December 2010, the Group employed a total of 530 staff and management. In terms of the number of full-time equivalents (FTE) as determined by the parameters set at margin number 148 of the Guidelines concerning the provisions governing financial statements reporting (FINMA Circular 2008/2 "Accounting – Banks"), personnel employed by the Group totalled 487.5 FTEs.

2. CONSOLIDATED FINANCIAL STATEMENTS REPORTING PRINCIPLES

2.1. General principles

The accounting and evaluation principles referred to by the various entities of the BancaStato Group comply with the provisions of the Swiss Code of Obligations, the Swiss Federal Law on Banks and Savings Banks (Banking Act), the Ordinance on Banks and Savings Banks (Banking Ordinance) and other guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA), in particular the FINMA Circular 2008/02 "Accounting – Banks, Guidelines concerning the provisions governing financial statements (Art. 23 – 27 Banking Ordinance)".

2.2. Consolidation perimeter

Banks, finance companies and real estate agencies 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 or participations in non-financial activities, as well as participations held with a view to their subsequent disposal, are excluded from the consolidation perimeter. These are recorded in the balance sheet at cost less appropriate depreciation.

2.3. 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 is depreciated over a five-year period. Conversely, any negative goodwill (badwill) is shown under equity as "Reserves and retained earnings". An impairment test is performed annually. Should this test reveal that an asset value is no longer justified, a supplemental amortisation will be effected. In the case of a partial equity participation, the "minority interests" of the other participants, both in terms of capital participation and share in yearly results, are 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.

2.4. 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.

2.5. True and fair view principle

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

2.6. Recording of transactions

All transactions are entered at the time they are concluded.

2.7. Foreign currency translation

The Group's financial statements are reported in Swiss francs. Assets and liabilities denominated in foreign currency are converted into Swiss francs at the rate of exchange rates at the balance sheet closing date. Resulting gains or losses are taken to the income statement under "Net trading income". 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 1.2525

USD 0.9336.

2.8. Accounting and evaluation principles of single balance sheet and off-balance sheet items

2.8.1. Cash, money market instruments, amounts due from banks

These transactions are recorded at their nominal value, with the exception of money market book claims issued by the Swiss National Bank which are reported at their issuance price and for which the discount is accrued. The item "Due from banks" comprises receivables from securities repurchase agreements (REPO) 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).

2.8.2. Amounts due from customers and mortgage loans

Amounts due from customers and mortgage loans are entered at their nominal value. Loans are evaluated individually according to uniform standards established to analyse the borrowers' solvency. For non-performing and impaired loans, impairment is covered by individual provisions recorded under "Value adjustments and provisions". Interest which is more than 90 days overdue is considered non-performing. Interests on non-performing loans are not booked in the income statement, but directly under "Value adjustments and provisions".

For unimpaired positions of the Parent Bank, a lump-sum provision is calculated, and specific percentages are applied to homogeneous credit categories on the basis of their exposure, the type and value of collateral and the up-datedness of the loan review.

2.8.3. Securities and precious metals trading portfolio

The securities and precious metals trading portfolio is carried at the market value at the closing date, provided the securities are negotiated at a recognised stock exchange or within a representative market as defined by the banking legislation.

Otherwise, the valuation is determined on the basis of purchase value less any necessary provisions. Resulting gains and losses, as well as adjustments to the above-mentioned values, are recorded under "Net trading income". Interest and dividend income can be found under the appropriate item within "Net interest income".

2.8.4. 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 cost or market. 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). Fixed-interest-bearing securities purchased to be held until maturity are entered in the financial statements 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. Value adjustments resulting from the deterioration of the debtor's solvency are booked to "Value adjustments, provisions and losses". 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.

2.8.5. Participations

This item comprises company equity stakes held as long-term investments. These non-consolidated participations are accounted for on the balance sheet at cost less appropriate depreciation.

2.8.6. Fixed assets

This item includes Group premises, computer hardware and telecommunication equipment, licences and software, technical facilities, furniture and vehicles. Depreciation rates are calculated over the estimated useful life as follows:

– land	40 years
– buildings (masonry)	40 years
– equipment	15 years
– banking facilities	5 years
– hardware	5 years
– licences and software	5 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).

2.8.7. Intangible fixed assets

Goodwill and set-up costs are recognised on the balance sheet applying a straight-line depreciation over a 5-year period.

2.8.8. Method of depreciation

Fixed assets are valued at cost less appropriate depreciation. Depreciation is calcula-

ted by applying a straight-line depreciation method which starts when the items are first utilised.

2.8.9. Due to banks, due to customers in savings and investment accounts, and other amounts due to customers

These items are reported on the balance sheet at nominal value. The item "Due to banks" comprises payables from securities repurchase agreements (REPO) 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).

2.8.10. Valuation adjustments and provisions

This item comprises value adjustments and provisions at the closing date in view of a prudent assessment of existing risks related to credits (Refer to 2.8.2) or other risks. In addition to the necessary provisions for credit and other risks, this item includes a social security deposit fund for BancaStato's personnel and a fund for other provisions.

2.8.11. Reserves for general banking risks

In compliance with the FINMA guidelines on financial statement reporting (FINMA Circ. 2008/2 Accounting - Banks) the "Reserves for general banking risks" represent prudent reserves set aside to cover latent risks related to banking activities. As laid down in Art.18b of the Swiss Federal Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Traders (CAO) such reserves are considered as equity.

2.8.12. Contingent liabilities, irrevocable commitments, fiduciary transactions

These items are stated off-balance sheet at their nominal value. Specific value adjustments are made for risks identifiable at the balance sheet date. This item also comprises the call/put option for the acquisition of the remaining 20% of the capital of AHSA Holding SA, Lugano.

2.8.13. Derivative financial instruments

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

Gross positive and negative replacement values of derivative products open at the balance sheet date are carried under "Other assets" and "Other liabilities". At closing date, the derivative financial instruments held were primarily for hedging purposes and, marginally, for trading. 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 "Net trading income".

2.9. Principles for the calculation of capital

Detailed information on the approach adopted by the Group for equity calculation, in compliance with Basel II and reporting requirements prescribed by the FINMA Circular 2008/22, are provided in Section 7 hereunder.

3. RISK MANAGEMENT

The aim of risk management 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, in the special Risk Management Rules and Regulations and in BancaStato's Risk Policy Statement which is reviewed annually by the Board of Directors. Limits are set for the various types of risks. Compliance to these limits is regularly monitored.

The Executive Board of the Parent Bank is committed to the promotion and development of risk-awareness at all levels of the Bank's hierarchy as part of the Bank's corporate culture. Risk is identified, measured and monitored by 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 Executive Board are updated regularly on the Bank's and the Group's asset and financial position, on the meeting of set targets, and on financial risks incurred.

The current activities of BancaStato and the Group's other operative entities primarily involve credit, market and operational risks.

3.1. Credit risks

Credit risks stem 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.

Credit risk is managed by setting prudent lending values on collateral and credit granting procedures at different hierarchical levels on the basis of the aggregate amounts granted and risk incurred (depending on the type of credit and collateral). Competence delegating procedures on the part of the Board of Directors, as well as a solid internal organisational structure ensure that risk-incurring units are completely separate from risk-managing units.

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.

Non-performing or impaired loans that have been granted by BancaStato are monitored by a designated unit of BancaStato's Risk Control Division specialising in recovery.

For mortgage loans, the amount granted is tied to the building's value and to the borrower's capacity to fulfil the loan obligation. As for commercial loans, creditworthiness is assessed by taking into consideration the debtor's solvability, as well as the profitability of the business, as indicated by appropriate analyses. The results of such recurrent analyses will directly determine if the credit limit is to be adjusted or maintained.

For Lombard credits, the assigned limit is determined on the basis of the foreseeable value of pledged assets which are revaluated at market value on a daily basis.

For all credit categories, non-performing and impaired loans are assessed individually at their liquidation value as determined by existing collateral. The possible risk of resulting value reduction is covered by individual valuation adjustments.

At BancaStato, credit monitoring is performed through a variety of credit surveillance procedures and predetermined methods based on the risk profile of exposures. This methodology comprises a recurrent periodical analysis by the responsible client advisor, the Credit Office and the Recovery unit, in order to identify any signs of reduced creditworthiness, forestalling circumstances which might impair loans or require further action. In such an event, potential losses are covered by specific provisions. The Operating Rules and Regulations, the Group's Rules and Regulations, the Special Risk Management Rules and Regulations and the Risk Policy Statement set the limits within which the various Group entities are authorised to assume a country risk.

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

3.2. Market risks

Market risks are determined by the exposure to unexpected and adverse market conditions which could potentially cause financial losses on trading portfolio positions (trading book) and balance sheet positions (banking book). Market risks encompass the analysis of interest rate risk, currency exchange risk, share price and precious metals risks, volatility risk and liquidity risk.

The Board of Directors has set specific limitations for the Executive Boards of the Group's banks, in terms of exposed equity to market risk, both within the structural management of the balance sheet (ALM) and the management of its trading portfolio. As regards Assets & Liabilities Management (ALM), 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). The limits for trading are defined in terms of value at risk, position and loss limits.

The Group's exposure to rate risk is primarily caused by the time lapse between fundraising and application. The rate risks related to balance and off-balance sheet operations are managed and monitored centrally by the ALM Committee which was assigned an operational limit. 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 ALM Committee with information on portfolio duration and simulations of the interest margin, as well as stress testing, 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 risks. These models take into consideration both the evolution of interest rates and the impact on balance sheet volumes as a result of client behaviour. For BancaStato, these procedures are laid down in the Risk Policy as approved by the Board of Directors.

To cover or mitigate exposure to interest rate risks, the ALM Committee 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 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 value at risk, position and loss. The limits for trading positions are verified daily, while financial investments are assessed monthly.

On a monthly basis, BancaStato's Risk Control Division provides the Executive Board with detailed information on exposures and adherence to set limits. The Executive Board subsequently informs the Board of Directors. Information on the evolution of exposure of the trading portfolio is provided to the Group's Executive Board on a daily basis.

3.3. Operational risks

Risks directly related to banking operations include 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 risks include legal and compliance risks.

In-house rules and guidelines define the organisation of work, and limit the extent of such risks. An appropriate system of priority controls, as well as specific structures designed to oversee the application of established rules and procedures have been implemented to limit the exposure to operational risks.

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.

For BancaStato, the Security Service sets up appropriate organisational and technical measures in order to mitigate risks related to external 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.

BancaStato 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 the criteria laid out by the Basel II provisions. 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.

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

Every month, the Risk Control Division, the Security and the Legal and Compliance offices submit to the Risk Committee their findings resulting from the internal priority control system within the various Group entities along with the analyses performed. A condensed analysis of information on the major operational risks and losses incurred during the month under review is forwarded to the Executive Board and the Board of Directors.

3.4. Other risks

Risks not included in the previous categories, particularly those connected to strategic or business decisions, as well as risks pertaining to reputation or image, are handled directly by the Boards of Directors and Executive Boards of the Group's banks.

3.5. Risk assessment

In its meeting of 22 March 2010, the Audit Committee of the Board of Directors of the Parent Bank, subsequently, the Board of Directors of the Parent Bank in its meeting of 26 March 2010, assessed BancaStato's level of risk. Furthermore, both of the Parent Bank's Board of Directors and its Audit Committee analyse the monthly information provided by the Executive Board on credit, market and operational risks, on a quarterly basis. The principal elements which formed the basis of the Board of Directors' evaluation were, for credit risks, the evolution of the BancaStato's exposure as regards products, hedging, geographic breakdown, concentration and rating, and for market risks, the evolution of the balance sheet structure and its sensitivity to interest rate variation (including stress scenarios), as well as exposure in terms of value at risk of the trading portfolio. The findings of the recurring analysis of operational risks and measures implemented on the basis of results from internal controls also came under scrutiny. These analyses took into account aspects connected to the risk of compliance and the physical and logical security risks inherent in the banks' activities.

In this regard, the Board of Directors annually reviews the "level of accepted risk" laid down in the Risk Policy. The observance of this limit is verified on a monthly basis.

4. INFORMATION ON THE BALANCE SHEET

4.1 Overview of collateral for loans and off-balance sheet transactions

(CHF thousands)

	Type of collateral			Total
	Mortgage collateral	Other collateral	Unsecured	
Loans				
Due from customers	169,287	172,796	627,250 ¹	969,333
Due from public corporations			673,279	673,279
Mortgages	5,771,841			5,771,841
<i>Residential real estate</i>	4,369,632			4,369,632
<i>Office and business premises</i>	292,588			292,588
<i>Commercial and industrial buildings</i>	767,721			767,721
<i>Other</i>	341,900			341,900
Total loans	5,941,128	172,796	1,300,529 ²	7,414,453

Off-balance sheet transactions

Contingent liabilities	161	94,155	89,597	183,913
Irrevocable commitments	124,699		46,010 ³	170,709
Commitments for calls on shares and other equities			7,725	7,725
Total off-balance sheet transactions	124,860	94,155	143,332	362,347

Impaired loans

	Gross amount	Estimated collateral realisation proceeds	Net amount	Specific allowance
Year under review	291,812	120,247	171,565	171,565

1. Including CHF 87.2 million of credits to entities related to public institutions (2009: CHF 103.3 million).
2. The increase in unsecured loans is primarily a result of loans granted to private accounts.
3. Including CHF 37.7 million as deposit guarantee and CHF 8.3 million as the option to purchase value of a minority stake in the capital of AHSA Holding SA, Lugano.

4.2 Securities and precious metals held for trading purposes, financial investments and participations

Securities and precious metals held for trading purposes

(CHF thousands)

	31.12.2010
Debt securities	7
listed	7
unlisted	–
Equity securities	3,547
Share in investment funds	278
Precious metals	–
Total securities and precious metals held for trading purposes	3,832
<i>of which securities valid for repurchase agreements in accordance with liquidity regulatory requirements</i>	–

Financial investments

(CHF thousands)

	book value	fair value
	31.12.2010	31.12.2010
Debt securities	403,443	409,379
<i>of which valued according to accrual method</i>	403,443	409,379
<i>of which carried at lower of cost or market</i>	–	–
Share in investment funds	8,787	9,120
Equity securities	541	615
<i>of which significant holdings</i>	376	376
Precious metals	218	218
Real estate*	6,745	6,745
Total financial investments portfolio	419,734	
<i>of which securities valid for repurchase agreements in accordance with liquidity regulatory requirements</i>	78,673	

* Insured value as at 31.12.2010 CHF 12,149.

4.3 Participations

4.3.1 Consolidated participations

The following Group companies are fully consolidated:

Company name	Head office	Activity	Capital (CHF thousands)	31.12.2010 Participating share in %
AHSA Holding SA	Lugano	Financial company	7,500 ¹	80.00
Axion SWISS Bank SA	Lugano	Bank	43,000 ²	100.00

1. BancaStato holds a call/put option for the acquisition of the remaining 20% of the company's capital stock.
2. AHSA Holding SA detains 100% of the share capital of Axion SWISS Bank SA.

4.3.2 Other non-consolidated participations

(CHF thousands)	31.12.2010
With quoted value	4
Without quoted value	5,742
Total participations	5,746

The Group's principal non-consolidated participations are as follows:

Company name	Head office	Activity	Capital (CHF thousands)	31.12.2010 Participating share in %
Financial and services companies held with cantonal banks				
Aduno Holding SA	Opfikon	Financial company	25,000	0.40
Caleas SA	Zurich	Financial company	6,000	2.24
SCB Central mortgage bond issuing body	Zurich	Mortgage institution	825,000	1.10
Swisscanto Holding AG	Bern	Services company	24,204	1.83
Financial and services companies held with Swiss banks				
SIX Group AG	Zurich	Services company	19,522	0.15
Swiss Bankers Prepaid Services SA	Grosshöchstetten	Financial company	10,000	0.17
Other participations				
Alloggi Ticino SA	Bioggio	Real estate company	15,200	2.11
Autosilo Piazza del Sole SA	Bellinzona	Car park	2,000	10.00
Società di fideiussione per lo sviluppo dell'economia ticinese	Bellinzona	Guaranty company	4,000	26.25
Manzoni 7 SRL	Milan	Real estate company	18	100.00
Società svizzera di credito alberghiero	Zurich	Financial company	26,786	1.40
Tecnopolo Lugano SA	Lugano	Services company	350	28.57
UniCredit (Suisse) Trust SA	Lugano	Trust company	160	100.00

4.3.3 Significant shares held for investment purposes

Company name	Head office	Activity	Capital (CHF thousands)	31.12.2010 Participating share in %
Teleticino SA	Melide	Radio Television productions	4,950	12.12

4.4 Breakdown of participations and fixed assets

(CHF thousands)

	Purchase cost	Accumulated depreciation	Book value 31.12.2010
Participations, total	14,291	8,545	5,746
other participations	14,291	8,545	5,746
Fixed assets, total	324,873	224,236	100,637
of which Group premises	167,167	93,403	73,764
of which other buildings	16,116	10,778	5,338
of which other fixed assets	96,899	87,808	9,091
of which software	44,691	32,247	12,444
Intangible assets, total	5,383	940	4,443
of which goodwill	4,512	226	4,286
of which other intangible assets ¹	871	714	157
Total	344,547	233,721	110,826
Fire insurance value of buildings			201,219
Fire insurance value of other fixed assets			41,869

1. Other intangible assets comprise only start-up costs of consolidated subsidiaries.

4.5 Breakdown of other assets and liabilities

Other assets

(CHF thousands)

	31.12.2010
Positive replacement value of derivative financial instruments	37,134
Compensation account	8,580
Indirect taxes	847
Various other assets	3,764
Other assets, total	50,325

Other liabilities

(CHF thousands)

	31.12.2010
Negative replacement value of derivative financial instruments	45,638
Direct/indirect taxes	8,438
Matured non-redeemed cash bonds	5,500
Various other liabilities	11,982
Other liabilities, total	71,558

4.6 Pledged assets

(CHF thousands)

	31.12.2010
Pledged or assigned assets to secure own commitments (excluding advances and repurchase agreements with securities)	
Book value of securities delivered as collateral in connection with Repo Light credit with the SNB (unused)	27,814
Book value of securities delivered as collateral to SIX Group AG (unused)	11,025
Book value of mortgages set as collateral with the Swiss Cantonal Banks Central mortgage bond issuing body	1,700,013
– commitment with the Swiss Cantonal Banks Central mortgage bond issuing body	1,406,000
Advances and repurchase agreements with securities	
Book value of receivables from cash deposits in securities borrowing and reverse-repurchase agreements	445,699
Book value of obligations from cash deposits in securities lending and repurchase agreements	1,911
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities transferred in connection with repurchase agreements at own disposal	0
– of which with unlimited right to resell or pledge	0
Fair value of collateral in connection with securities lending or securities borrowed in connection with securities borrowing or received securities in connection with reverse-repurchase agreements, for which the right to resell or repledge is unlimited	445,311
– of which fair value of resold or repledged securities in this context	0

4.7 Commitments to pension funds

The Group applies the principles laid down in the ARR 16. 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 (Zurich).

At the end of the accounting period the Group had no obligation towards the pension fund. There are no contribution reserves on the part of the employer and the relationship between the banks and their pension fund is based on global affiliation contracts.

The pension fund reinsures all pension risks by means of a comprehensive insurance contract. Within the framework of this contract no possibility of undercoverage exists and, consequently, there are no obligations in this regard on the part of the employers.

4.8 Mortgage securities at the Swiss Cantonal Banks Central mortgage bond issuing body and bond issues

(CHF millions)

Mortgage securities at the SCB Central mortgage bond issuing body

Interest rate	Maturity												Total
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
1.125						50							50
1.500										50			50
1.750							83		30				113
2.000	50		70		30			12					162
2.250		40		50									90
2.500		20			20	190						15	245
2.625				30	9								39
2.750	50	24	14	50			15	50					203
2.875				30									30
3.000		10	43					30					83
3.125							19						19
3.250			108	30	9				39				186
3.500	27							50					77
4.000			26	17									43
4.250		16											16
Total mortgage securities at the SCB Central mortgage bond issuing body	127	110	261	207	68	240	117	142	69	50	-	15	1,406

Bond issues

Year of issue	Interest rate	Maturity												Total
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
2002	4.000		150											150
2007	3.000							200						200
Total bond issues		-	150	-	-	-	-	200	-	-	-	-	-	350

Grand total **127 260 261 207 68 240 317 142 69 50 - 15 1,756**

4.9 Value adjustments and provisions / Reserves for general banking risks

(CHF thousands)

	Balance at 31.12.2010
Value adjustments and provisions for credit risks (counterparty and country risks)	
individual	151,596
general	18,000
	169,596
Value adjustments and provisions for other operational risks	4,547
Other provisions	
additional pension provision	4,922
other provisions	735
	5,657
Total value adjustments and provisions	179,800
Reserves for general banking risks	365,386
Total reserves for general banking risks	365,386
Total	545,186

In compliance with FINMA directives, released surplus provisions for credit risks totalling CHF 0.08 million were entered under "Extraordinary income" (Refer to Notes to the Financial Statements 6.5).

4.10 Statement of equity

(CHF thousands)

Total equity at 31.12.2010	665,264
of which:	
Capital paid	100,000
Reserves and retained earnings	163,263
Reserves for general banking risks	365,386
Minority shares in subsidiaries	1,500
Group available earnings	35,115

4.11 Maturity structure of current assets, financial investments and third-party liabilities as at 31.12.2010

(CHF thousands)

	at sight	callable	maturity					Total
			within 3 months	within 3 to 12 months	within 1 to 5 years	more than 5 years	without maturity	
Current assets								
Liquid funds	75,409							75,409
Amounts due arising from money market papers	1,110		6,569	1,000				8,679
Due from banks	92,209		447,825					540,034
Due from customers	31,283	383,229	277,344	217,596	503,672	229,488		1,642,612
Mortgages	12,661	958,169	467,345	431,128	2,437,884	1,464,654		5,771,841
Securities and precious metals held for trading purposes	3,832							3,832
Financial investments	9,546		2,570	7,780	289,936	103,157	6,745	419,734
Total current assets	226,050	1,341,398	1,201,653	657,504	3,231,492	1,797,299	6,745	8,462,141
Third-party liabilities								
Due to banks	12,684		127,550	97,078	55,000	15,000		307,312
Due to customers in savings and investment accounts	549,136	1,716,850	12,411	31,238	55,306	7,961		2,372,902
Other amounts due to customers	2,082,163	80,915	247,011	179,117	494,563	100,485		3,184,254
Cash bonds	245		12,553	16,479	37,555	1,430		68,262
Bonds and loans from the SCB Central mortgage bond issuing body				127,000	796,000	833,000		1,756,000
Total third-party liabilities	2,644,228	1,797,765	399,525	450,912	1,438,424	957,876	-	7,688,730

4.12 Payables to and receivables from companies/entities related to the Canton and receivables from Group governing bodies

(CHF thousands)

	31.12.2010
Due from companies/entities related to the Canton	18,116
Due to companies/entities related to the Canton	74,371
Due from the Group's governing bodies	49,198

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.

4.13 Breakdown of assets and liabilities by domestic and foreign origin

(CHF thousands)

	31.12.2010	
	Domestic	Foreign
Assets		
Liquid funds	43,575	31,834
Amounts due arising from money market papers	8,558	121
Due from banks	184,800	355,234
Due from customers	1,521,119	121,493
Mortgages	5,771,841	–
Securities and precious metals held for trading purposes	370	3,462
Financial investments	153,295	266,439
Non-consolidated participations	5,720	26
Fixed assets	100,637	–
Intangible assets	4,443	–
Accrued income and prepaid expenses	18,859	404
Other assets	49,304	1,021
Total assets	7,862,521	780,034
Liabilities		
Due to banks	177,184	130,128
Due to customers in savings and investment accounts	2,217,319	155,583
Other amounts due to customers	2,617,482	566,772
Cash bonds	68,262	–
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	1,756,000	–
Accrued expenses and deferred income	37,086	117
Other liabilities	68,750	2,808
Value adjustments and provisions	179,800	–
Reserves for general banking risks	365,386	–
Corporate capital	100,000	–
Minority share in equity	1,500	–
Reserves and retained earnings	163,263	–
Group available earnings	35,115	–
Total liabilities	7,787,147	855,408

4.14 Geographic breakdown of assets

(CHF thousands)

	31.12.2010	
		Share in %
Assets abroad		
Europe	689,851	7.98
North America	53,715	0.62
Other countries	36,468	0.42
Total assets abroad	780,034	9.02
Switzerland	7,862,521	90.98
Total assets	8,642,555	100.00

4.15 Breakdown of assets and liabilities by currencies

(CHF thousands)

	Currency				Total
	CHF	USD	EUR	Other	
Assets					
Liquid funds	39,994	649	34,607	159	75,409
Amounts due arising from money market papers	8,614	1	55	9	8,679
Due from banks	353,944	17,148	104,559	64,383	540,034
Due from customers	1,549,112	17,567	74,131	1,802	1,642,612
Mortgages	5,771,841				5,771,841
Securities and precious metals held for trading purposes	1,396	2,562	-126		3,832
Financial investments	169,756	47,508	202,251	219	419,734
Non-consolidated participations	5,746				5,746
Fixed assets	100,634		3		100,637
Intangible assets	4,443				4,443
Accrued income and prepaid expenses	12,239	772	6,247	5	19,263
Other assets	39,680	4,962	5,301	382	50,325
Total assets	8,057,399	91,169	427,028	66,959	8,642,555
Forward transactions and currency options	125,464	145,221	158,823	44,725	474,233
Total asset positions	8,182,863	236,390	585,851	111,684	9,116,788
Liabilities					
Due to banks	277,509	3,920	23,884	1,999	307,312
Due to customers in savings and investment accounts	2,349,802		23,100		2,372,902
Other amounts due to customers	2,553,841	126,809	423,481	80,123	3,184,254
Cash bonds	68,262				68,262
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	1,756,000				1,756,000
Accrued expenses and deferred income	36,991	16	194	2	37,203
Other liabilities	68,415	182	2,792	169	71,558
Value adjustments and provisions	177,358	108	2,333	1	179,800
Reserves for general banking risks	365,386				365,386
Corporate capital	100,000				100,000
Minority share in equity	1,500				1,500
Reserves and retained earnings	163,263				163,263
Group available earnings	35,115				35,115
Total liabilities	7,953,442	131,035	475,784	82,294	8,642,555
Forward transactions and currency options	247,714	97,129	101,092	28,202	474,137
Total liability positions	8,201,156	228,164	576,876	110,496	9,116,692
Net position per currency	-18,293	8,226	8,975	1,188	96

5. INFORMATION ON OFF-BALANCE SHEET TRANSACTIONS

5.1 Contingent liabilities

(CHF thousands)

	31.12.2010
Credit guarantees	162,624
Irrevocable commitments under documentary credits	21,289
Total contingent liabilities	183,913

5.2 Derivative financial instruments open at year end

(CHF thousands)

	Trading instruments			Hedging instruments		
	Replacement value positive	Replacement value negative	Contract volumes	Replacement value positive	Replacement value negative	Contract volumes
Interest rate instruments						
IRS	–	–	–	30,020	38,583	1,017,000
Total	–	–	–	30,020	38,583	1,017,000
Foreign exchange						
Forward contracts	6,390	6,315	280,162	–	–	–
Swaps	723	723	71,012	–	18	122,335
OTC Options	1	–	724	–	–	–
Total	7,114	7,038	351,898	–	18	122,335
Total	31.12.2010	7,114	7,038	351,898	30,020	38,601
		1,139,335				

At closing date there were no netting agreements.

5.3 Fiduciary transactions

(CHF thousands)

	31.12.2010
Fiduciary placements with third party banks	789,184
Fiduciary loans	85,897
Total fiduciary transactions	875,081

6. INFORMATION ON THE INCOME STATEMENT

6.1 Income from refinancing under "Result from interest activities"

Interest and dividend income from the trading portfolio is not offset by expenses incurred for the portfolio's refinancing.

6.2 Breakdown of results from trading operations

(CHF thousands)

	2010
Foreign exchange trading	7,007
Trading in foreign banknotes	667
Trading in precious metals	521
Trading in securities	982
Total	9,177

6.3 Breakdown of personnel expenses

(CHF thousands)

	2010
Salary and compensation	50,938
Contribution to pension institutions	8,216
Other social benefits	6,512
Other personnel expenses	2,736
Total	68,402

6.4 Breakdown of other operating expenses

(CHF thousands)

	2010
Expenses for premises	6,112
Expenses for EDP, machines, furniture, vehicles and other facilities	8,137
Other operating expenses	19,813
Total	34,062

6.5 Other information on the income statement

(CHF thousands)

	2010
Extraordinary income	
Income on disposal of fixed assets	12
Income from released provisions for credit risks	83
Other extraordinary income	226
Total	321

7. ADDITIONAL INFORMATION ON RISKS AND CAPITAL ADEQUACY (BASEL II)

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

Credit Risks:

- Base: Swiss standardised approach (SA-CH)
- 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
- Lombard loans: simple approach
- Netting: the net exposure of loans and deposits was not used as the basis for capital adequacy calculation

Market Risks:

- Base: 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:

- Base: Basic indicator approach (BIA)

Qualitative information required by the Ordinance on Capital Adequacy can be found in Section 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 II. This information may differ from that presented in the previous tables due to these specific calculation rules.

7.1 Eligible capital

(CHF thousands)

	31.12.2010
Gross core capital ¹	638,932
<i>of which minority interests</i>	1,500
<i>of which "innovative" instruments</i>	
– Components to be deducted from core capital ²	–17,300
= Eligible core capital	623,132
+ Supplementary capital and additional capital	
– Other deductions from supplementary, additional and total capital	
= Eligible capital	623,132

1. After appropriation of available earnings.
2. Net long positions in own equity-type securities and innovative capital instruments, unfunded valuation adjustments or provisions required for the current financial year, goodwill and intangible assets, loss for the current financial year.

7.2 Required capital

(CHF thousands)

	31.12.2010
Credit risk	353,302
<i>of which price risk related to equity-type securities in the banking book</i>	2,193
Non-counterparty-related risks	31,810
Market risks	1,903
<i>of which on interest rate instruments (general and specific market risk)</i>	84
<i>of which on equity securities</i>	642
<i>of which on currencies and precious metals</i>	972
<i>of which on commodities</i>	205
Operational risks	21,841
Required capital – gross	408,856
Value adjustments and global provisions ¹	–3,067
Deduction for cantonal banks ²	–33,529
Required capital – net	372,260
Capital requirement covering ratio based on Swiss legislation³	167.4%
BIS Ratio (including deduction for cantonal banks)	13.4%
BIS Ratio (excluding deduction for cantonal banks)⁴	12.3%

1. Under the Swiss standardised approach for Credit Risk (SA-CH), the value adjustments and provisions recognised as liabilities are deducted from the required capital on a global basis in accordance with art. 62 of the Capital Adequacy Ordinance (CAO)
2. Reduction of 8.4% of the required capital (gross), due to cantonal guarantee
3. Eligible capital as a percentage of required capital (net)
4. Eligible capital as a percentage of risk-weighted positions plus the required capital for market risk, operational risks and items arising from transactions not settled, multiplied by 8.4 for conversion into equivalent units

7.3 Credit exposure by counterparty group

(CHF thousands)

Credit exposure	Central governments and central banks	Banks and securities traders	Public authorities and institutions	Companies	Private clients and small businesses	Equity securities	Exposures without counterparty	Other exposures	Total
Balance sheet transactions									
Due from banks		540,034							540,034
Due from customers	1,697	89,212	678,245	327,650	545,808				1,642,612
Mortgages	11,058	11,962	14,306	153,535	5,580,980				5,771,841
Debt securities / financial investments	7,569	10,648	168,309	99,374	119,211	10,637		7,008	422,756
Other assets / Positive replacement values		5,652	1,266	25	19,111		43,534		69,588
Value adjustments and general provisions				-1,026	-9,720		-40,365		-51,111
Off-balance sheet transactions									
Contingent liabilities		29,214	2,213	32,631	70,721				134,779
Irrevocable commitments		4,025	18,605	571	40,766				63,967
Commitments for calls on shares and other equities			19,313						19,313
Forward foreign exchange and options transactions (add - on)		9,514		3,525	489				13,528
Total current year	20,324	700,261	902,257	616,285	6,367,366	10,637	3,169	7,008	8,627,307

7.4 Regulatory credit risk mitigation

(CHF thousands)

Credit exposure	secured by recognised financial collateral	secured by guarantees and credit derivatives	secured by mortgage collateral	Total
Balance sheet transactions				
Central governments		7,564		7,564
Banks				–
Public authorities and institutions	25		14,946	14,971
Companies	25,336	26,353	164,022	215,711
Private clients and small businesses	43,647	71,220	5,798,839	5,913,706
Equity securities				–
Other exposures				–
Derivative financial instruments				
Central governments				–
Banks				–
Public authorities and institutions				–
Companies				–
Private clients and small businesses				–
Equity securities				–
Other exposures				–
Total current year	69,008	105,137	5,977,807	6,151,952

7.5 Credit exposure by risk weighting category

(CHF thousands)

Credit exposure	0%	25%	35%	50%	75%	100%	125%	150%	≥250%	Total
Balance sheet transactions										
Due from banks	395,763	144,271								540,034
Due from clients	51,644	49,401	102,065	677,482	163,288	587,895	10,837			1,642,612
Mortgages	11,058	6,925	4,089,502	53,429	1,010,085	567,403	33,439			5,771,841
Debt securities / financial investments	7,569	138,838		4,589	3,207	257,378	729	40	10,408	422,758
Other assets / Positive replacement values	8,788			417	777	54,536			5,070	69,588
Value adjustments and general provisions					-51,111					-51,111
Off-balance sheet transactions										
Contingent liabilities	10,896	30,318	5,310	1,335	22,764	64,101		55		134,779
Irrevocable commitments		22,555	1,882		16,429	23,100				63,966
Commitments for calls on shares and other equities						19,313				19,313
Forward foreign exchange transactions (add - on)		2,603		1,544	6,002	3,379				13,528
Total current year	485,718	394,911	4,198,759	738,796	1,171,441	1,577,105	729	44,371	15,478	8,627,308

7.6 Geographic breakdown of credit risks

The exposure in terms of required capital for credit positions domiciled abroad represents less than 15% of the total eligible capital for credit risks.

7.7 Geographic breakdown of impaired loans

The exposure in terms of required capital for impaired loans domiciled abroad represents less than 15% of the total eligible capital for credit risks of all impaired loans.

7.8 Credit derivatives transactions

At 31 December 2010 the Group did not have any positions on credit derivatives.

7.9 Interest rate risk in the balance sheet

At 31 December 2010 a 100 basis-point parallel shift in the yield curve would have an impact of 7.4% on the net present value of equities (value effect), within the limit allocated by the Board of Directors.

At the same date, year-end, the impact of a 100 basis-point parallel shift in the yield curve would cause a –CHF 6.95 million impact on Net interest income for the next 12 months (income effect).



To the State Council and
to the Cantonal Parliament of the Republic
and Canton of Ticino
Bellinzona

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Report of the statutory auditor on the consolidated financial statements

As appointed auditor, we have audited the accompanying consolidated financial statements of Banca dello Stato del Cantone Ticino, Bellinzona, which comprise the balance sheet, income statement, statement of cash flows and notes, (as set out on pages 58 to 87) for the year ended 31 December 2010.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with the requirements of Swiss law and the Cantonal Law on the Banca dello Stato del Cantone Ticino. 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 2010 give a true and fair view of the financial position in accordance with the provisions governing the preparation of financial statements for banks, the Swiss law and the Cantonal Law on the Banca dello Stato del Cantone Ticino.

Report on other legal requirements

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

In accordance with article 728a paragraph 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 further confirm that the proposed appropriation of available earnings complies with Swiss law and the Cantonal Law on the Banca dello Stato del Cantone Ticino. We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA

A handwritten signature in blue ink, appearing to read 'Beresford Caloia'.

Beresford Caloia
Audit expert
Auditor in charge

A handwritten signature in blue ink, appearing to read 'Glenda Brändli'.

Glenda Brändli
Audit expert

Lugano, 25 March 2011

BANCASTATO: STRONG TRADITIONAL ROOTS SINCE 1915



EXPERIENCE



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BALANCE SHEET (BEFORE APPROPRIATION OF AVAILABLE EARNINGS)

(CHF thousands)	Notes	31.12.2010	31.12.2009	Change
Assets				
Liquid funds		73,939	69,669	4,270
Amounts due arising from money market papers		8,679	10,027	-1,348
Due from banks		477,109	391,704	85,405
Due from customers	3.1	1,538,921	1,397,498	141,423
Mortgages	3.1, 3.6	5,771,841	5,563,087	208,754
Securities and precious metals held for trading purposes	3.2	3,547	2,878	669
Financial investments	3.2, 3.6	419,734	425,250	-5,516
Participations	3.2, 3.3, 3.4	62,086	4,393	57,693
Fixed assets	3.4	100,113	107,061	-6,948
Accrued income and prepaid expenses		18,402	18,251	151
Other assets	3.5	49,025	39,213	9,812
Total assets		8,523,396	8,029,031	494,365
Total subordinated loans		500	501	-1
Total amounts due from the Canton of Ticino		10,150	10,158	-8
Total amounts due from Group entities		16,512	-	16,512
Liabilities				
Due to banks		365,644	305,425	60,219
Due to customers in savings and investment accounts		2,372,902	2,249,154	123,748
Other amounts due to customers		3,013,874	2,813,321	200,553
Cash Bonds		68,262	116,456	-48,194
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	3.6, 3.8	1,756,000	1,605,000	151,000
Accrued expenses and deferred income		34,165	32,002	2,163
Other liabilities	3.5	69,640	56,521	13,119
Value adjustments and provisions	3.9	179,172	195,080	-15,908
Reserves for general banking risks	3.9, 3.11	365,386	365,386	-
Endowment capital	3.10, 3.11	100,000	100,000	-
General legal reserve	3.11	163,262	152,051	11,211
Net income	3.11	35,089	38,635	-3,546
Total liabilities		8,523,396	8,029,031	494,365
Total amounts due to the Canton of Ticino		80,345	80,257	88
Total amounts due to Group entities		134,355	-	134,355
Off-Balance Sheet transactions				
Contingent liabilities	3.1, 4.1	208,325	98,868	109,457
Irrevocable commitments	3.1	170,093	64,972	105,121
Commitments for calls on shares and other equities	3.1	7,725	7,725	-
Outstanding derivative financial instruments (contracts volume)	4.2	1,425,309	1,286,473	138,836
Positive replacement values	4.2	36,017	26,842	9,175
Negative replacement values	4.2	44,556	29,859	14,697
Fiduciary transactions	4.3	67,320	64,743	2,577

INCOME STATEMENT

(CHF thousands)	Notes	2010	2009	Change
Income and expenses from ordinary banking operations				
Net interest income		104,432	107,717	-3,285
Interest and discount income		184,413	196,191	-11,778
Interest and dividend income from trading portfolio	5.1	3	2	1
Interest and dividend income from financial investments		11,125	7,297	3,828
Interest expenses		-91,109	-95,773	4,664
Net fees and and commissions income		27,937	27,685	252
Commission income from lending activities		1,899	2,136	-237
Commission income from securities and investment activities		23,167	23,545	-378
Other fees and commission income		6,471	5,254	1,217
Commission expenses		-3,600	-3,250	-350
Net trading income	5.2	8,919	10,339	-1,420
Other ordinary results		7,308	2,458	4,850
Income on disposal of financial investments		4,361	555	3,806
Participation income		1,363	558	805
Real estate income		-128	-292	164
Other ordinary income		2,094	2,130	-36
Other ordinary expenses		-382	-493	111
Net revenues		148,596	148,199	397
Operating expenses		-100,084	-95,172	-4,912
Personnel expenses	5.3	-67,271	-65,893	-1,378
Other operating expenses	5.4	-32,813	-29,279	-3,534
Gross profit		48,512	53,027	-4,515
Depreciation of fixed assets	3.4	-12,464	-13,412	948
Value adjustments, provisions and losses	3.9	-888	-676	-212
Result before extraordinary items and taxes		35,160	38,939	-3,779
Extraordinary income	5.5	287	1,648	-1,361
Extraordinary expenses	5.5	-	-1,625	1,625
Taxes		-358	-327	-31
Net income		35,089	38,635	-3,546

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

(CHF thousands)	2010	2009	Change
Proposed appropriation of available earnings			
Net income	35,089	38,635	-3,546
Retained earnings	-	-	-
Balance sheet profit	35,089	38,635	-3,546
Proposal of the Board of Directors			
Allocation to general legal reserve	10,030	11,211	-1,181
5% interest on endowment capital	5,000	5,000	-
Additional payment to the Canton	20,059	22,424	-2,365
Retained earnings brought forward	-	-	-

STATEMENT OF CASH FLOWS

(CHF thousands)	2010		2009	
	Source	Application	Source	Application
Cash flow from operating activities (internal sources)	9,484		238	
Net income	35,089		38,635	
Depreciation of fixed assets	12,408		13,347	
Value adjustments and provisions		15,908		23,615
Accrued income and prepaid expenses		151		4,057
Accrued expenses and deferred income	2,163			4,246
Other assets and liabilities	3,307		4,543	
Interest on endowment capital of the previous year		5,000		5,000
Additional payment to the Canton (prior year)		22,424		21,345
Reserves for general banking risks			1,500	
Cash flow from transactions on endowment capital	–		–	
Cash flow from changes in fixed assets and participations	63,153		8,270	
Participations		57,696	290	
Fixed assets	2,620	8,077	404	8,964
Cash flow from banking activities	57,939		82,331	
Medium and long-term transactions (> 1 year)	56,465		629,893	
Due to banks			35,000	
Other amounts due to customers	69,743		110,714	
Cash bonds	7,329	55,523	12,512	84,644
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	240,000	89,000		67,000
Due to customers in savings and investments accounts	123,748		248,404	
Due from customers		36,594		207,347
Mortgages		208,754		368,126
Financial investments	5,516			309,406
Short-term transactions	1,474		547,562	
Due to banks	60,219		169,243	
Other amounts due to customers	130,810		32,256	
Amounts due arising from money market papers	1,348		202,497	
Due from banks		85,405	12,023	
Due from customers		104,829	126,365	
Securities and precious metals held for trading purposes		669	5,178	
Liquid funds	4,270		90,839	
Liquidity variation		4,270	90,839	
	67,423	67,423	90,839	90,839

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

1. ACTIVITIES OF THE BANK

1.1. In general

The Bank's activities are governed by the Law on Banca dello Stato del Cantone Ticino (LBSCT) dated 25 October 1988 (latest amendments effective 15 December 2009). The Canton is responsible for all the Bank's liabilities that are not covered by its equity (Art. 4 LBSCT). Pursuant to Art. 12 LBSCT, Banca dello Stato del Cantone Ticino is a full service bank and conducts its business primarily within the Canton of Ticino.

The development of the Bank's operating activities in 2010 is described in the report drawn up by the Board of Directors. In 2010, BancaStato acquired a majority stake in the capital of AHSA Holding SA, Lugano in order to indirectly gain control of Axion Swiss Bank SA, Lugano.

Since 2009, the Bank has been outsourcing a number of its business activities as defined by the FINMA Circular 2008/7 "Outsourcing - Banks"; in particular, payment transaction services that have been transferred to Postfinance. In addition to those activities listed in the FINMA Circular, the Bank outsourced activities pertaining to building management and maintenance as well as supplies and dispatch.

1.2. Personnel

As at 31 December 2010, the Bank employed a total of 494 staff and management, as opposed to 495 on 31 December 2009. In terms of the number of full-time equivalents (FTE), and as determined by the parameters set at margin number 148 of the Guidelines concerning the provisions governing financial statements reporting (FINMA Circular 2008/2 "Accounting - Banks"), staffing numbers fell from 460.25 FTEs to 453.65 FTEs over the same period.

2. ACCOUNTING AND EVALUATION PRINCIPLES

2.1. General principles

The financial statements of Banca dello Stato del Cantone Ticino as at 31 December 2010 were prepared in accordance with applicable banking rules and regulations 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.

2.2. Accounting and evaluation principles for individual financial statements

The evaluation rules of the individual financial statements reflect the consolidated financial statements, except for the item below:

2.2.1. Participations

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

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

2.3. Foreign currency translation

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 indicated in the income statement under "Net trading income".

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 1.2525 (2009: 1.4827)

USD 0.9336 (2009: 1.0338)

**2.4. Adjustment of the accounting principles
and financial statement presentation**

There were no changes in accounting principles or in the presentation of the financial statements in 2010.

3. INFORMATION ON THE BALANCE SHEET

3.1 Overview of collateral for loans and off-balance sheet transactions

(CHF thousands)

	Type of collateral			Total
	Mortgage collateral	Other collateral	Unsecured	
Loans				
Due from customers	169,287	69,178	627,177 ¹	865,642
Due from public corporations			673,279	673,279
Mortgages	5,771,841			5,771,841
<i>Residential real estate</i>	4,369,632			4,369,632
<i>Office and business premises</i>	292,588			292,588
<i>Commercial and industrial buildings</i>	767,721			767,721
<i>Other</i>	341,900			341,900
Total loans	5,941,128	69,178	1,300,456 ²	7,310,762
Prior year	5,722,167	23,162	1,215,256	6,960,585

Off-balance sheet transactions

Contingent liabilities	161	49,171	158,993	208,325
Irrevocable commitments	124,699		45,394 ³	170,093
Commitments for calls on shares and other equities			7,725	7,725
Total off-balance sheet transactions	124,860	49,171	212,112	386,143
Prior year	26,621	39,911	105,033	171,565

Impaired loans

	Gross amount	Estimated collateral realisation proceeds	Net amount	Specific allowance
Year under review	291,812	120,247	171,565	171,565
Prior year	325,685	138,592	187,093	187,093

1. Including CHF 87.2 million of credits to entities related to public institutions (2009: CHF 103.3 million).
2. The increase in unsecured loans is primarily a result of loans granted to private accounts.
3. Including CHF 37.1 million (2009: CHF 34.0 million) as deposit guarantee and CHF 8.3 million as the option to purchase value of a minority stake in the capital of AHS Holding SA Lugano.

3.2 Securities and precious metals held for trading purposes, financial investments and participations

Securities and precious metals held for trading purposes

(CHF thousands)

	31.12.2010	31.12.2009
Debt securities	–	2,878
listed	–	2,878
unlisted	–	–
Equity securities	3,547	–
Precious metals	–	–
Total securities and precious metals held for trading purposes	3,547	2,878
<i>of which securities valid for repurchase agreements in accordance with liquidity regulatory requirements</i>	0	0

Financial investments

(CHF thousands)

	book value		fair value	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Debt securities	403,443	406,242	409,379	412,507
<i>of which valued according to accrual method</i>	403,443	157,671	409,379	160,415
<i>of which carried at lower of cost or market</i>	–	248,571	–	252,092
Share in investment funds	8,787	10,286	9,120	10,357
Equity securities	541	550	615	624
<i>of which significant holdings</i>	376	376	376	376
Precious metals	218	198	218	198
Real estate*	6,745	7,974	6,745	7,974
Total financial investments portfolio	419,734	425,250		
<i>of which securities valid for repurchase agreements in accordance with liquidity regulatory requirements</i>	78,673	135,016		

* Insured value as at 31.12.2010 CHF 12,149 (31.12.2009 CHF 13,573)

Participations

(CHF thousands)

	Notes	31.12.2010	31.12.2009
With quoted value		4	4
Without quoted value	2.2.1	62,082	4,389
Total participations		62,086	4,393

3.3 Details on equity participations held by the Bank

3.3.1 Consolidated participations

The companies are valued based on the full consolidation method

Company name	Head office	Activity	Capital (CHF thousands)	31.12.2010 Participating share in %	31.12.2009 Participating share in %
AHSA Holding SA	Lugano	Financial company	7,500 ¹	80.00	–

1. BancaStato holds a call/put option for the acquisition of the remaining 20% of the company's capital.

3.3.2 Other non-consolidated participations

(CHF thousands)	31.12.2010	31.12.2009
With quoted value	4	4
Without quoted value	5,582	4,389
Total participations	5,586	4,393

Significant bank participations:

Company name	Head office	Activity	Capital (CHF thousands)	31.12.2010 Participating share in %	31.12.2009 Participating share in %
Financial and services companies held with cantonal banks					
Aduno Holding SA	Opfikon	Financial company	25,000	0.40	0.40
Caleas SA	Zurich	Financial company	6,000	2.24	2.24
SCB Central mortgage bond issuing body	Zurich	Mortgage institution	825,000	1.10	1.10
Swisscanto Holding AG	Bern	Services company	24,204	1.88	1.83

Financial and services companies held with Swiss banks

SIX Group AG	Zurich	Services company	19,522	0.15	0.15
Swiss Bankers Prepaid Services SA	Grosshöchstetten	Financial company	10,000	0.17	0.12

Other participations

Alloggi Ticino SA	Bioggio	Real estate company	15,200	2.11	2.11
Autosilo Piazza del Sole SA	Bellinzona	Car park	2,000	10.00	10.00
Società di fideiussione per lo sviluppo dell'economia ticinese	Bellinzona	Guaranty company	4,000	26.25	26.25
Manzoni 7 SRL	Milan	Real estate company	18	100.00	100.00
Società svizzera di credito alberghiero	Zurich	Financial company	26,786	1.40	1.40
Tecnopolo Lugano SA	Lugano	Services company	350	28.57	–

3.3.3 Significant shares held for investment purposes

Company name	Head office	Activity	Capital (CHF thousands)	31.12.2010 Participating share in %	31.12.2009 Participating share in %
Teleticino SA	Melide	Radio Television productions	4,950	12.12	12.12

3.4 Breakdown of participations and fixed assets

(CHF thousands)

	2010							Book value 31.12.2010
	Purchase cost	Accumulated depreciation	Book value 31.12.2009	Investments	Disposals	Depreciation		
Participations, total	12,895	8,502	4,393	57,696	–	3	62,086	
equity method valuation	–	–	–	–	–	–	–	
other participations	12,895	8,502	4,393	57,696 ¹	–	3	62,086	
Fixed assets, total	312,737	205,676	107,061	8,077	2,620	12,405	100,113	
of which bank buildings	183,682	99,923	83,759	2,185	2,584	4,258	79,102	
of which other fixed assets	129,055	105,753	23,302	5,892	36	8,147	21,011	
Total	325,632	214,178	111,454	65,773	2,620	12,408	162,199	
Fire insurance value of buildings			194,672				201,219	
Fire insurance value of other fixed assets			40,100				38,599	

1. See note under Section 2.2.1 of the Notes to the Financial Statements.

3.5 Breakdown of other assets and liabilities

Other assets

(CHF thousands)

	31.12.2010	31.12.2009
Positive replacement value of derivative financial instruments	36,017	26,842
Compensation account	8,580	3,302
Indirect taxes	786	702
Various other assets	3,642	8,367
Other assets, total	49,025	39,213

Other liabilities

(CHF thousands)

	31.12.2010	31.12.2009
Negative replacement value of derivative financial instruments	44,556	29,859
Indirect taxes	8,336	9,582
Matured non-redeemed cash bonds	5,500	4,804
Various other liabilities	11,248	12,276
Other liabilities, total	69,640	56,521

3.6 Pledged assets

(CHF thousands)

	31.12.2010	31.12.2009
Pledged or assigned assets to secure own commitments (excluding advances and repurchase agreements with securities)		
Book value of securities delivered as collateral in connection with Repo Light credit with the SNB (unused)	27,814	22,923
Book value of securities delivered as collateral to SIX Group AG (unused)	11,025	4,858
Book value of mortgages set as collateral with the Swiss Cantonal Banks Central mortgage bond issuing body	1,700,013	1,401,239
– commitment with the Swiss Cantonal Banks Central mortgage bond issuing body	1,406,000	1,255,000
Advances and repurchase agreements with securities		
Book value of receivables from cash deposits in securities borrowing and reverse-repurchase agreements	445,699	298,110
Book value of obligations from cash deposits in securities lending and repurchase agreements	–	30,000
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities transferred in connection with repurchase agreements at own disposal	–	70
– of which with unlimited right to resell or pledge	–	70
Fair value of collateral in connection with securities lending or securities borrowed in connection with securities borrowing or received securities in connection with reverse-repurchase agreements, for which the right to resell or repledge is unlimited	445,311	297,723
– of which fair value of resold or repledged securities in this context	–	29,488

3.7 Commitments to pension funds

Banca dello Stato del Cantone Ticino applies the principles laid down in the ARR 16. Contributions are paid to the insurance company. The employer's contributions are carried under "Personnel expenses".

The Bank 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 fund. There are no contribution reserves on the part of the employer and the relationship between the Bank and the pension fund is based on a global affiliation contract.

The pension fund reinsures all pension risks by means of a comprehensive insurance contract with Swiss Life. Within the framework of this contract no possibility of undercoverage exists and, consequently, there are no obligations in this regard on the part of the employer.

3.8 Mortgage securities at the Swiss Cantonal Banks Central mortgage bond issuing body and bond issues

(CHF millions)

Mortgage securities at the SCB Central mortgage bond issuing body

Interest rate	Maturity												Total	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022		
1.125						50								50
1.500										50				50
1.750							83		30					113
2.000	50		70		30			12						162
2.250		40		50										90
2.500		20			20	190							15	245
2.625				30	9									39
2.750	50	24	14	50			15	50						203
2.875				30										30
3.000		10	43					30						83
3.125							19							19
3.250			108	30	9				39					186
3.500	27							50						77
4.000			26	17										43
4.250		16												16
Total mortgage securities at the SCB Central mortgage bond issuing body	127	110	261	207	68	240	117	142	69	50	-	15	1,406	

Bond issues

Year of issue	Interest rate	Maturity												Total
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
2002	4.000		150											150
2007	3.000							200						200
Total bond issues		-	150	-	-	-	-	200	-	-	-	-	-	350

Grand total **127** **260** **261** **207** **68** **240** **317** **142** **69** **50** **-** **15** **1,756**

3.9 Value adjustments and provisions / Reserves for general banking risks

(CHF thousands)

	2010					Balance at 31.12.2010
	Balance at 31.12.2009	Usage in conformity to purpose	Recoveries, impaired interest, currency differences	Dissolution credited to income statement	New provisions charged to income statement	
Value adjustments and provisions for credit risks (counterparty and country risks)						
individual	168,399	17,263	1,385	11,244	10,316	151,593
general	16,500				1,500	18,000
	184,899	17,263	1,385	11,244	11,816	169,593
Value adjustments and provisions for other operational risks	5,243	689		7		4,547
Other provisions						
additional pension provision	4,649	1,400			1,673	4,922
other provisions	289	179				110
Total value adjustments and provisions	195,080	19,531	1,385	11,251	13,489	179,172
Reserves for general banking risks	365,386					365,386
Total reserves for general banking risks	365,386					365,386
Total	560,466	19,531	1,385	11,251	13,489	544,558

There are no deferred taxes as the Bank is not taxable on its capital and revenues.

In compliance with FINMA directives, released surplus provisions for credit risks totalling CHF 0.08 million were entered under "Extraordinary income" (Refer to Notes to the Financial Statements, Section 5.5).

3.10 Endowment capital

(CHF thousands)

	31.12.2010	31.12.2009
Endowment capital	100,000	100,000
Limit granted as per the legislative decree of 22 May 1989	110,000	110,000
Interest rate applicable to endowment capital Endowment capital has no maturity date	5%	5%

The endowment capital was entirely paid out by the State of Canton Ticino.

3.11 Statement of changes in equity

(CHF thousands)

Equity at 31.12.2009

Endowment capital paid	100,000
General legal reserve	152,051
Reserves for general banking risks	365,386
Balance sheet profit	38,635
Total equity at 31.12.2009 (before appropriation of available earnings)	656,072

– 5% interest on endowment capital for financial year 2009	–5,000
– Additional payment to the Canton of Ticino for financial year 2009	–22,424
+ Net income of reporting year 2010	35,089
Total equity at 31.12.2010 (before appropriation of available earnings)	663,737

of which:

Endowment capital paid	100,000
General legal reserve	163,262
Reserves for general banking risks	365,386
Balance sheet profit	35,089

3.12 Maturity structure of current assets, financial investments and third-party liabilities as at 31.12.2010

(CHF thousands)								
	at sight	callable	maturity					Total
			within 3 months	within 3 to 12 months	within 1 to 5 years	more than 5 years	without maturity	
Current assets								
Liquid funds	73,939							73,939
Amounts due arising from money market papers	1,110		6,569	1,000				8,679
Due from banks	60,767		409,783	6,559				477,109
Due from customers	31,283	347,891	275,390	158,955	496,207	229,195		1,538,921
Mortgages	12,661	958,169	467,345	431,128	2,437,884	1,464,654		5,771,841
Securities and precious metals held for trading purposes	3,547							3,547
Financial investments	9,546		2,570	7,780	289,936	103,157	6,745	419,734
Total current assets	192,853	1,306,060	1,161,657	605,422	3,224,027	1,797,006	6,745	8,293,770
Prior year	225,605	1,532,428	781,078	735,944	3,055,552	1,521,532	7,974	7,860,113
Third-party liabilities								
Due to banks	10,854		239,790	45,000	55,000	15,000		365,644
Due to customers in savings and investment accounts	549,136	1,716,850	12,411	31,238	55,306	7,961		2,372,902
Other amounts due to customers	1,912,056	80,915	246,738	179,117	494,563	100,485		3,013,874
Cash bonds	245		12,553	16,479	37,555	1,430		68,262
Bonds and loans from the SCB Central mortgage bond issuing body				127,000	796,000	833,000		1,756,000
Total third-party liabilities	2,472,291	1,797,765	511,492	398,834	1,438,424	957,876	-	7,576,682
Prior year	2,236,588	1,743,006	483,307	332,754	1,455,547	838,154	-	7,089,356

3.13 Receivables from and payables to companies/entities related to the Canton and receivables from the Bank's governing bodies

(CHF thousands)		
	31.12.2010	31.12.2009
Due from companies/entities related to the Canton	18,116	18,848
Due to companies/entities related to the Canton	74,371	21,531
Due from the Bank's governing bodies	49,198	42,001

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 the Bank's governing bodies primarily consist of mortgage loans and are granted in compliance with standard lending parameters.

3.14 Breakdown of assets and liabilities by domestic and foreign origin

(CHF thousands)

	31.12.2010		31.12.2009	
	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid funds	42,105	31,834	51,913	17,756
Amounts due arising from money market papers	8,558	121	9,838	189
Due from banks	154,250	322,859	73,957	317,747
Due from customers	1,518,373	20,548	1,379,910	17,588
Mortgages	5,771,841		5,563,087	
Securities and precious metals held for trading purposes	363	3,184		2,878
Financial investments	153,295	266,439	186,089	239,161
Participations	62,060	26	4,375	18
Fixed assets	100,113		107,061	
Accrued income and prepaid expenses	18,402		18,251	
Other assets	48,899	126	39,213	
Total assets	7,878,259	645,137	7,433,694	595,337
Liabilities				
Due to banks	291,211	74,433	231,478	73,947
Due to customers in savings and investment accounts	2,217,319	155,583	2,092,900	156,254
Other amounts due to customers	2,602,426	411,448	2,393,930	419,391
Cash bonds	68,262		116,456	
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	1,756,000		1,605,000	
Accrued expenses and deferred income	34,165		32,002	
Other liabilities	67,987	1,653	56,521	
Value adjustments and provisions	179,172		195,080	
Reserves for general banking risks	365,386		365,386	
Endowment capital	100,000		100,000	
General legal reserves	163,262		152,051	
Net income	35,089		38,635	
Total liabilities	7,880,279	643,117	7,379,439	649,592

3.15 Geographic breakdown of assets

(CHF thousands)

	31.12.2010		31.12.2009	
		Share in %		Share in %
Assets abroad				
Europe	575,600	6.75	525,744	6.55
North America	49,369	0.58	33,541	0.42
Other countries	20,168	0.24	36,052	0.45
Total assets abroad	645,137	7.57	595,337	7.42
Switzerland	7,878,259	92.43	7,433,694	92.58
Total assets	8,523,396	100.00	8,029,031	100.00

3.16 Breakdown of assets and liabilities by currencies

(CHF thousands)

	Currency				Total
	CHF	USD	EUR	Other	
Assets					
Liquid funds	38,843	647	34,292	157	73,939
Amounts due arising from money market papers	8,614	1	55	9	8,679
Due from banks	347,872	12,117	58,823	58,297	477,109
Due from customers	1,483,734	11,039	42,350	1,798	1,538,921
Mortgages	5,771,841				5,771,841
Securities and precious metals held for trading purposes	1,389	2,107	51		3,547
Financial investments	169,756	47,508	202,251	219	419,734
Participations	62,086				62,086
Fixed assets	100,110		3		100,113
Accrued income and prepaid expenses	11,511	744	6,145	2	18,402
Other assets	39,756	4,761	4,471	37	49,025
Total assets	8,035,512	78,924	348,441	60,519	8,523,396
Forward transactions and currency options	116,642	133,848	127,680	30,139	408,309
Total asset positions	8,152,154	212,772	476,121	90,658	8,931,705
Liabilities					
Due to banks	273,323	27,720	54,487	10,114	365,644
Due to customers in savings and investment accounts	2,349,802		23,100		2,372,902
Other amounts due to customers	2,541,170	90,950	315,709	66,045	3,013,874
Cash bonds	68,262				68,262
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	1,756,000				1,756,000
Accrued expenses and deferred income	33,994	5	166		34,165
Other liabilities	67,333	157	2,050	100	69,640
Value adjustments and provisions	176,730	108	2,333	1	179,172
Reserves for general banking risks	365,386				365,386
Endowment capital	100,000				100,000
General legal reserve	163,262				163,262
Net income	35,089				35,089
Total liabilities	7,930,351	118,940	397,845	76,260	8,523,396
Forward transactions and currency options	238,880	85,748	69,949	13,601	408,178
Total liability positions	8,169,231	204,688	467,794	89,861	8,931,574
Net position per currency	-17,077	8,084	8,327	797	131
Net position per currency (previous financial year)	-16,839	-1,670	17,990	608	89

4. INFORMATION ON OFF-BALANCE SHEET TRANSACTIONS

4.1 Contingent liabilities

(CHF thousands)

	31.12.2010	31.12.2009
Credit guarantees	187,036	93,658
Irrevocable commitments under documentary credits	21,289	5,210
Total contingent liabilities	208,325	98,868

4.2 Derivative financial instruments open at year end

(CHF thousands)

	Trading instruments			Hedging instruments		
	Replacement value positive	Replacement value negative	Contract volumes	Replacement value positive	Replacement value negative	Contract volumes
Interest rate instruments						
IRS	–	–	–	30,020	38,583	1,017,000
Total	–	–	–	30,020	38,583	1,017,000
Foreign exchange						
Forward contracts	5,996	5,955	285,250	–	–	–
Swaps	–	–	–	–	18	122,335
OTC Options	1	–	724	–	–	–
Total	5,997	5,955	285,974	–	18	122,335
Total	31.12.2010	5,997	5,955	285,974	30,020	38,601
	31.12.2009	1,558	1,273	198,583	25,284	28,586
						1,087,890

At closing date there were no netting agreements.

4.3 Fiduciary transactions

(CHF thousands)

	31.12.2010	31.12.2009
Fiduciary placements with third party banks	67,320	64,743
Total fiduciary transactions	67,320	64,743

5. INFORMATION ON THE INCOME STATEMENT

5.1 Income from refinancing under "Result from interest activities"

Interest and dividend income from the trading portfolio is not offset by expenses incurred for the portfolio's refinancing.

5.2 Breakdown of results from trading operations

(CHF thousands)

	2010	2009
Foreign exchange trading	6,836	7,265
Trading in foreign banknotes	689	1,780
Trading in precious metals	436	393
Trading in securities	958	901
Total	8,919	10,339

5.3 Breakdown of personnel expenses

(CHF thousands)

	2010	2009
Salary and compensation	50,145	49,713
Contribution to pension institutions	8,054	8,132
Other social benefits	6,356	5,353
Other personnel expenses	2,716	2,695
Total	67,271	65,893

5.4 Breakdown of other operating expenses

(CHF thousands)

	2010	2009
Expenses for premises	5,667	5,292
Expenses for EDP, machines, furniture, vehicles and other facilities	8,015	7,614
Other operating expenses	19,131	16,373
Total	32,813	29,279

5.5 Other information on the income statement

(CHF thousands)

	2010	2009
Extraordinary income		
Income on disposal of fixed assets	12	180
Income from released provisions for credit risks	83	649
Income from disposal of permanent holdings	–	707
Other extraordinary income	192	112
Total	287	1,648
Extraordinary expenses		
Allocation to the reserves for general banking risks	–	1,500
Other extraordinary expenses	–	125
Total	–	1,625

6. ADDITIONAL INFORMATION ON RISKS AND CAPITAL ADEQUACY (BASEL II)

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

Credit Risks:

Base: Swiss standardised approach (SA-CH)

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

Derivatives: current exposure method

Credit risk mitigation: simple approach

External credit assessment: the Bank does not use external credit assessment in determining the risk weights

Lombard loans: simple approach

Netting: the Bank does not use the net exposure of loans and deposits as the basis for its capital adequacy calculation

Market Risks:

Base: standardised approach for market risks

Derivative instruments: delta-plus approach

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

Operational Risks:

Base: basic indicator approach (BIA)

Qualitative information required by the Ordinance on Capital Adequacy can be found in Section 2, "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 II. This information may differ from that presented in the previous tables due to these specific calculation rules.

6.1 Eligible capital

(CHF thousands)

	31.12.2010	31.12.2009
Gross core capital ¹	638,678	628,648
<i>of which minority interests</i>		
<i>of which "innovative" instruments</i>		
– Components to be deducted from core capital ²	–69,354	–3,379
= Eligible core capital	569,324	625,269
+ Supplementary capital and additional capital		
– Other deductions from supplementary, additional and total capital		
= Eligible capital	569,324	625,269

1. After appropriation of available earnings.

2. Net long positions in own equity-type securities and innovative capital instruments, unfunded valuation adjustments or provisions required for the current financial year, goodwill and intangible assets.

6.2 Required capital

(CHF thousands)

	31.12.2010	31.12.2009
Credit risks	346,827	327,361
<i>of which price risk related to equity-type securities in the banking book</i>	2,166	2,459
Non-counterparty-related risks	31,541	34,119
Market risks	1,982	2,905
<i>of which on interest rate instruments (general and specific market risk)</i>	84	283
<i>of which on equity-type securities</i>	568	0
<i>of which on currencies and precious metals</i>	1,125	2,360
<i>of which on commodities</i>	205	262
Operational risks	21,876	22,169
Required capital – gross	402,226	386,554
Value adjustments and global provisions ¹	–3,066	–2,769
Deduction for cantonal banks ²	–33,529	–47,973
Required capital – net	365,631	335,812
Capital requirement covering ratio based on Swiss Legislation³	155.7%	186.2%
BIS Ratio (including deduction for cantonal banks)	12.5%	14.9%
BIS Ratio (excluding deduction for cantonal banks) ⁴	11.4%	13.0%

1. Under the Swiss standardised approach for Credit Risk (SA-CH), the value adjustments and provisions recognised as liabilities are deducted from the required capital in conformity with art. 62 CAO.
2. Reduction of 8.4% of the required capital (gross), due to cantonal guarantee.
3. Eligible capital as a percentage of required capital (net).
4. Eligible capital as a percentage of risk-weighted positions plus the required capital for market risks, operational risks and items arising from transactions not settled, multiplied by 8.4 for conversion into equivalent units.

6.3 Credit exposure by counterparty group

(CHF thousands)

Credit exposure	Central governments and central banks	Banks and securities traders	Public authorities and institutions	Companies	Private clients and small businesses	Equity securities	Exposures without counterparty	Other exposures	Total
Balance sheet transactions									
Due from banks		477,109							477,109
Due from customers	1,697	13,105	678,245	305,813	540,061				1,538,921
Mortgages	11,058	11,962	14,306	153,535	5,580,980				5,771,841
Debt securities / financial investments	7,569	10,649	168,309	99,375	119,211	10,359		7,008	422,480
Other assets / Positive replacement values		5,233	1,266		18,528		42,400		67,427
Value adjustments and general provisions				-1,026	-9,717		-40,365		-51,108
Off-balance sheet transactions									
Contingent liabilities		79,594	2,213	21,665	55,719				159,191
Irrevocable commitments		4,008	18,605	571	40,628				63,812
Commitments for calls on shares and other equities			19,313						19,313
Forward foreign exchange and options transactions (add - on)		9,570		3,317	422				13,309
Total current year	20,324	611,230	902,257	583,250	6,345,832	10,359	2,035	7,008	8,482,295
Total prior year	40,307	448,994	852,499	641,933	5,932,256	11,850	-4,156	530	7,924,213

6.4 Regulatory credit risk mitigation

(CHF thousands)

Credit exposure	secured by recognised financial collateral	secured by guarantees and credit derivatives	secured by mortgage collateral	Total
Balance sheet transactions				
Central governments		7,564		7,564
Banks				–
Public authorities and institutions	25		14,946	14,971
Companies	5,885	540	164,022	170,447
Private clients and small businesses	22,137	19,976	5,798,839	5,840,952
Equity securities				–
Other exposures				–
Derivative financial instruments				
Central governments				–
Banks				–
Public authorities and institutions				–
Companies				–
Private clients and small businesses				–
Equity securities				–
Other exposures				–
Total current year	28,047	28,080	5,977,807	6,033,934
Total prior year	28,392	26,019	5,702,969	5,757,380

6.5 Credit exposure by risk weighting category

(CHF thousands)

Credit exposure	0%	25%	35%	50%	75%	100%	125%	150%	≥ 250%	Total
Balance sheet transactions										
Due from banks	395,699	74,852		6,558						477,109
Due from clients	51,697	38,561	102,065	617,408	154,088	564,264		10,838		1,538,921
Mortgages	11,058	6,925	4,089,503	53,429	1,010,085	567,402		33,439		5,771,841
Debt securities / financial investments	7,569	138,838		4,589	3,207	257,378	451	40	10,408	422,480
Other assets / Positive replacement values	8,606				227	54,545			4,049	67,427
Value adjustments and general provisions					-51,108					-51,108
Off-balance sheet transactions										
Contingent liabilities		81,472	5,310	50	21,694	50,611		54		159,191
Irrevocable commitments		22,555	1,882		16,275	23,100				63,812
Commitments for calls on shares and other equities						19,313				19,313
Forward foreign exchange transactions (add - on)		2,458		1,552	5,982	3,317				13,309
Total current year	474,629	365,661	4,198,760	683,586	1,160,450	1,539,930	451	44,371	14,457	8,482,295
Total prior year	325,836	315,400	4,037,847	639,367	1,084,842	1,447,049	460	55,374	18,038	7,924,213

6.6 Geographic breakdown of credit risks

The exposure in terms of required capital for credit positions domiciled abroad represents less than 15% of the total eligible capital for credit risks.

6.7 Geographic breakdown of impaired loans

The exposure in terms of required capital for impaired loans domiciled abroad represents less than 15% of the total eligible capital for credit risks of all impaired loans.

6.8 Credit derivatives transactions

At 31 December 2010 the Bank did not have any positions on credit derivatives.

6.9 Interest rate risk in the balance sheet

At 31 December 2010 a 100 basis-point parallel shift in the yield curve would have an impact of 7.4% on the net present value of equities (value effect).

At the same time, the impact of a 100 basis-point parallel shift in the yield curve would cause a CHF 6.9 million impact on Net interest income for the next 12 months (income effect).

**BANCASTATO: CLEAR AND EFFICIENT CONSULTING SERVICES
FOR IMPROVED UNDERSTANDING AND DECISION-MAKING**



CLARITY



To the State Council and
to the Cantonal Parliament of the Republic
and Canton of Ticino
Bellinzona

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Report of the statutory auditor on the financial statements

As appointed auditor, we have audited the accompanying financial statements of Banca dello Stato del Cantone Ticino, Bellinzona, which comprise the balance sheet, income statement, statement of cash flows and notes, (as set out on pages 92 to 116) for the year ended 31 December 2010.

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 Cantonal Law on the Banca dello Stato del Cantone Ticino. 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 2010 give a true and fair view of the financial position in accordance with the provisions governing the preparation of financial statements for banks, the Swiss law and the Cantonal Law on the Banca dello Stato del Cantone Ticino.

Report on other legal requirements

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

In accordance with article 728a paragraph 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 Cantonal Law on the Banca dello Stato del Cantone Ticino. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

A handwritten signature in blue ink, appearing to read 'Beresford Caloia'.

Beresford Caloia
Audit expert
Auditor in charge

A handwritten signature in blue ink, appearing to read 'Glenda Brändli'.

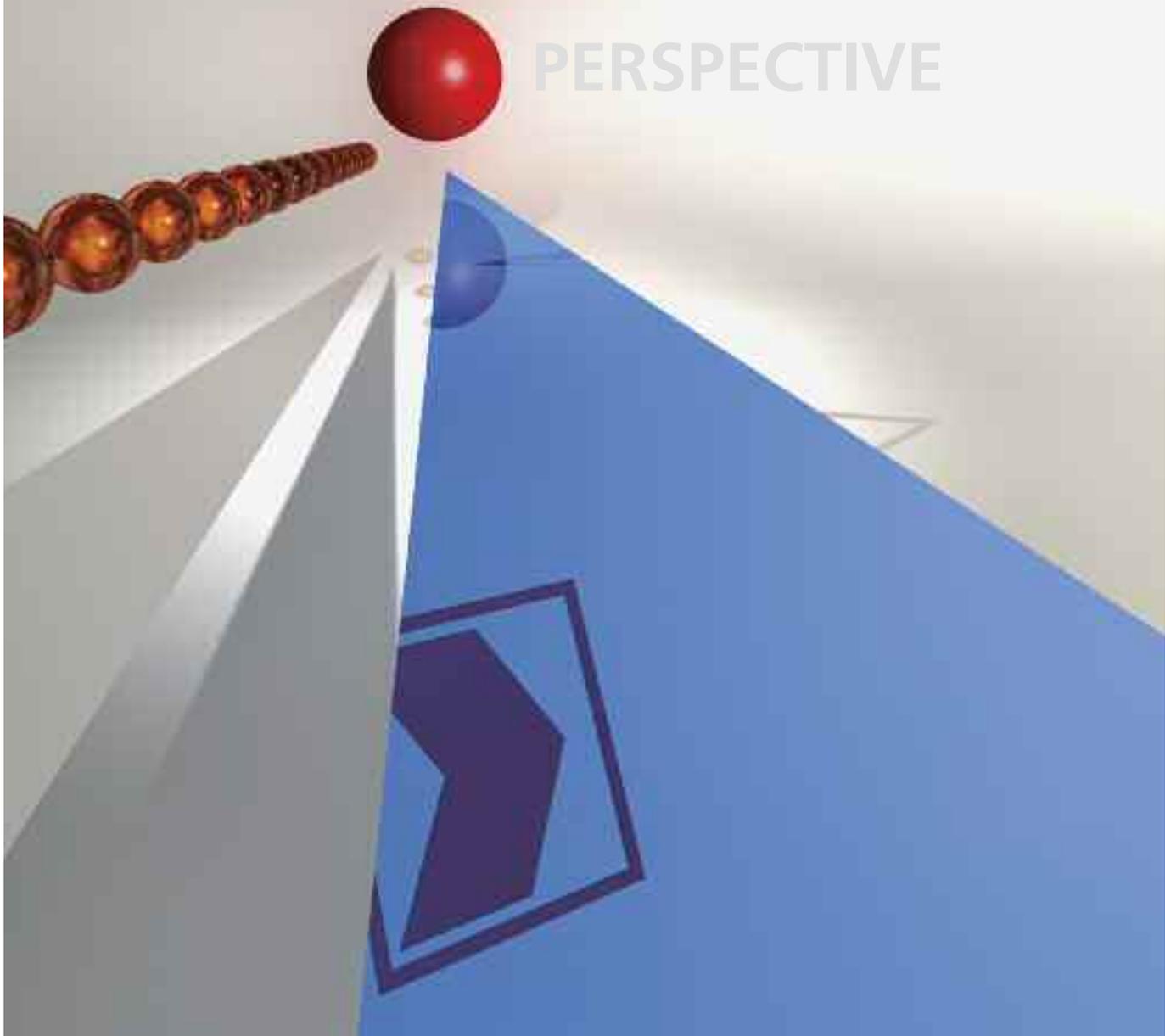
Glenda Brändli
Audit expert

Lugano, 25 March 2011

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PERSPECTIVE



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Deputy Chairman

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Carlo Danzi, Porza

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Carlo Danzi, Porza

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Roberto Grassi, Dr. oec., Lugano

Michele Morisoli, Dr. oec., Monte Carasso

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CONTROL COMMISSION**

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Giovanni Jelmini, lawyer

Deputy Chairman

Manuele Bertoli, lic. jur.

Secretary

Edo Bobbià

Members

Michele Foletti

Gabriele Pinoja (until 30.6.2010)

Marco Chiesa (as of 1.7.2010)

**EXTERNAL AUDITORS
AS DEFINED
BY THE SWISS BANKING LAW**

PricewaterhouseCoopers SA

INTERNAL AUDITORS

Chief Auditor

Gabriele Guglielmini

Deputy

Guido Gianetti

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President of the Executive Board

Donato Barbuscia

Members of the Executive Board

Renato Arrigoni
Bernardino Bulla
Fabrizio Cieslakiewicz
Claudio Genasci

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Luigi Campagna
Roberto Danzi
Andrea Ferrari
Daniela Lepori (as of 1.4.2010)
Alberto Pedrazzi
Carlo Ruggia

Locarno Branch

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Stephan Mair
Marco Meschiari (as of 1.4.2010)
Marco Pellanda

Chiasso Branch

Claudio Cereghetti
Fabrizio Croci
Mario Grassi
Gilberto Pittaluga (as of 1.1.2010)
Marco Soragni

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BANCASTATO: TO US, EACH CLIENT IS UNIQUE



UNIQUE

