



Annual Report

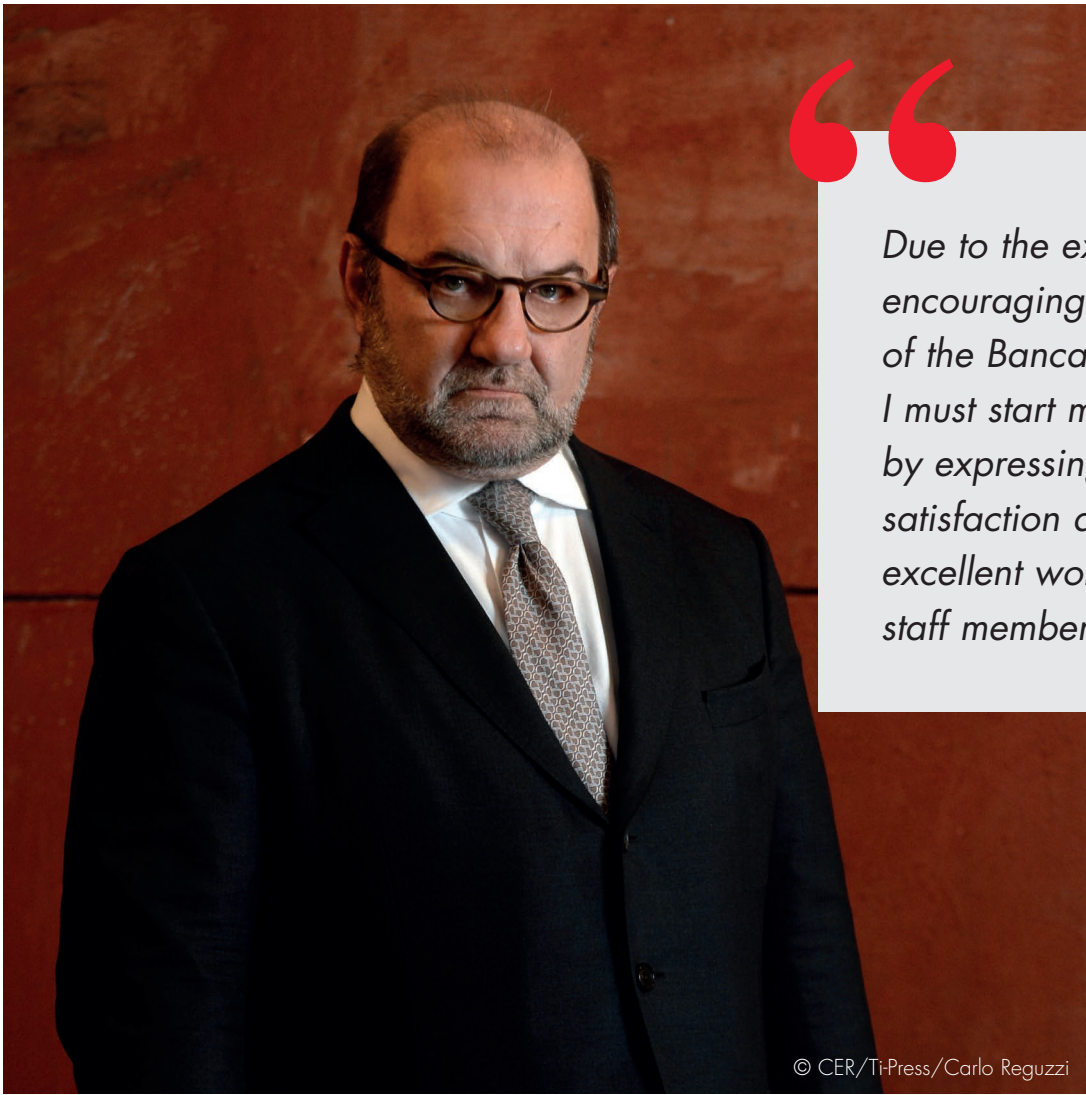
2022



Pictures: Grand Hotel Locarno

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Due to the extremely encouraging 2022 results of the BancaStato Group, I must start my message by expressing my great satisfaction and pride in the excellent work done by all staff members.

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Bernardino Bulla

Chairman of the Board of Directors

Message from the Chairman of the Board of Directors

Dear Citizens of Ticino,

Due to the extremely encouraging 2022 results of the BancaStato Group, I must start my message by expressing my great satisfaction and pride in the excellent work done by all staff members. 2022, as we know, was an objectively difficult year for the entire economy. The definitive move beyond the pandemic and the outbreak of the war in Ukraine triggered inflationary pressures, which led central banks to abandon their loose monetary policy and, following years of essential stasis, to take interest rates back into positive territory. The real economy not only had to deal with sharply rising prices – such as energy costs – but also had to come to terms with a climate of greater doubt and uncertainty. Against this overall backdrop, the BancaStato Group's results were as I mentioned excellent, building on and consolidating a growth trend that had been ongoing for a number of years: this is testament to the solidity of the strategic projects implemented over time as well as a business model that is being increasingly appreciated by Ticino's citizens, who regard BancaStato as their reference point for banking services. As usual, this message will also briefly comment on the results. I would like to start with the figure that is ultimately the most important one for us. The payment to the Canton has increased to 45.3 million francs. I should also point out that the Canton will also receive an extraordinary payment of 3 million francs in 2023 thanks to the significant dividend paid by Axion SWISS Bank to the parent company as a result of its strong profit growth. Moving on to the revenues, their overall performance has followed a net growth trajectory. Operating costs are down, and the operating result is more than 101 million. The results achieved have enabled the Bank to further reinforce its equity position by 33.5 million, whilst also securing a strong increase in the Group profit to 64.4 million. I am sure you will agree that these are extremely satisfactory figures. For further details I would invite you to consult the tables contained in this Annual Report. In parallel – according to the now established tradition – I would like to remind you that these tables have been drawn up in an awareness of the fact that BancaStato's operations include items that, despite being reported in the accounts as "expenses", are in our view genuine "investments": these include the hundreds of contributions and

sponsorships that the Bank provides to cultural, social or sporting entities, associations or initiatives in Ticino. 2022 fortunately saw a resurgence in activities by a great many of these initiatives following two intense pandemic years. Throughout all of this, BancaStato has continued to remain an important point of reference for such initiatives. Our commitment to them manifests itself both in terms of a number of major contributions – such as those paid to the Orchestra della Svizzera italiana (Orchestra of Italian-speaking Switzerland) (350 thousand francs), Ticino Ticket (100 thousand francs) or the Ticino Film Commission (50 thousand francs) – as well as hundreds of smaller measures of support. This broad spectrum policy has been chosen precisely in order to reach the largest possible number of beneficiaries. The figures demonstrate the scale of our commitment: in 2022 the Bank provided support to more than 600 initiatives totalling more than 3 million francs, including more than 500 thousand francs for sport for young people, via a wide range of networks spread throughout the entire Canton. As I mentioned above, we see these as investments in the Ticino and its citizens, both today and in future, and as one of the ways in which we interpret and act according to our public mandate. Speaking of investments in Ticino, one must not overlook our commitment towards the innovative start-ups sprouting up in our Canton. In 2022 BancaStato announced that – acting through its Fondazione del centenario and the related subsidiary TiVentures SA – it will dedicate one million francs a year until 2027 to identifying and developing high-tech start-ups, with a clear focus on promoting sustainability. The Social and Environmental Report, which is published by BancaStato in June of each year, completes the information contained in the Annual Report and helps to present a better picture of these multiple facets to the public mandate that characterise the Bank's actions. Before concluding I would like to cast a glance to the future. The current geopolitical situation is still tense and extremely complicated. The war in Ukraine is continuing to cause uncertainty and efforts to rein in inflation are holding back global economic growth. The financial sector is under pressure. Making predictions is a complicated business. However, I know for sure that BancaStato will continue to fulfil its public mandate, working for Ticino and its citizens. I would like to express my sincere thanks for the trust you place in us.

Bernardino Bulla

Chairman of the Board of Directors

Corporate Governance

Corporate governance covers all rules and relationships that govern the management of a business: it is therefore intended to provide 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 which determine its operations.

Introduction

Banca dello Stato del Cantone Ticino (BancaStato), in full respect of minimal disclosure requirements laid down in Circular 2016/1 "Disclosure - banks¹" of the Swiss Financial Market Supervisory Authority (FINMA), voluntarily publishes information on its corporate governance and draws reference from the outline proposed by the Directive on Information Relating to Corporate Governance adopted by SIX Swiss Exchange, which came into force on 1 October 2021².

For information on risk management, refer to Section 5.4 of the Annex to the Consolidated Financial Statements.

All data herein are at 31 December 2022 or refer to the entire 2022 financial year.

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 Bank's statute is that of a cantonal bank, in accordance with the Swiss Federal Law on Banks and Savings Banks³.

The activities of the Bank are regulated by the Law on Banca dello Stato del Cantone Ticino (Legge sulla Banca dello Stato del Cantone Ticino) dated 25 October 1988. The Bank is established with no time limit. Its head office is in Bellinzona⁴.

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.

Pursuant to the above Law, the activities of the Bank extend to all operations of a full-service bank.

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

- a. acceptance of deposits in all forms allowed by the banking legislation;
- b. granting of collateralised and non-collateralised loans and credits;
- c. processing transactions with letters of credit and standby letters of credit, in particular in Commodity Trade Finance;
- d. issuing guarantees, sureties and guarantee commitments;
- e. securities trading for third parties and on own account;
- f. trading in derivative financial instruments both for third parties and on own account;
- g. issuing and participating in the issuance of shares, bonds and other securities, for both Swiss and foreign debtors;
- h. 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;
- i. trading with professional banknote dealers as per Art. 2e of the FINMA Anti-Money Laundering Ordinance (AMLO-FINMA; RS 955.033.0);
- j. setting up and distributing investment funds in Switzerland and abroad;
- k. advisory, intermediation and asset management, as well as custody and administration of securities and valuables;

¹ https://www.finma.ch/it/~/_media/finma/dokumente/dokumentencenter/myfinma/rundschreiben/finmars2016-01.pdf?sc_lang=it&hash=F10957AC15673EAD3FOA2000ACE8D709

² Any amendment or addition to this Circular in 2023 will be communicated on www.bancastato.ch, under "Media, novità ed eventi". In January 2023, a new version of the above-mentioned directive came into force, which is set to be applied for the first time in financial year 2023. The document is available at: <https://www.ser-ag.com/dam/downloads/regulation/listing/directives/dcgfr.pdf>

³ http://www.admin.ch/ch/i/rs/c952_0.html

⁴ <https://m3.ti.ch/CAN/RLeggi/public/index.php/raccolta-leggi/legge/num/622>

- l. payment transaction processing in Switzerland and abroad;
- m. carrying out the functions of an asset administrator;
- n. providing treasury services;
- o. providing custody and securities administration services, as well as safe deposit box rentals;
- p. carrying out fiduciary transactions, in its own name, but on account and at the risk of customers;
- q. 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 legislation. As of 2021, BancaStato has been classified in supervisory category 3 ("Large and complex market participants – Significant risk")⁵.

1. BANK STRUCTURE AND OWNERSHIP

1.1 Group operational structure

BancaStato is a Group. As at 31 December 2022 the Bank held 100% of the share capital of the Lugano-based Axion SWISS Bank SA (nominal capital CHF 43 million).

With this structure, BancaStato remains legally autonomous. As a Group, BancaStato has adopted special Group Regulations which lay down its overall organisational rules.

As regards BancaStato, the Heads of each Division, along with the President, form the Executive Board.

The Human Resources Department and the Support, Communications and Marketing Department⁶ report to the President of the Executive Board.

The Divisions are: Finance, Private Banking and EAM, Products and Services, Retail and Corporate, and Risk.

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 with other entities.

2. CAPITAL STRUCTURE

2.1 Capital

By law, the State assigns the Bank an endowment capital and the Bank is authorised to issue participation certificates⁷.

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 500 million. The interest paid out on endowment capital is fixed by the Bank's Board of Directors and by the State Council. A 5% interest was paid out on endowment capital in 2022.

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).

2.3 Changes in capital

There were no changes in capital in 2022.

Below is a brief summary of capital increases effected in recent years:

- 2012: from CHF 100 million from CHF 110 million;
- 2013: from CHF 110 million from CHF 200 million;
- 2014: from CHF 200 million from CHF 240 million;
- 2017: from CHF 240 million from CHF 300 million;
- 2018: from CHF 300 million from CHF 430 million;
- 2019: from CHF 430 million from CHF 480 million;
- 2020: from CHF 480 million from CHF 500 million.

⁵ <https://www.finma.ch/en/finma-public/authorised-institutions-individuals-and-products/>

⁶ This entity became a Department at the start of 2023.

⁷ <https://m3.ti.ch/CAN/Rleggi/public/index.php/raccolta-leggi/legge/num/622>

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 Bank is authorised to increase its participation capital by issuing participation certificates not exceeding 50% of its endowment capital. As at 31 December 2022, just as at the end of 2021, 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

BancaStato has not issued any convertible bonds, and there are no options on the Bank's equity.

With the aim of bringing its capitalisation into line with the average level for cantonal banks, BancaStato asked the owner to provide various financing in the form of subordinated loans. It obtained specifically:

- on 31 March 2021, a perpetual loan of CHF 50 million, which is classified as "Additional Tier 1 Capital" under the terms of the Swiss Federal Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Traders;
- on 15 December 2021, a subordinated loan maturing in 2033 of CHF 200 million, which is classified as "Tier 2 Capital" under the terms of the above Ordinance.

3. BOARD OF DIRECTORS

3.1 Members of the Board of Directors and activities

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

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

The members of the Board of Directors fulfil all of the requirements of independence laid down in FINMA Circular 2017/01⁸ as well as the provisions of Articles 19 and 20 of the Law on Banca dello Stato del Cantone Ticino, cited above.

The members of the Board of Directors do not carry out operational functions and have not been members of the Statutory Auditors.

Hereunder is a brief presentation of the members of the Board in office as at 31 December 2022, their function, education, professional background and the other activities in which they are involved.

BERNARDINO BULLA

Function

Appointed Chairman of the Board of Directors on 15 March 2017, in charge since 1 July 2017. Born on 7 February 1957, Swiss. Chair of the Chairman's office.

Education and professional background

Degree in Economics and Social Sciences from the University of Geneva in 1983. He started work for the Credit Department of BSI SA in Lugano in 1984. In 1997, he joined the Swiss Bank Society as Head of Private and Corporate Clients, then transferred to UBS SA, Lugano, as Head of International Clients and Trading within the Corporate Clients Division. At the end of 1998, he moved to Credit Suisse-Lugano, Corporate Customer Ticino, as Head of Ticino Corporate Customers. He joined BancaStato on 1 October 2000 as a Member of the Executive Board and Head of the Corporate Clients Division. From 16 April 2007 to 31 December 2011, he was Head of the Risk Control Division, after which he served as President of the Executive Board from January 2012 to June 2017.

⁸ As Chairman of the Board of Directors since July 2017, and having formerly served as President of the Executive Board, Bernardino Bulla has fully complied with FINMA independence rules since July 2019. <https://www.finma.ch/en/~media/finma/dokumente/rundschreiben-archiv/2017/rs-17-01/finma-rs-2017-01-20160922.pdf?la=en>.

Other activities

- » Member of the Board of Directors of Axion SWISS Bank SA, Lugano and Deputy Chairman of its Audit Committee;
- » Chairman of the Foundation council of Fondazione del Centenario BancaStato, Bellinzona;
- » Member of the Board of Directors of Pizzarotti SA, Lugano.

RAOUL PAGLIA

Function

Member of the Board of Directors since 10 July 2012, born on 22 April 1967, Swiss. Secretary of the Board of Directors from 28 August 2017 to 26 July 2019, when he filled the post of Deputy Chairman. Vice-President of the Chairman's office and Chairman of the Audit and Risk Committee.

Education and professional background

Master's Degree from the "Ecole des Hautes Etudes Commerciales" of the University of Lausanne in 1993 and Certified EFFAS Financial Analyst and Portfolio Manager - AZEK in 1999. From 2003 to 2006, he was an expert examiner in financial operations for the Swiss Federal examinations in banking (Eidgenössische Bankfachprüfung). In February 2013 he obtained a Master's Degree in Advanced Studies in Tax Law from SUPSI. In 1993 he was employed by Banca del Gottardo in Lugano as a financial analyst. He started at BSI SA in 1996, and worked in the investment funds, institutional clients and stock markets departments. In 2011 he was responsible for stock markets for the Family Office Division (which later became Patrimony 1873) until June 2012, when he left the bank. He has been chairman and executive officer of AMCO Fiduciaria SA since 2012.

Other activities

- » Member of the Board of Directors of Axion SWISS Bank SA, Lugano and member of its Audit Committee;
- » Member of the Foundation Council of Perspectiva Joint Foundation, Basel;
- » Chairman of the Board of Directors of Swissmemotec SA, Lugano;
- » Chairman of Finadvisor SA, Lugano;
- » Chairman of Sostare Sagl, Bellinzona;
- » Chairman of the Board of Directors of Swiss Real Estate Holding AG, Baar, and its subsidiary companies;

» Sole Director of Immobiliare Fenice SA, Lugano.

» Sole Director of Socefin SA, Lugano.

MICHELA FERRARI-TESTA

Function

Member of the Board of Directors since 1 July 2021, born on 17 May 1963, Swiss. Member of the Projects Committee.

Education and professional background

In 1987 she was awarded a Degree in Law at the University of Zurich, subsequently qualifying as a lawyer and public notary. Since 1992 she has worked as a self-employed public notary and lawyer in Capriasca-Tesserete, mainly in the areas of private law, administrative law, insurance law as well as contract law, offering both legal advice and conducting litigation. She was elected to the Grand Council for a four-year term from 1995 to 1999. From 1990 to 2000 she was a member of the Bar Association Committee, the Massagno Rent Conciliation Office, the Gender Equality Conciliation Office, the Ticino Commission for Continuing Legal Training and the cantonal commission charged with examining and pre-notifying scholarship applications; over the same period she gained wide-ranging experience as a lecturer of the law of obligations. Between 2000 and 2010 she was a member of the "Casinos" Federal Appeals Board, as well as the Cantonal Arbitral Tribunal for Insurance against Illnesses and Accidents. She is also an advisory lawyer for the Touring Club Schweiz and President of the Regional Guardianship Commission and the Cantonal Commission against Racism. From 2007 until 2022 he served on the Board of Directors of Helsana SA – becoming Deputy Chairman in 2014 – and its subsidiary companies.

Other activities

- » Member of the Board of Directors of Gruppo Coop Società Cooperativa SA, Basel, and its subsidiary companies;
- » Member of the Board of Directors of Mobiliare Svizzera Società Cooperativa, Bern;

DANIEL JOSS⁹

Function

Member of the Board of Directors since 1 July 2019, born on 2 June 1966, Swiss. Secretary of the Board of Directors since 26 July 2021 and member of the Chairman's Office. Chairman of the Projects Committee.

⁹ Daniel Joss died at the start of February 2023. At the time this document was finalised, a successor had not yet been appointed by the Council of State. The information contained in this document refers to the position as at 31 December 2022.

Education and professional background

Degree in Civil Engineering from ETH Zurich in 1990. In the same year he started his own business. He is the owner of the business Daniel Joss ingegneria e amministrazione. Member of the Order of Engineers and Architects of Canton Ticino and of the Swiss Society of Engineers and Architects, as well as working as a real estate fiduciary active in the area of construction and civil engineering as a specialist and project manager. A promoter and developer of real estate projects, he also manages real estate companies and rental properties.

Other activities

- » Member of various companies operating locally in the real estate sector.

GIOVANNI JELMINI

Function

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

Education and professional background

Degree in Law from the University of Fribourg, lawyer and public notary. Owner of the law and notary firm Jelmini from 1996 to 2009, and since 2010 co-owner of the law and notary firm Respini, Jelmini, Beretta Piccoli, now TEAMLEGAL SA. Grand Council Deputy from 1995 to 2011, he was a member of the Management Commission, Chairman of the Legislation Commission, Taxation Commission, Constitution and Political Rights Commission as well as of the Grand Council Public Mandate Control Commission of Banca dello Stato del Cantone Ticino. He was Cantonal President of Ticino's Popular Democratic Party from 2007 to 2015.

Other activities

- » Chairman of the Board of Directors of Axion SWISS Bank SA, Lugano;
- » Chairman of the Board of Directors of TEAMLEGAL SA;
- » President of the Civic Philharmonic of Mendrisio, Mendrisio;
- » Member of the Board of Directors of HJImmobiliare SA, Porza;
- » Chairman of the Board of Directors of Modultech SA, Gambarogno;
- » Chairman of the Foundation Council of "Fondazione Portico di Salomone", Lugano.
- » Managing Director of Jelminimmobiliare Sagl, Mendrisio,
- » Member of the Foundation Council of "Fondazione Opera Umanitaria Dr. Maggi", Lugano.

STEFANO SANTINELLI

Function

Member of the Board of Directors since 1 July 2021, born on 10 May 1970, Swiss. Member of the Projects Committee.

Education and professional background

Degree in Computer Engineering from ETH Zurich in 1995. He is currently the delegate appointed by the CEO of Swisscom SA for Canton Ticino, and CEO of Swisscom Directories SA. He started his career at ABB PTI SA, a company operating in the product data management sector. From 1998 to 1999 he worked at SAP (Schweiz) SA, focusing on e-business and supply chain management, and continued to work in these sectors also at Skyva Schweiz SA, where he was Head of Marketing and a member of the European Management Team from 1999 to 2002. From 2003 to 2005 he was head of developers and the Swiss platform at the Microsoft Corporation; from 2005 to 2008 he took over responsibility for business and marketing at Microsoft Russia. From 2008 to 2009 he was General Manager of the Microsoft's Consumer&Online Division in Italy. From 2010 to 2011 he was CEO of Schibsted Classified Media Switzerland SA, a multimedia group which developed and launched the website tutti.ch. He joined Swisscom in 2014, taking on responsibility for the corporate development of eleven subsidiaries, and serving as a member of the board of directors in a number of them. From 2015 to 2016 he was CEO of Swisscom Health SA. From 2017 to 2019 he was Chairman of the Board of Directors of AdUnit SA, a start-up operating in the field of planned advertising. Since 2016 (current position) he has been the CEO of Swisscom Directories S.A., the leading company in digital market solutions for Swiss SMEs. He has served on the Board of Directors of Fidinam Holding since 2019. Since 2020 he has represented Swisscom as Chairman of the Board of Directors of Artificialy SA.

Other activities

- » Chairman of the Board of Directors of Innovative Web AG, Freienbach, and its two subsidiaries.
- » Member and managing director of Digitale Transformation Sagl, Uster.

LUCA SONCINI

Function

Member of the Board of Directors since 11 October 2017, born on 18 May 1957, Swiss. Member of the Audit and Risk Committee.

Education and professional background

Degree in Economics from the University of Fribourg in 1981. He currently works as a self-employed corporate consultant and

lecturer in the Faculty of Economics of the University of Lugano (where he coordinates the course "Banking strategies & Wealth Management" for Master's students in Finance). After graduating he became a researcher at the Office for Economic Research of Canton Ticino. In 1982 he joined the *Corriere del Ticino* as a journalist, subsequently taking on responsibility for the economics section; throughout the 1980s he also worked with RSI – Radiotelevisione svizzera di lingua italiana, again working as an economics journalist. In 1987, he was employed by Banca del Gottardo and, in 1998, was appointed member of the Executive Board, Head of Private Banking. In 2007 he entered the PKB Privatbank group as a member of the Executive Board responsible for Finances and Risks. He was a member of the National Committee of the Swiss Bank Employers Association, the Executive Committee of the Ticino Bank Association, the Foundation Council of the Swiss Institute in Rome, the Board of Directors of Banca del Gottardo Italia SpA, Bergamo, the Board of Directors of Gestivalor-Gestione fondi SA, Lugano, the Board of Directors of Compagnia Finanziaria Mobiliare SIM SpA, Milan, and the Board of Directors of Banca Intermobiliare SpA, Turin.

Other activities

- » Member of the Foundation Council of the Swiss Finance, Zurich;
- » Member of the Board of Directors of Enterra SA, Lugano;
- » Chairman of the Board of Directors of SPP Cost Control SA, Torricella-Taverne;
- » Chairman of the Board of Directors of TIVENIX SA, Lugano;
- » Member of the Foundation Council of Conservatorio della Svizzera Italiana.

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 Supplementary information concerning issuers subject to the Ordinance against Excessive Remuneration at Listed Companies (OReSA)

BancaStato is not subject to this Ordinance as regards this aspect of the directive issued by the SIX Swiss Exchange.

3.4 Elections and terms of office

The members of the Board of Directors are appointed by the State Council. Their education, competence and professional history are decisive criteria for their appointment. They remain

in office for 3 years, until 30 June. Retiring members may be re-elected. On an annual basis, the State Council renews two, two and three mandates respectively. The maximum term of office is 12 years (Articles 21 and 22 of the Law on Banca dello Stato del Cantone Ticino).

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

- » Bernardino Bulla, Chairman: 1 July 2017 / 30 June 2023,
- » Raoul Paglia, Deputy Chairman: 10 July 2012/30 June 2024,
- » Michela Ferrari-Testa: 1 July 2021/ 30 June 2024,
- » Giovanni Jelmini: 1 December 2011 / 30 June 2024,
- » Daniel Joss: 1 July 2019 / 30 June 2025,
- » Stefano Santinelli: 1 July 2021/30 June 2024
- » Luca Soncini: 16 October 2017/30 June 2023.

3.5 Internal organisational structure

The Board of Directors elects among its members the Chairman, the Deputy Chairman and the Secretary.

The Board of Directors reaches a quorum when at least five of its members are present in person. Participation by telephone or remotely is permitted under exceptional circumstances. 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. In such cases it is not permitted to attend, participate in discussions or vote on the respective matter.

Minutes are taken at each meeting.

The Chairman, the Deputy Chairman, and the Secretary of the Board of Directors comprise the Chairman's Office. The Board of Directors defines its own committees, which are described below. The organisation, functioning and competences of the Chairman's Office and of 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 2022, the Board of Directors convened 17 times. The meetings of the Board of Directors as well as those of the Chairman's Office and its committees lasted on average between one and six and a half hours.

3.6 Powers

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.

Its tasks, as defined by Art. 24 of the Law on Banca dello Stato del Cantone Ticino and Art. 12 of the Operating Rules and Regulations are listed by category hereunder:

Regulatory duties

- a. establishing the Bank's regulatory provisions;
- b. laying down and updating, on a regular basis, the operating rules and the Organisation and Risk Management Regulations, and other regulations;
- c. 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;
- d. issuing Staff Rules and Regulations upon prior consultation with personnel.

Organisational duties

- a. establishment of the Bank's organisation;
- b. definition of the Bank's organisational chart;
- c. ensuring the allocation of appropriate resources within the Bank in terms of personnel, infrastructure and IT;

- d. appointment, suspension, revoking of functions or rank, or dismissal of the President of the Executive Board, members of the Executive Board, members of Management, and internal auditors. It conducts periodic assessment of the Chief Internal Auditors and members of the Executive Board, and plans their succession accordingly;
- e. compensation and adoption of disciplinary measures as regards the Executive Board, the Chief Auditor and the Deputy Chief Auditor;
- f. organisation of accounting, internal controlling system and financial planning;
- g. establishment and closing of branches and agencies;
- h. appointment and dismissal of External Auditors;
- i. granting or revoking power to sign as laid down in Art. 23 and 24 of the Operating Rules and Regulations;
- j. authorisation to assume mandates as corporate or foundation bodies on the part of all Bank staff;
- k. authorisation to operate in new sectors;
- l. approval of tasks and objectives of each division;
- m. decision to appear in court and initiate legal proceedings, with power to delegate;
- n. appointment of the Chairs of the Committees of the Board of Directors.

Strategic and financial duties

- a. approval of the Bank's financial plans and strategic guidelines laid down in the strategic planning document;
- b. approval of budgets, accounts, semi-annual and annual financial reports and all other elements subject to disclosure requirements;
- c. approval of capital and liquidity planning;
- d. definition of the policy in matters of staff and remuneration. This policy must not generate incentives leading to conflicts of interest for the supervisory organs;
- e. approval of the section on Corporate Governance of the Annual Report;
- f. decision on the issuance of participation certificates as per regulations and the annual setting of the base dividend on participation capital;

- g. decision-making, upon notice from the Executive Board, on requests for loans, credits or advances and on operations which engage Bank funds or its pecuniary responsibility and which are not part of delegated responsibilities as laid down in the Operating Rules and Regulations;
- h. approval of loans to the members of the Executive Board and the Chief Internal Auditor;
- i. submitting, for cognisance and at the earliest meeting, the 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;
- j. 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;
- k. setting, in agreement with the State Council, of the interest rate on the endowment capital;
- l. 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;
- m. providing the Grand Council by 31 March of each year with the Auditors' report in compliance with Art. 37a of the Law on Banca dello Stato del Cantone Ticino;
- n. 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;
- o. reporting to the FINMA in the event that capital or liquidity requirements are not met, or maximum limits on major risks have been exceeded;
- p. current operating expenses and investments in infrastructure which are not specifically delegated to the Executive Board.

Supervision and control duties

- a. determining the control procedures to undertake in line with current applicable external regulatory provisions;
- b. oversight on compliance with banking regulatory provisions with respect to risks;
- c. supervision of the work of the Executive Board, including assessment of the Executive Board in terms of meeting its objectives and its work procedures;

- d. supervision of the work performed by the Internal Auditors;
- e. annual appraisal and assessment of the Bank's framework strategy for risk management, implementing any necessary adjustments, as well as undertaking its own risk analysis;
- f. review of the reports of the External Auditors;
- g. review of the reports of the Internal Auditors;
- h. analysis of the summary prepared by the Head of the Risk Division on the results of various reports on activities and risk evaluation of the Legal and Compliance, Human Resources, Risk Management, Group Internal Control Units and Security.

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. 12 of the Operating Rules and Regulations).

In compliance with Art. 25 of the Law on Banca dello Stato del Cantone Ticino, the Board of Directors may delegate part of its duties, to the exclusion of those inalienable on the analogy of Art. 716a of the Swiss Code of Obligations¹⁰, to permanent or ad hoc committees composed of members of the Board of Directors or as regards the management of business to the Executive Board.

As a rule, the Committees do not have any decision-making authority, and only draw up notices for the Board of Directors concerning matters provided for under the Committees' respective regulations. Specific decisional authority may be attributed by the Board of Directors.

Minutes are taken at every meeting 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 2022, 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.

¹⁰ https://www.fedlex.admin.ch/eli/cc/27/317_321_377/en

Chairman's Office

The Chairman's Office represents the Bank vis-à-vis its owner as well as political institutions and public opinion. It is responsible, either directly or by delegating a spokesperson, for any form of communication, internal or external, concerning decisions, official stance, or any other information emanating from the Board of Directors.

Moreover, the Chairman's Office examines and submits notices to the Board of Directors on:

- a. strategic issues;
- b. the Bank's organisational structure;
- c. internal policy (unless that task has been taken on by the Audit and Risk Committee);
- d. staff policy;
- e. the Bank's remuneration policy.

The Chairman's Office is composed of the Chairman, Bernardino Bulla, the Deputy Chairman, Raoul Paglia, and the Secretary, Daniel Joss. In 2022, the Chairman's Office met once.

Audit and Risk Committee

The Audit and Risk Committee of the Board of Directors, which performs the tasks allocated to the Audit Committee and the Risk Committee under FINMA Circular 2017/01, deals with issues relating to financial matters, internal control systems, compliance and risk management, as well as external and internal audits.

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

- a. decision on accounting principles to be adopted for the preparation of accounts;
- b. approval of annual and semi-annual financial statements, as well as any other element subject to a publication requirement;
- c. approval of the financial budget;
- d. approval of capital and liquidity planning;
- e. approval of the section on Corporate Governance of the Annual Report;

- f. approval of expenses and overrun expenditures for matters which fall within the authority of the Board of Directors,
- g. organisation of accounting, reporting and financial planning;
- h. discussions with the member of the Executive Board responsible for Finances and Accounting, as well as with the Statutory Auditors and the Internal Auditors on financial reporting and integrity of financial closures.

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

- a. functioning, efficiency and results of the internal control system;
- b. strategic decisions relative to risk management and, at least once every year, an evaluation of the risk policy and risk management principles;
- c. functioning, methodologies, efficiency and results of the risk management system;
- d. procedures to ensure that all risks incurred by the Bank are duly identified, assessed, monitored and controlled;
- e. compliance with current or upcoming banking rules and regulations within the banking business;
- f. system for monitoring irregularities or recommendations issued by the audit authorities;
- g. adequacy of the internal control and risk management system with regard to the Bank's strategic decision-making;
- h. reports of the Executive Board on risk management;
- i. matters within the competence of the Board of Directors listed in the appropriate Organisation and Risk Management Regulations;
- j. the summary prepared by the Head of the Risk Division and risk-assessment reports drawn up by Legal and Compliance, Human Resources, Risk Management, Group Internal Control and Security;
- k. rules and regulations which fall within the competence of the Board of Directors and are relevant to the tasks of the Committee.

The Audit and Risk Committee examines and submits notices to the Board of Directors also as regards the following:

- a. supervision of specific regulatory and organizational competences which are entrusted to the Board of Directors;
- b. management and control of risks in connection with the acquisition and divestment of participations which fall within the responsibility of the Board of Directors;
- c. management and control of risks in connection with proposals for expanding the Bank's business scope.

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 Chairman of the Board of Directors may not be a member of the Audit and Risk Committee. This Committee is composed of the Chairman, Raoul Paglia, and Giovanni Jelmini and Luca Soncini. In 2022 the Committee convened ten times.

Projects Committee

The Projects Committee examines and draws up notices concerning projects falling under the competence of the Board of Directors concerning:

- a. planning, implementation, management and control methods, budgets and observance thereof, work progress, reasons pertaining to planning variations, future impacts and other possible aspects of current projects;
- b. planning, budget, implementation, management and control methods, future impact and other possible aspects relating to projects which the Bank may consider;
- c. the Committee is responsible for providing information concerning the management of risks falling within the scope of its competence. The Chairman of the Projects Committee provides information concerning risks to the Chairman of the Audit and Risk Committee at least every six months.
- d. investments which fall within the authority of the Board of Directors.

The Projects Committee is comprised of the Chairman Daniel Joss and the members Michela Ferrari-Testa and Stefano Santinelli. In 2022 the Committee met five times.

3.7 Information and control instruments vis-a-vis the Executive Board

In line with Article 20 of the Operating Rules and Regulations, the President of the Executive Board reports to the Board of Directors:

On a monthly basis

- a. the balance sheet and income statements;
- b. information concerning liquidity;
- c. information on the Bank's equity, and major risks;
- d. information concerning risks;
- e. information concerning as well as the functioning, efficiency and results of the internal control system.

On a semi-annual basis

- a. the consolidated and individual balance sheets, income statements and Annexes to the half-yearly financial statements, as well as any other information subject to any disclosure requirement;
- b. information on measures implemented in order to close any gap and on the progress of implementing recommendations resulting from internal and external audits, and from any request by FINMA.

On an annual basis

- a. budgets, financial statements and annual reports, as well as any other element subject to a disclosure requirement;
- b. information regarding the general state of business with respect to objectives and strategies set by the Board of Directors and the general situation at the Bank;
- c. the Social and Environmental Report as well as the chapter of the Annual Report on Corporate Governance;
- d. assessments of amendments to regulations within the competences of the Board of Directors;
- e. confirmation of adequate allocation of resources both in terms of personnel and equipment;
- f. individual reports on the activities and risk evaluation drawn up by Legal and Compliance, Human Resources, Risk Management, Group Internal Control and Security;
- g. summary of the Head of the Risk Division on the results of various reports mentioned in the above paragraph.

As deemed necessary, the Board of Directors may request other documents or information.

The fundamental principles of information flows have been set also for the Group.

The Bank has External Auditors, in conformity with current banking legislation (refer to Section 8) as well as Internal Auditors.

The Internal Auditors' Office is independent from the Executive Board and is directly subordinated to the Board of Directors (functional reporting).

At the end of 2022, it was composed of six staff, including the Chief Internal Auditor (Mr. Gabriele Guglielmini, Chartered Accountant - Federal Accounting Diploma). The Chairman of the Audit and Risk Committee of the Board of Directors acts as the direct superior for the Chief Internal Auditor (administrative subordinate).

The audit is planned in agreement with the Board of Directors. The latter may assign specific checks, investigations or controls to the Internal Auditors.

Details pertaining to the organisation, functions and duties of the Internal Auditors are laid down by the Board of Directors in special regulations.

The internal audit provides important bases for decision-making to evaluate and verify whether the Bank can rely on an appropriate and efficient internal control system, and at least once per year carries out a global assessment of the Bank's risks as part of the planning of its work for the following year. The personnel involved in internal auditing may not take part in the Bank's operational processes.

The members of the Board of Directors all receive reports concerning ordinary audits; these documents also include statements made by the Executive Board concerning individual recommendations made by the Internal Auditors. The members of the Board of Directors also receive the semi-annual summary reports and the annual report. According to applicable rules, the reports of the Internal Auditors are discussed by the Chief Internal Auditor with the Board of Directors. As the necessary rules have been put in place, that activity has been delegated to the Audit and Risk Committee

Internal audits are conducted in compliance with the quality requirements of the Institute of Internal Auditors Switzerland (IIAS).

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 Code of Obligations, to the Executive Board.

The functions of the Executive Board are listed in detail in Art. 16 of the Operating Rules and Regulations, and are the following:

Regulatory duties

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

Management and organisational duties

- a. management of day-to-day activities;
- b. implementation of the Bank's organisation;
- c. definition, implementation and maintenance of appropriate internal processes;
- d. implementation and maintenance of an adequate internal control and risk management system;
- e. implementation of the Bank's detailed organisational chart;
- f. development of the Bank's strategic planning and implementation of the measures envisaged in the same based on decisions of the Board of Directors;
- g. organisation of financial management controls;
- h. recruitment, compensation, appointment of rank and position, carrying out of disciplinary action, dismissals, as well as direction and supervision of Bank staff falling outside the authority of the Board of Directors;
- i. preparation of the documents pertaining to matters to be submitted to the Board of Directors;

- j. membership of trade associations;
- k. decision to appear in court and initiate legal proceedings, as delegated;
- l. implementation and maintenance of an appropriate IT management system and apprising the Board of Directors on the Bank's business development and on its economic and financial state;
- m. definition of the duties and targets in each division;
- n. provision of an adequate technological infrastructure;
- o. representing the Bank in third party relationships at an operational level.

Financial duties

- a. preparing semi-annual and annual budgets and accounts and all other elements subject to disclosure requirements;
- b. drawing up of the section of the Annual Report on Corporate Governance;
- c. approval of the Social and Environmental Report;
- d. approval of monthly accounts to be submitted to the Board of Directors for information;
- e. 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;
- f. decision on the incurring of risks and on investments and expenditure, within the limits of the relevant Organisation and Risk Management Regulations;
- g. decision on the issuance of bonds or other third-party asset gathering by the Bank;
- h. determination of individual interest rates, in accordance with the provisions of Art. 3 of the Law on Banca dello Stato del Cantone Ticino;
- i. preparation of capital planning and liquidity planning;
- j. reporting to the Board of Directors in the event capital requirements are not met or of major risks or liquidity;
- k. decision-making on the acquisition and disposal of participations not exceeding 15% of the subsidiary's capital or CHF 2 million.

Supervision and control duties

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

Credit duties

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

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

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

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

Risk Committee

The Risk Committee is responsible for ensuring adequate supervision of overall risk and, in particular, operational risks. It is responsible for risk management, subject to the risk management framework strategy and the respective risk tolerances and limits set by the Board of Directors, as well as for approving individual operating losses not exceeding the monetary threshold specified in the Committee's Regulations. It ensures the existence of an adequate internal control system as well as the provision of adequate infrastructure and resources for controlling and supervising risks.

As regards the Executive Board members, this Committee is composed as follows: Its Chair is the President of the Executive Board, its Deputy Chair is the Head of the Risk Division, and its members are the Heads of the Financial Division, the Retail and Corporate Clients Division, the Private Banking and EAM Division, and the Products and Services Division.

The Executive Board has authority to attend directly to the tasks allocated to the Committee.

Credit Risk Committee

The Credit Risk Committee is responsible for managing the credit risk with the aim of optimising its administration. Within the framework of the competencies assigned to it, the Credit Risk Committee decides on loan applications (loan granting, renewal, increase) and carries out a preliminary examination of and refers to the Board of Directors any matters requiring a decision or that need to be reported. The Committee may delegate the powers vested in it.

As regards the Executive Board members, this Committee is composed as follows: its Chair is the Head of the Risk Division, its Deputy Chair is the Head of the Retail and Corporate Clients Division, and its members are the President of the Executive Board and Head of the Finance Division, for matters concerning banks and country risk.

Assets and Liabilities Committee (ALCO)

Within the framework of assignments entrusted to it, the ALCO is responsible for market risk and liquidity risk on all Bank portfolios as well as for credit risk pertaining to the Institute's financial investments and trading portfolio, 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 financial investment portfolio, and exposure to market risk derived from trading activities.

As regards the Executive Board members, this Committee is composed as follows: its Chair is the Head of the Finance Division, its Deputy Chair is the President of the Executive Board, and its members are the Heads of the Risk Division, the Retail and Corporate Clients Division, the Private Banking and EAM Division, and the Products and Services Division.

The Executive Board has authority to attend directly to the tasks allocated to the Committee.

4.1 Members of the Executive Board

The Executive Board comprises the President of the Executive Board and members who are Heads of Divisions. The members remain in office on an open-ended basis. According to old-age

and survivors' insurance rules, the ordinary retirement age is currently 65 for men and 64 for women. This does not apply to members born before 1967, subject to the parameters set out in the respective pension schemes. No member of the Executive Board was ever a member of the Bank's Board of Directors.

A brief introduction is provided below for the six members in office as at 31 December 2022 along with their functions on the Executive Board, their educational background, their professional record of accomplishments and their other principal activities.

FABRIZIO CIESLAKIEWICZ

Function

Appointed President of the Executive Board on 15 March 2017, in office since 1 July 2017. Member of the Executive Board since 1 August 2008, Born on 04 September 1970, Swiss.

Education and professional background

Degree in Political Economics from the University of Lausanne in 1993. In 1994 he was employed by UBS SA as a member of a post-graduate team for corporate clients in the Ticino area and subsequently, in 1995, as a corporate client advisor with middle management status. From the end of 1997 to the beginning of 2000 he was Head of the General Secretariat for the Liberal Radical Party of Ticino. He began his employment at BancaStato on 19 June 2000 as Deputy Manager of the Biasca Agency. On 31 December 2001, he was appointed Member of the Management and assumed the position of Regional Head and Head of the Corporate Clients Division for the Bellinzona Area. On 1 August 2008, he was appointed Member of the Executive Board and took over the position of Head of Retail and Corporate Clients. On 1 July 2017, he assumed the role of President of the Executive Board.

Other activities

- » Deputy Chairman of the Foundation Council of the Fondazione di Previdenza Risparmio 3 of Banca dello Stato del Cantone Ticino, Bellinzona;
- » Member of the Board of Directors of the Association of Swiss Cantonal Banks (ASCB), Basel;
- » Member of the Executive Committee of the Ticino Bankers' Association, Vezia;
- » Member of the Foundation Council of "Fondazione Centro Studi Villa Negroni", Vezia;



From left:

Gabriele Zanzi, Head of the Retail and Corporate Clients Division

Patrick Lafranchi, Head of the Risk Division

Fabrizio Cieslakiewicz, President of the Executive Board

Nicola Guscetti, Head of the Private Banking and EAM Division

Glenda Brändli, Head of the Finance Division

Curzio De Gottardi, Head of the Products and Services Division

» Member of the Foundation Council of the Carlo and Albina Cavargna Foundation, Biasca;

» Member of the Board of Governors of the Ticino Cancer League, Bellinzona;

» Member of the Foundation Council of the Oncological Research Institute (IOR), Bellinzona;

» Member and Treasurer of the Foundation Council of the Ticino Cancer Research Foundation, Bellinzona;

» Member of the Committee of Associazione TicinoEnergia, Bellinzona.

GLENDÄ BRÄNDLI¹¹

Function

Member of the Executive Board since 1 October 2022. Born on 26 June 1980, Swiss.

¹¹ At the start of October 2022, Glenda Brändli replaced Daniele Albisetti as Head of the Finance Division on the Executive Board. Again from October 2022 the latter joined the Executive Board of Axion SWISS Bank with responsibility for heading the new Risk Division. For details concerning the function, training, career background and activities of Daniele Albisetti, please refer to the 2021 Annual Report.

Education and professional background

Degree in Economics from the University of Lugano (USI) in 2003, obtaining experience in the financial sector during her academic studies. After completing her studies she embarked upon a career in external auditing, first at Deloitte SA, Lugano and, after acquiring the Federal Accounting Diploma, at PricewaterhouseCoopers SA, where she worked from 2006 to 2020. In 2013 she became head of the banking and financial team in Ticino, and was promoted to partner in 2014. The following year, she was appointed as partner in charge of the internal office in Lugano. Alongside her role as an auditor responsible for banks and financial companies in Ticino, Geneva and Zurich, over the years she has held roles and functions with increasing responsibility at Swiss and international level. In 2015 she was charged with setting up and managing the newly established Assurance Academy organisational unit at national level, coordinating more than 500 staff. In 2018 she became Digital Upskilling Leader for Assurance in Switzerland, working in the role of Project Leader, first at Swiss level and subsequently at Europe level, for the project "Workforce of the Future". In May 2020 Glenda Brändli was appointed by the State Council as a member of the Board of USI, and was subsequently appointed as Chairperson of the Audit and Finance Committee. She has been Head of the Finance Division since October 2022.

Other activities

- » Committee member of the Swiss American Chamber of Commerce – Ticino Chapter.

CURZIO DE GOTTARDI

Function

Member of the Executive Board since 1 January 2021. Born on 11 September 1970, Swiss.

Education and professional background

Degree in Political Economics from the University of Fribourg in 1994, where he was an Assistant Professor before obtaining his PhD in Political Economics in 2000. In 2001, he became an assistant to the Executive Board at BancaStato. In 2004, he was entrusted with heading the Strategic planning and Communications Division, which was directly subordinated to the Executive Board. In 2006, he was nominated member of the Management and, in 2020, member of the Executive Board and, since January 2021, Head of the new Products and Services Division.

NICOLA GUSCETTI

Function

Member of the Executive Board since 2 November 2021. Born on 15 April 1966, Swiss.

Education and professional background

After completing Degree in Economics at the University of St. Gallen in 1991, he started his career in banking at the BSI Group in 1994. Over the following years, he worked in a number of significant roles both in Switzerland and abroad in the areas of client management, operations, risk management and internal auditing. In 2018, he became Head of Global Business Risk Management at EFG Bank. In 2019, he was appointed Senior Partner and took on the roles of Chief Financial Officer and Deputy CEO at Patrimony 1873 SA, a securities brokerage company from the EFG International Group. Since 2021 he has been Head of the Private Banking and EAM Division.

PATRICK LAFRANCHI

Function

Member of the Executive Board since 1 July 2017. Born on 22 October 1969, Swiss.

Education and professional background

After graduating from the University of Zurich in 1996, and obtaining his lawyer's license, he joined BancaStato in 1998 as Head of Legal Affairs. In 2005, he was promoted to Member of Management and became Head of Credit Recovery. In 2012, he became Head of the Management and Credit Control Department. On 15 March 2017, he was appointed by the Board of Directors as a member of the Executive Board and Head of the Risk Division.

GABRIELE ZANZI

Function

Member of the Executive Board as of 1 December 2017. Born on 22 August 1963, Swiss.

Education and professional background

Degree in Economics from the University of Zurich in 1989. The next year he began his professional career at the Ticino Chamber of Commerce. In 1995, he joined UBS Ticino, assuming various positions with responsibility for Corporate clients. In 1998, he was appointed by Credit Suisse and took

on increasingly important functions, resulting eventually in his appointment as Head of Corporate Clients in 2012 and as Regional Head for Ticino in 2016. Since 1 December 2017, he has been the Head of Retail and Corporate Clients Division at BancaStato.

Other activities

- » Member of the Executive Committee of "Associazione Industrie Ticinesi AITI" Lugano;
- » Vice Chairman of the Board of Directors of Hockey Club Lugano SA, Lugano;
- » Member of the Foundation Committee of the "Fondazione per il perfezionamento commerciale", Lugano;
- » Chairman of the Foundation Committee of the Children of Africa Foundation, Lugano;
- » Chairman of the Founding Council of the "Risparmio 3" Pension Fund of Banca dello Stato del Cantone Ticino;
- » Auditor at the World Trade Center Ticino.
- » Member of the Board of Directors of TiVenture SA, Lugano.

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

This information is included in Section 4.1.

4.3 Supplementary information concerning issuers subject to the Ordinance against Excessive Remuneration at Listed Companies (OReSA).

BancaStato is not subject to this Ordinance as regards this aspect of the directive issued by the SIX Swiss Exchange.

5. COMPENSATION, PARTICIPATIONS AND LOANS

5.1 Content and procedure for determining remuneration and employee participation schemes¹²

The objective of the remuneration system at BancaStato is to promote collective performance, as well as the development of staff expertise and professionalism; in parallel, it seeks to ensure that the Bank remains an attractive employer for staff so as to ensure its long-term operations according to an approach to business development grounded in the public mandate.

The Board of Directors is responsible for the policy in matters of staff and remuneration.

Having regard to changes in the law and good practice in relation to remuneration, the Bank subjects its remuneration policy to reviews with the involvement of independent internal and if necessary external - specialists. The Chairman's Office has been charged by the Board of Directors with issuing prior notice of approval of the Bank's remuneration policy.

5.1.1 Personnel

The remuneration paid to all personnel with a permanent employment contract is comprised of fixed remuneration and variable remuneration; the latter is not guaranteed. Fixed remuneration accounts for the overwhelming portion of the global remuneration received by personnel and is determined with reference to a range of criteria such as salary requests, market circumstances and competition.

The overall amount designated for variable remuneration of personnel is set each year by the Board of Directors. The criteria for determining variable remuneration are based on the achievement of global objectives in terms of company performance (according to the principle of economic value added), a qualitative assessment of the implementation of company strategy as well as specific risk components that might influence ongoing and sustainable business performance.

Individual variable remuneration takes account of the individual's personal contribution to the achievement of global targets. The variable remuneration of staff appointed to control positions is not dependent upon the operating results of the entities controlled by them.

Since the start of 2022, variable remuneration has also been pensionable with the pension scheme¹³.

5.1.2 Executive Board

The fixed and variable remuneration of the Executive Board, as well as that of the Chief Internal Auditor and his/her deputy are a matter for the Board of Directors.

The overall remuneration of the Executive Board is likewise comprised of fixed remuneration and variable remuneration, both of which are set with reference to the criteria applied also to staff as a whole. Since 2021, BancaStato has applied to

¹² The Directive on Information Relating to Corporate Governance adopted by SIX Swiss Exchange is applied on a voluntary basis; the level of detail contained in this section differs in part from this standard.

¹³ See Section 5.6.8.2 of the individual financial statements.



the Executive Board the criteria for establishing the remuneration as regards the variable salary element and incidental benefits, which were adopted by the council of State on 22 January 2020.

We note in particular the following two criteria:

- a. the variable element may not exceed 50% of the fixed salary element;
- b. incidental benefits awarded may not exceed 10% of the fixed salary element.

In addition, in order to promote a better alignment between medium-term objectives and remuneration, since 2022 BancaStato has deferred the payment of one third of the variable remuneration due to members of the Executive Board, the heads of department and the Head of Internal Audit for three years.

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.

Overall remuneration in 2022 paid to the six¹⁴ members of the Executive Board, including the fixed element, the variable element and payment of allowances for representation expenses, amounts to CHF 4,342,999. The highest pay package is worth CHF 876,000.

5.1.3 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 7 December 2016, effective 1 January 2017.

¹⁴ This figure also includes the remuneration of Daniele Albisetti, who was replaced by Glenda Brändli on 1 October 2022 (see section 4.1)

Overall remuneration for 2022 paid to the Board of Directors, including the basic annual allowance, the meeting allowance, reimbursement of expenses and travel costs, amounts to CHF 532,005. The highest pay package is worth CHF 1 133,322.

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 and other banking services under the same conditions as the Bank staff.

At the end of 2022, loans to Bank governing bodies totalled CHF 17.2 million and amounts due CHF 7.5 million (see also the corresponding table of the Annex to the Financial Statements).

6. SHAREHOLDERS' PARTICIPATION RIGHTS

Relations with owner

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.

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

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

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 discharge of the Bank's governing bodies. In conformity with Art. 34 of the Law on Banca dello Stato del Cantone Ticino,

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

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

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

As at 31 December 2022 the Commission included: Omar Balli (Chairman since May 2022), Samantha Bourgoïn (Deputy Chairman since May 2022), Tiziano Galeazzi, Fabrizio Garbani Nerini, Giacomo Garzoli and Marco Passalia.

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. For the 2022 financial year, Mr. Beresford Caloia, partner at PricewaterhouseCoopers SA, assumed the function of Lead Auditor for the third time. This mandate is annual.

PricewaterhouseCoopers SA also audits Axion SWISS Bank SA.

8.2 Fees

The fees payable to PricewaterhouseCoopers SA for the ordinary audit amount to CHF 417,424. At consolidated level, the fees amount to CHF 639,440¹⁵.

8.3 Additional fees

During 2022, PricewaterhouseCoopers SA was paid an amount totalling CHF 48,171 at individual and CHF 64,326 at consolidated level for checks carried out in relation to SWIFT compliance and Equal Salary certification¹⁶.

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

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

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

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

9.9. INFORMATION POLICY

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

The responsibility for the management of the Bank's communication policy is entrusted to the Support, Communications and Marketing Department¹⁷. 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 as well as on the internet), to press agencies, as well as to the press offices of all Cantonal Banks and the Association of Swiss Cantonal Banks. The annual financial report is presented during the first quarter at a press conference held at BancaStato's Head Office. The annual report is sent to the FINMA, the State Council, the Grand Council, the Public Mandate Control Commission, the Swiss National Bank, all Cantonal Banks, the Association of Swiss Cantonal Banks, as well as to correspondent banks, and Swiss and foreign clients upon request. Annual reports, in Italian and in English, can be accessed via the BancaStato website at www.bancastato.ch¹⁸ and are available at any BancaStato counter.

The Social and Environmental Report for the 2022 financial year will be published by the end of June¹⁹. BancaStato information will be accessible externally on the website www.bancastato.ch: the website provides easy access for the general public to information concerning the Bank's products, services and communications. The Bank is present in various daily newspapers, broadcasts and publications which deal with financial issues with interviews, presentations and financial articles²⁰. These articles also appear on the website and, whenever possible, on the Bank's other communication channels in order to provide information on the diversified world of the Bank. BancaStato also posts its news on social media.

Moreover, representatives from BancaStato participate regularly in conferences and other public events and respond to queries from the media with regard to the Bank's stance on topical issues.

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

¹⁵ Please refer Table 5.12.26 of the Annex to the Group Financial Statements as well as to Table 5.8.18 of the Annex to the Individual Financial Statements.

¹⁶ See the previous note.

¹⁷ This unit became a department at the start of 2023.

¹⁸ <https://www.bancastato.ch/su-di-noi/cifre-e-pubblicazioni.html>

¹⁹ <https://www.bancastato.ch/su-di-noi/cifre-e-pubblicazioni.html>

²⁰ <https://www.bancastato.ch/su-di-noi/media-novita-eventi/notizie.html>



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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10. LOCK-UP PERIOD

As it does not hold any listed securities, the information to be disclosed as per paragraph 10 of the Directive on Information Relating to Corporate Governance issued by SIX Swiss Exchange does not apply to Banca dello Stato del Cantone Ticino.

Ticino's Economy in 2022 and Outlook for 2023

Davide Arioldi
Head of the PanelCODE (www.panelcode.ch)
Economic Research Institute, University of Lugano
February 2023

The International Overview

Global economic activity in 2022 was adversely affected by the outbreak of the war between Ukraine and Russia following the Russian invasion on 24 February 2022, the resurgence of Covid-19 in China and the measures to contain inflation deployed by central banks in almost all economies around the world. The global economic growth rate slowed from +6.2% in 2021 to +3.4% forecast for 2022 (IMF estimates). However, that slowdown has proved to be less sharp than had been anticipated. The main economies (including especially the US and European economies) are proving to be more resilient than initially forecast, thanks above all to stronger than expected internal demand, the contribution of anti-cyclical fiscal policies and a particularly robust labour market, which had previously benefited from extraordinary anti-Covid measures. The supply side also outperformed expectations over the last few months of 2022. Some of the problems that had affected supply and manufacturing chains in specific economic sectors (such as for example the automotive sector) have eased, and the costs of marine shipping (the Baltic Freight Index has fallen by around -75%) and agrifood production costs (-12% for the Agricultural Raw Materials Index) have dropped significantly. Thanks to a particularly mild winter, enhanced European storage capacity and Chinese anti-Covid shutdowns, the energy market has also been better than expected at absorbing the effects of the energy shock caused by sanctions and the interruptions in the distribution of Russian products (in particular gas) that occurred following the outbreak of the war with Ukraine. Despite the significant improvements, thanks also to a broadening of the range of suppliers, some major tensions however persist in some specific macro-regional areas (such as in Europe) owing to the need for economies to wean themselves off Russian products. Within this context, growth rates in the major economies have still been quite positive. According to the most recent IMF estimates, in 2022 US gross domestic product is set to grow by +2%, the Chinese economy by +3%, Japan by +1.4%, and the Eurozone by +3.5%. The European economies of Switzerland's main trading partners (Germany, Italy and France) should by contrast record growth of respectively +1.9%, +2.6% and +3.9%. Although it fell slightly during the last quarter of the year, inflation on the other hand remained at decidedly high

historical levels. Globally, price increases reached +8.8%, peaking above 10% in many developing countries. Europe too arrived at levels that had not been reached since the previous energy prices of the 1980s, with an annual inflation rate of +8.9%, which was higher than both the +8% posted by the US economy, and above all the +2% for the Chinese economy. Prices increased more sharply in Europe in those economies that were more reliant on Russian energy products, such as for example Germany and Italy, where dependence on Russian gas distributed through gas pipelines is higher. Prices rose in these two countries by +8.6% and +8.7% respectively, a level decidedly higher than the increases in other European countries that are less dependent on Russian products, such as France and Spain, where annual inflation reached respectively +5.9% and +5.7%. The most recent calculations available (IMF) forecast global economic growth of +2.9% in 2023. Growth prospects in Europe are inversely related to dependence on Russian energy products. GDP in Germany and Italy is forecast to grow by respectively +0.1% and +0.6%, whilst France and Spain are expected to grow by +0.7% and +1.1% respectively. Finally, economic growth in the USA is anticipated to slow down to +1.4%, whilst the principal Asian economies, China and Japan, are set to accelerate growth to +5.2% and +1.8% respectively.

The National Overview

Within the European context characterised by high inflation, the Swiss economy has once again proved to be extremely resilient, having been able to contain imported inflationary pressure thanks to an increase in the value of the national currency and to continue along its growth trajectory (the Swiss economy was the first to rise back above pre-Covid levels). According to figures released by the State Secretariat for Economic Affairs (SECO), gross domestic product (not adjusted for the effects of sporting events) rose by +2% in 2022 on the back of strong growth in domestic consumer spending (+4.1%). Investment in equipment and spending by public sector bodies also grew by +2.5% and +1.1% respectively. On the other hand, construction investment and the balance of trade made a negative contribution to growth. The former declined by -4%, disappointing operators which had been expecting a lower fall

of -2.2%, whereas the balance of trade dropped to -2.5%. The negative result for the balance of trade was caused by growth in imports of +7.2%, which increased by more than exports (+4.7%). This development was also fuelled by the increase in the value of the Swiss franc, which appreciated against the euro by an average of around +7% in 2022. As mentioned above, this currency dynamic made it possible to contain inflation at a rate of +2.8%, an extremely low level compared to the rest of Europe (+8.4%). Against this backdrop, the Swiss labour market continued to show signs of strength; according to SECO figures, the unemployment rate was 2.2%, the lowest in 20 years, whilst the number of full-time equivalent positions rose by +2.7% on the previous year. In 2023 on the other hand, the trend is expected to be substantially similar to that forecast for other European countries, with the GDP growth rate set to slow to +1% per annum. Once again, it is anticipated that GDP growth will be fuelled by an increase in consumer spending, with the balance of trade and spending by public sector bodies making a negative contribution to economic growth. Finally, the economic slowdown is also likely to have an effect on the labour market; the SECO unemployment rate is expected to rise slightly to 2.3% (+0.1% compared to the previous year), whereas job growth is set to slow to a rate of +0.7% per annum. However, inflationary pressure is also likely to ease, with prices forecast to increase by +2.2% over the course of 2023 (-0.7% compared to 2022).

The Overview for Canton Ticino

According to the most recent BAK estimates, Ticino's GDP fell by -0.1% in 2022. The trend thus appears to be more negative than at national level (equal to +2%). On the other hand, labour market performance in terms of jobs growth was slightly better. Over the first 3 quarters of 2022, the number of FTE positions grew in Ticino at an average rate of +3.4%, as against national growth of +2.9%. Similarly unemployment measured according to the ILO standard fell by more in Ticino than in the rest of the country. The average unemployment rate over the first 3 quarters of 2022 was 6.8% in Ticino, down -1.2% on the 2021 average. On the other hand, the Swiss figure for the same period in 2022 was 4.4%, or -1% lower than the

previous year. In addition, the rate of unemployment measured by SECO fell to 2.6% (-0.6% from the previous year). However, the decline was lower than the figure of -0.8% recorded at national level. If the economic performance of businesses is analysed, according to data provided by PanelCODE-IRE the strong post-pandemic recovery phase came to an abrupt halt in 2022, with revenues stagnating. However, the trend was fairly uneven among different sectors. For example, the banking sector continued to expand its operations, at rates substantially similar to those recorded during the previous year, whilst the logistics sector experienced a further growth spurt. Also enterprises in the construction and manufacturing sectors improved their revenues, albeit with lower growth rates. On the other hand, whilst still posing positive performance, the tourism and accommodation sector experienced a significant decline in revenue growth in the wake of the excellent results from 2021, which were influenced by the restrictions imposed on international travel. Finally the tertiary sector, and in particular the IT and retail sectors, experienced more difficulties, with revenues falling compared to the previous year. In terms of business demographics, 2022 was once again a fairly positive year (+874 businesses compared to the previous year), although the bankruptcy rate (now equal to around 1.6%) started to rise again, returning to approximately 2019 levels after dipping to historic lows in 2020 and 2021 thanks to the extraordinary public support provided to businesses during the period of peak spread of Covid. In percentage terms, the number of businesses thus increased by +2.5% in Ticino, which is lower than the national figure of +3.5%. Finally, growth estimates drawn up by BAK for 2023 indicate an anticipated decline in real GDP of -0.1%. However, the forecast growth rate is highly likely change, potentially by a significant amount, depending upon any developments in the current international geopolitical climate.

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

Banca dello Stato del Cantone Ticino and the Economy in Ticino and Switzerland in 2022

2022 was a year full of changes. It marked the turning point in the pandemic and the measures to prevent its spread. The recovery from the pandemic, resurgent demand for goods and services and the major difficulties encountered within global supply chains triggered an inflationary spiral, which was powerfully catalysed by the outbreak of the war in Ukraine. One of the most evident consequences of the war was the strong rebound in prices for all types of raw materials, including in particular energy and agricultural commodities, which in some cases reached unprecedented levels. This major shift caused a steady increase in inflation and inflation expectations. On account of their price stabilisation mandate, central banks were forced to grapple with the strongest price increases for forty years. The increases in interest rates coupled with the gradual paring back of bond purchasing programmes by central banks triggered a sharp rise in yields, along with the attendant fall in bond prices and major falls on share markets.

In 2022 the Swiss economy grew less than it did during the previous year. The inflation rate led the Swiss National Bank to come out of its lengthy period of negative interest rates and to start exploiting the strength of the Swiss franc as a useful instrument in containing imported inflation from foreign countries, which have been faced with consumer price rises on a much greater scale than in Switzerland.

Against this backdrop, mortgage rates lost the stability that had characterised them in previous years and essentially more than doubled. That trend, in tandem with the rising costs for raw materials and the difficulty in sourcing them depressed the number and value of real estate transactions registered in Ticino, taking some momentum out of the strong growth recorded during the pandemic. However, these figures are still generally high, and the parallel uptick in migration levels has also helped to shore up demand. Vacancy rates – which rose sharply in our Canton more than in the rest of Switzerland, and were regarded as a sign of market saturation – fell back to some extent in June 2022.

As described below, excellent results were achieved by both the Group and by BancaStato in 2022, continuing along the multi-year growth trajectory. This confirms the solidity of the Group's business model and of the corporate strategies pursued over the last few years.

Comment on the Evolution of Major Balance Sheet and Off-balance Sheet Items²¹

Once again in 2022, BancaStato experienced growth in terms of its core business, i.e. the granting of mortgage loans to private individuals and businesses present in the canton. Accordingly, the total volume of mortgage loans reported in the balance sheet grew by 2.9% to CHF 11.4 billion. For the first time in years, following the tightening of monetary policy by the Swiss National Bank to combat inflation, interest rates increased sharply during the second half of the year. It must be stated that BancaStato maintains a lending policy that reflects a cautious approach. As a result, the quality of its lending portfolio has further improved. An analysis of the stratification of mortgage loans at year-end shows that 94.3% of them are ranked in first position and 72.6% are for housing Mortgage loans for amounts under CHF 0.5 million are 66.4%, which confirms that the Bank continues to be a valuable resource for those Ticinese people wishing to buy their own home.

Amounts due from customers after value adjustments also rose (CHF +78.7 million, equal to 4.0%), reaching CHF 2.0 billion on 31 December 2022; of this figure, CHF 783.1 million concerned loans to public corporations, which was significantly up on the figure of CHF 680.6 million at the end of 2021.

BancaStato thus maintains its leading position in Ticino in this market segment. Loans to private individuals and businesses were on the other hand relatively stable, falling slightly from CHF 1.26 billion at the end of 2021 to CHF 1.24 billion on 31 December 2022 (-1.6%). As regards COVID-19 and COVID-19 Plus loans granted in 2020, initially with an overall limit of CHF 210.4 million, actual drawdown in 2022 declined further from CHF 132.6 million during the previous year to CHF 107.1 million on 31 December 2022.

²¹ The data refer to BancaStato's individual financial statements. A distinction is made between individual and group statements only in the case of significant variations.

The major increase in financial investments (+CHF 278.1 million, equal to 72.5%) is attributable to the acquisition of government debt securities. On 31 December 2022, 91.1% of the portfolio of financial investments held by the Bank had an above-average credit quality according to S&P's, and specifically a rating of at least A-.

Amounts due in respect of customer deposits were relatively stable, increasing by 2.2%, as confirmation of the solid trust placed by Ticino's residents in their cantonal bank and the "safe haven" role that all clients attribute to BancaStato. Following the increase in yield curves, in the second half of 2022, a shift from sight deposit accounts towards fixed income products, which are now more attractive, was noted within this item.

In order to satisfy its medium to long-term financing needs – and with the aim of soundly managing its exposure to the interest rate risk – as in previous years the Bank turned to issues of the Cantonal Banks' mortgage refinancing institution (rated AAA). The net increase in this position in 2022 amounts to CHF 206.0 million.

As a result of the above-mentioned figures, the Bank's balance sheet total grew by a further CHF 650.5 million, reaching CHF 17.7 billion at 31 December 2022.

As far as the Group is concerned on the other hand, the balance sheet total grew by a further CHF 674.5 million, reaching CHF 18.6 billion at 31 December 2022.

Comment on the Evolution of the Main Revenue Items

2022 was another year characterised by excellent financial results for BancaStato, thus confirming the positive trend from previous years. The excellent improvement in net revenues (+CHF 8.0 million, equal to 3.7%) enabled the Board of Directors to allocate CHF 32.0 million to reserves for general banking risks (+38.4%), resulting in a net profit of CHF 55.5 million, up CHF 3.0 million on 2021 (+5.7%). BancaStato was thus able to guarantee a payment to the canton of CHF 45.3 million in 2022, which was CHF 2.0 million higher than in 2021 (+4.6%).

For the public body, this payment is a valuable source of income which has increased substantially over the past decade (+57.6% compared to the CHF 28.8 million paid in 2012). In the same ten-year period, BancaStato paid out over CHF 374.4 million to the Canton.

Considering that the endowment capital was progressively increased from CHF 300.0 million at the end of 2017 to CHF 500.0 million at the end of 2020²², it can be said that, over the past decade, the Bank provided a substantial income with respect to the Canton's initial investment.

The net result from interest operations grew significantly, mainly due to the steepening of the interest rate curves, by CHF 13.8 million (+8.9%) compared to 2021. Following the increase in the cost of debt servicing there has been a significant sideways shift from fixed-rate mortgages to variable-rate mortgages.

The result from commission business and services declined by CHF 0.7 million compared to 2021 (-1.8%). This item was affected by uncertainty resulting from extremely volatile financial markets, which led clients to dispose of their securities portfolios and hold on to greater liquidity, alongside a significant reduction in the value of the portfolios themselves due to stock market corrections, in particular during the first half of the year.

The result from trading activities and the fair value option, generated primarily through foreign exchange trading activities on the Bank's own account and on behalf of clients, grew further in 2022 to CHF 18.4 million on 31 December 2022. That figure is CHF 3.1 million (20.2%) higher than the corresponding figure for 2021 due to the excellent performance achieved from foreign exchange trading.

The other results from ordinary activities during 2022 amounted to CHF 1.0 million, which is clearly down on the CHF 9.1 million recorded in 2021. This item too was affected by negative stock market performance, the decline being mainly attributable to the capital losses incurred on securities held in the Bank's own investment portfolio totalling CHF 6.6 million (the writedown in 2021 amounted to CHF 0.5 million), coupled with losses crystallising on the sale of other securities held in the same portfolio of CHF 1.3 million (whereas corresponding

²² Changes to endowment capital are summarised in chapter 2.1 of the Corporate Governance Report contained in the Annual Report of BancaStato.

sales in 2021 had generated profits of CHF 2.6 million). The increase of CHF 1.7 million in participation income is due to the higher profit earned by Axion SWISS Bank SA in 2021 compared to 2020, which will thus pay a dividend in 2022 of CHF 4.6 million, as against CHF 3.0 million during the previous year.

Following the high point reached in 2021 of CHF 128.8 million, operating expenses fell by more than CHF 8.4 million in 2022 (-6.6%) as a result of the exceptional contribution to the pension plan of CHF 15.9 million.

Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets changed from CHF 12.1 million in 2021 to CHF 14.5 million in 2022, representing an increase of 20.1%. The increase in depreciation and amortisation charges is primarily due to the goodwill associated with the asset deal concluded with EFG and the costs of adapting IT systems in order to give effect to that operation, as well as several computer programs which came on stream in 2022, which will be amortised over a period of two years.

From a consolidated perspective, the Group's profit improved from CHF 55.2 million in 2021 to CHF 64.4 million in 2022, up 16.7%.

Axion SWISS Bank SA²³ posted higher profits: the affiliate recorded significant growth in net revenues (+ CHF 10.9 million or +31.9%) as well as higher operating expenses (+CHF 1.3 million or +5.2%).

The operating result and the net profit for the period improved respectively by CHF 10.0 million (+159.4%) and CHF 6.9 million (+135.2%) compared to the previous year's result, thereby enabling a distribution to the parent company of CHF 10.6 million, which was up by CHF 6.0 million on the distribution made in 2021 (+129.4%).

Changes in client funds

In 2022 the volume of client funds deposited at BancaStato Group rose by CHF 620.9 million (+3.0%) to CHF 21.3 billion. The influx of net new money from clients totalled CHF 2.2 billion, which confirms the increasing attractiveness of BancaStato Group.

The volume of client funds deposited at BancaStato increased by CHF 418.7 million (+ 2.8%), levelling off at CHF 15.4

billion. Net new money of CHF 1.2 billion in 2022 was once again particularly encouraging and in line with the previous year.

A similar trend was recorded for net new money at Axion SWISS Bank SA which increased from CHF 6.0 billion at the end of 2021 to CHF 6.1 billion at 31 December 2022 (+1.7%). 2022 saw once again a gratifying influx of net new money of CHF 965.7 million.

Profitability, Efficiency and Financial Strength

The profitability of BancaStato in terms of Return on Equity (ROE)²⁴ increased to 6.7% in 2022 from 5.8% in 2021. In this regard, it should be mentioned that in 2012 this profitability indicator stood at 6.0%, with own equity representing almost half its 2022 amount. The Return on Risk Adjusted Capital (RORAC), which measures the profitability of risk-adjusted average core capital, was substantially in line with the previous year, with a slight decline from 11.9% in 2021 to 11.5% in 2022.

As regards efficiency indicators (Cost / Income I and II), defined as the ratio of operating expenses (respectively excluding and including depreciation and provisions for other operational risks) to net income, the Bank further consolidated the progressive positive trend it has demonstrated since 2012. The Cost / Income I ratio (which does not consider depreciation and provisions for other operational risks during the year) improved markedly from 59.4% in 2021 to 53.6% in 2022 (as against a figure of 67.3% in 2012). The Cost / Income II ratio (which considers all costs, including depreciation and provisions during the year) displayed the same positive trend, moving from 65.1% in 2021 to 60.9% in 2022. The strategic action taken by the Bank over the last ten years has made it possible to increase the Bank's profitability and stabilise it at around twice the level it was 10 years ago (consider that the operating result of CHF 38.1 million in 2012 increased to CHF 87.9 million in 2022).

As at 31 December 2022, the Bank had a total of 455 employees on payroll (413.65 FTEs) with apprentices calculated at 50%, compared to 432 staff at the end of 2021 (391.40 FTEs).

Over the past 10-year period, the Bank's capital adequacy, determined by the ratio of required capital to available funds²⁵, showed changes resulting from stricter requirements on the part of the supervisory authority set against repeated increases in

²³ For further information on the results achieved by Axion SWISS Bank SA, please refer to the company's Annual Report.

²⁴ The reference used to calculate ROE is net revenues before allocation to the reserve for general banking risks, while the reference capital comprises average core capital of the reporting year (net of any increase in endowment capital at year-end and of the year's allocation to reserves for general banking risks).

²⁵ Calculated on the basis of Basel III rules.

endowment capital granted by the Canton, and allocations to reserves decided by the Bank in light of the increasingly excellent financial results achieved.

From a capital requirement covering ratio of 185.5%, with CHF 421.7 million required capital against CHF 782.0 million eligible capital (14.8% ratio of total regulatory capital) at the end of 2012, BancaStato's present individual capital adequacy is 232.4% with required capital standing at CHF 700.3 million, and available funds at CHF 1,627.5 million (18.6% ratio of total regulatory capital).

The figures for adequacy indicators at the end of 2022 compared to the previous year are set out below:

BIS adequacy indicators	Prerequisite FINMA minimum	Individual Basis		Group Basis	
		31.12.2022	31.12.2021	31.12.2022	31.12.2021
Core Tier 1 (CET1) ²⁶	8.7%	15.3%	14.5%	15.5%	15.2%
Tier 1 (T1) ²⁷	10.5%	15.8%	15.1%	16.1%	15.8%
Total regulatory capital ²⁸	12.9%	18.6%	18.1%	18.8%	18.7%

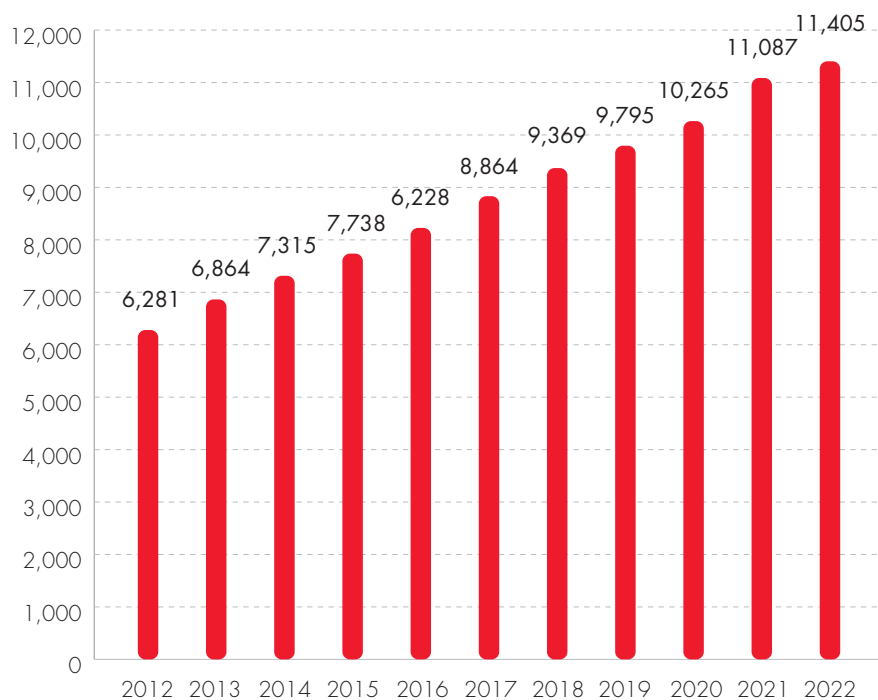
²⁶ Common Equity Core Tier 1 – CET1.

²⁷ Tier 1 – T1.

²⁸ Capital adequacy indicator.

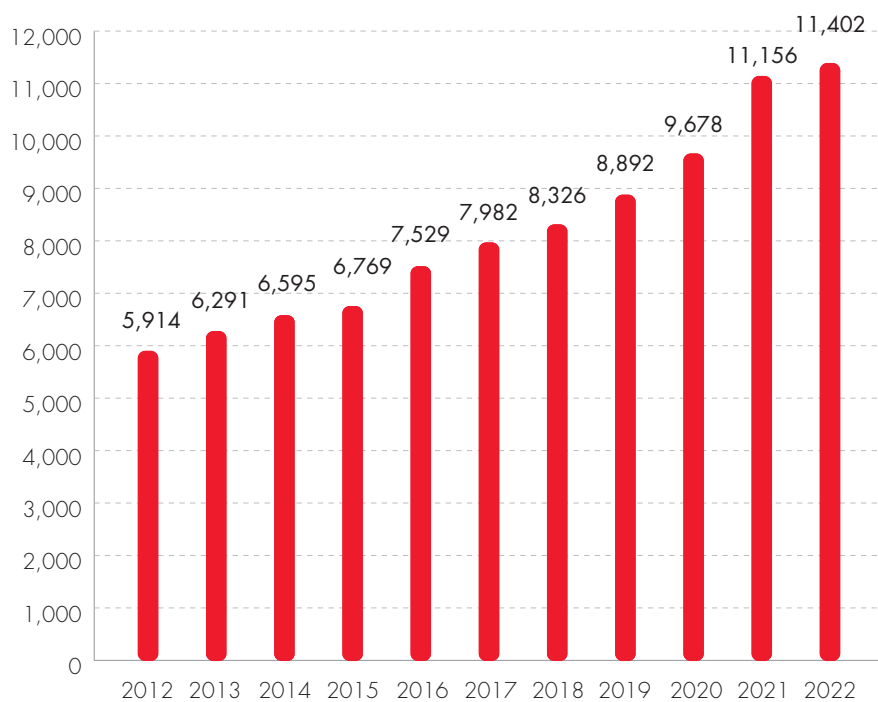
EVOLUTION OF MORTGAGE LENDING

(CHF millions)



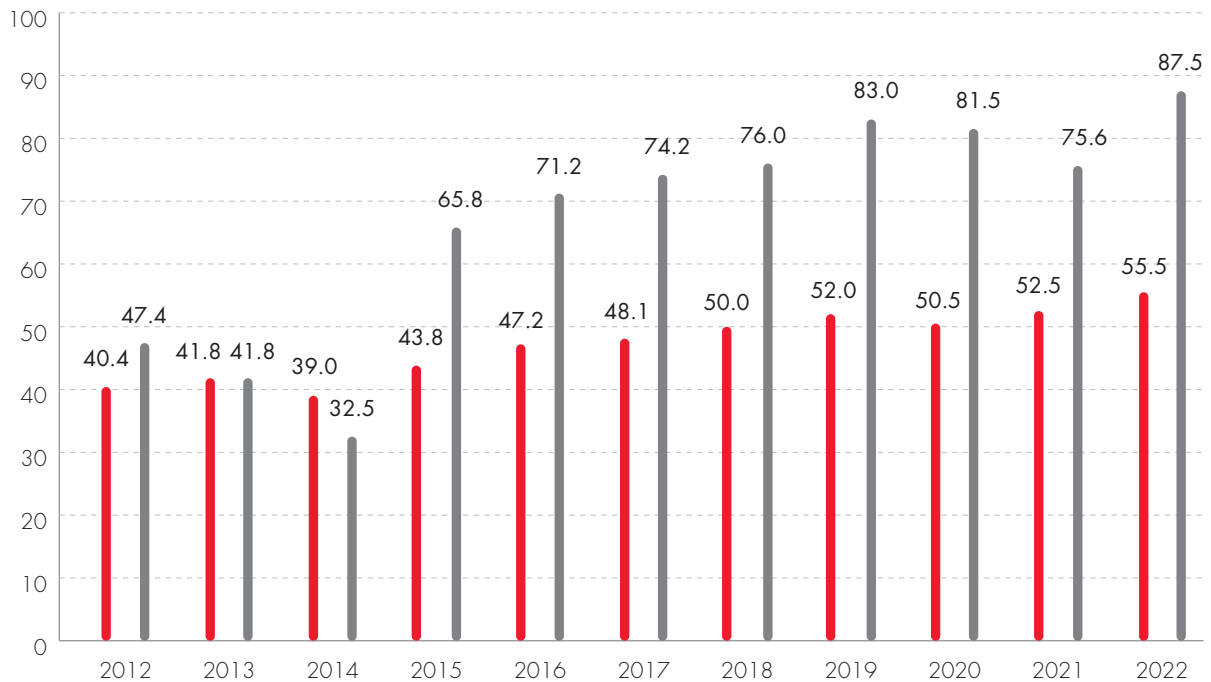
EVOLUTION OF TOTAL AMOUNTS DUE TO CUSTOMERS

(CHF millions)



EVOLUTION OF NET INCOME

(CHF millions) █ Net income █ Net income before the allocation to reserves for general banking risks



EVOLUTION OF THE PAYMENT TO THE CANTON

(CHF millions) █ Net income █ Payment to the Canton





Outlook for 2023

In the light of the economic and geopolitical context, forecast economic growth in 2023 has been significantly downgraded, with the tangible possibility of several quarters of recession for some countries. There have been encouraging signs on the anti-inflation front during the last few months of 2022. In spite of this, the first six months of 2023 saw a resurgence of inflation; the global macroeconomic situation is extremely turbulent at present, and it is therefore difficult to make reliable forecasts on the development of monetary policy measures in the near future.

Western governments have stopped rolling over the exceptional measures to support their respective economies adopted during the pandemic. However, in contrast to expectations, fiscal policies have remained substantially unchanged, guaranteeing support for businesses and consumers affected by the strong

price rises. This has put consumers in a better position to absorb price increases and has enabled corporate balance sheets to remain generally solid.

On the basis of these scenarios characterised by a general steepening of interest rate curves, we anticipate that the result from interest operations should benefit, despite the major shift from fixed-rate products to variable-rate products alongside a parallel increase in interest expenses. Although debt costs have increased, we do not anticipate any specific likelihood of any significant exacerbation of the client insolvency risk, and a resulting deterioration in the Bank's mortgage portfolio.

Overall, in spite of the highly uncertain macroeconomic and geopolitical context, the Board of Directors anticipates that it will achieve the targets set for 2023 and close another year with positive results.

Group Financial Statements

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1. Consolidated Balance Sheet

(CHF thousands)	Reference to the Notes	31.12.2022	31.12.2021	Change
Assets				
Liquid assets		3,045,337	3,434,270	-388,933
Amounts due from banks		298,086	349,440	-51,354
Amounts due from clients	5.10.2	2,436,259	2,329,499	106,760
Mortgage loans	5.10.2	11,404,892	11,087,141	317,751
Trading activities	5.10.3	35,275	32,557	2,718
Positive replacement values of derivative financial instruments	5.10.4	59,912	10,303	49,609
Financial investments	5.10.5	1,232,541	405,506	827,035
Prepaid expenses and deferred income		16,776	14,084	2,692
Non-consolidated participations	5.10.6 and 5.10.7	7,678	8,099	-421
Tangible fixed assets	5.10.8	75,516	80,994	-5,478
Intangible assets	5.10.9	4,851	6,694	-1,843
Other assets	5.10.10	3,244	187,318	-184,074
Total assets		18,620,367	17,945,905	674,462
Total subordinated loans		7,201	8,613	-1,412
<i>of which subject to mandatory conversion and/or debt waiver</i>		7,201	8,613	-1,412
Liabilities				
Amounts due to banks		380,003	617,652	-237,649
Liabilities from securities financing transactions	5.10.1	400,000	270,000	130,000
Amounts due in respect of customer deposits		12,838,262	12,544,245	294,017
Negative replacement values of derivative financial instruments	5.10.4	52,470	88,627	-36,157
Bond issues and central mortgage institution loans	5.10.11 and 5.10.13	3,220,000	3,014,000	206,000
Deferred expenses and prepaid income		47,933	43,991	3,942
Other liabilities	5.10.10	272,914	11,690	261,224
Provisions	5.10.14	18,284	19,741	-1,457
Reserves for general banking risks	4 and 5.10.14	540,000	506,500	33,500
Endowment capital	4	500,000	500,000	-
Retained earnings reserves	4	286,110	274,297	11,813
Group profit	4	64,391	55,162	9,229
Total liabilities		18,620,367	17,945,905	674,462
Total subordinated liabilities		250,654	250,654	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		250,654	250,654	-
Off-balance sheet transactions				
Contingent liabilities	5.10.2 and 5.11.21	175,722	218,942	-43,220
Irrevocable commitments	5.10.2	369,617	375,481	-5,864
Commitments for calls on shares and other equities	5.10.2	19,416	19,416	-

2. Consolidated Income Statement

(CHF thousands)	Reference to the Notes	2022	2021	Change
Income and expenses arising from ordinary banking operations				
Result from interest operations				
Interest and discount income		210,705	180,808	29,897
Interest and dividend income from financial investments		3,555	1,667	1,888
Interest expenses		-28,284	-23,148	-5,136
Gross result from interest operations		185,976	159,327	26,649
Changes in value adjustments for default risks and losses from interest operations		21	-1,371	1,392
Net result from interest operations		185,997	157,956	28,041
Result from commission business and services				
Commission income from securities trading and investment activities		54,312	59,353	-5,041
Commission income from lending activities		5,364	5,335	29
Commission income from other services		12,829	11,678	1,151
Commission expenses		-12,228	-12,603	375
Result from trading activities and fair value option	5.12.23	23,724	20,810	2,914
Other results from ordinary activities				
Result from the disposal of financial investments		-1,277	2,624	-3,901
Participation income		414	407	7
<i>of which from participations valued using the equity method</i>		-	-	-
<i>of which non-consolidated participations</i>		414	407	7
Real estate income		-2	-86	84
Other ordinary income		1,825	1,880	-55
Other ordinary expenses		-7,470	-1,133	-6,337
Net revenues		263,488	246,221	17,267
Operating expenses				
Personnel expenses ¹	5.12.25	-94,791	-105,010	10,219
Other operating expenses	5.12.26	-49,875	-47,929	-1,946
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	5.10.6, 5.10.8 and 5.10.9	-15,393	-13,144	-2,249
Changes to provisions and other value adjustments, and losses		-2,411	-640	-1,771
Operating result		101,018	79,498	21,520
Extraordinary income	5.12.27.02	157	537	-380
Extraordinary expenses	5.12.27.02	-	-81	81
Changes in reserves for general banking risks	5.12.27.04	-33,500	-23,116	-10,384
Taxes	5.12.28	-3,284	-1,676	-1,608
Group profit		64,391	55,162	9,229

¹ The figure for 2021 includes CHF 15.9 million for the adjustment of the staff pension plan to be implemented over 5 years (2022 and 2026).

3. Cash Flow Statement

(CHF thousands)	2022		2021	
	Source	Application	Source	Application
Cash flow from operating activities (internal financing)	126,501	-	28,968	-
Group profit	64,391	-	55,162	-
Change in reserves for general banking risks	33,500	-	-	19,500
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	15,393	-	13,144	-
Provisions	-	1,457	11,138	-
Prepaid expenses and deferred income	-	2,692	-	2,573
Deferred expenses and prepaid income	3,942	-	2,421	-
Other assets and liabilities	38,424	-	10,846	-
Interest on endowment capital from the previous year	-	25,000	-	24,000
Additional payment to the Canton for the previous year	- ¹	-	-	17,670
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets	-	7,651	-	23,428
Non-consolidated participations	-	17	-	1,558
Real estate	-	2,939	54	3,154
Other tangible fixed assets	-	4,695	-	10,640
Intangible assets	-	-	-	8,130
Cash flow from banking activities	-	507,783	374,294	-
Medium and long-term transactions (> 1 year)	-	778,573	-	614,250
Amounts due to banks	-	912	-	416
Amounts due in respect of customer deposits	180,508	-	247,921	-
Bond issues and central mortgage institution loans	377,000	121,000	346,000	120,000
Bonds	-	50,000	-	175,000
Amounts due from banks	-	-	-	-
Amounts due from clients	-	19,383	-	71,131
Mortgage loans	-	317,751	-	822,469
Financial investments	-	827,035	-	19,155
Current assets	270,790	-	988,544	-
Amounts due to banks	-	236,737	-	195,048
Liabilities from securities financing transactions	130,000	-	20,000	-
Negative replacement values of derivative financial instruments	-	36,157	58,766	-
Amounts due in respect of customer deposits	113,509	-	1,267,367	-
Trading activities	-	2,718	-	10,477
Positive replacement values of derivative financial instruments	-	49,609	8,871	-
Amounts due from banks	51,354	-	4,999	-
Amounts due from clients	-	87,377	-	87,772
Other assets and liabilities	388,525	-	-	78,162
Liquid assets	388,933	-	-	379,834
Change in liquid assets	388,933	-	-	379,834
Total	515,434	515,434	403,262	403,262

¹ At the balance sheet closing date on 31.12.2022 the accounts for the previous year had not yet been approved.

4. Statement of Changes in Equity

(CHF thousands)	Endowment capital paid up	Retained earnings reserves	Reserves for general banking risks	Result of the period	Total
Equity at 01.01.2022	500,000	274,297	506,500	55,162	1,335,959
Appropriation of retained earnings 2021					
<i>Assignment to statutory retained earnings reserve</i>	-	11,813	-	-11,813	-
<i>5% interest on endowment capital</i>	-	-	-	-25,000	-25,000
<i>Additional payment to the Canton</i>	-	-	-	-18,349	-18,349
Allocation to reserves for general banking risks	-	-	33,500	-	33,500
Group profit	-	-	-	64,391	64,391
Total equity at 31.12.2022	500,000	286,110	540,000	64,391	1,390,501

5. Notes to the Financial Statements

5.1 GROUP - ACTIVITIES AND PERSONNEL

5.1.1 Group activities

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

Its operations have evolved over 100 years and comprise the complete range of banking services provided by full service banks.

Amongst other things as part of a move to diversify its sources of revenue, BancaStato holds the capital of Axion SWISS Bank SA, Lugano (Axion).

Axion's core business is asset management for private as well as institutional clients, and it is active in the principal directly related services, such as securities and currency intermediation on the main international markets, investment advisory and lending. Operations in the lending business are prevalently limited to advances secured against assets.

5.1.1.1 Balance sheet transactions

Interest-earning transactions are largely executed with customers and in relation to interbank operations and they represent the Group's primary source of revenue. Loans to customers are generally secured by mortgages, and most lending is used to finance housing properties. Loans "secured against assets" are secured against deposited assets while commercial loans are granted against collateral or are unsecured.

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

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

5.1.1.2 Trading activities

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

Currency trading activities on the Bank's own account are limited to a small number of currencies for which a liquid market exists.

5.1.1.3 Commission business and services

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

5.1.2 Group personnel

As at 31 December 2022, the Group had a total of 524 employees on payroll, i.e. 480.65 full-time equivalents (FTEs) with apprentices calculated at 50%, compared to 499 employees at the end of 2021 (457.10 FTEs).

5.1.3 Outsourcing

The Group outsources a number of its business services as defined by the FINMA Circular 2018/3 "Outsourcing". This includes payment transaction services, securities administration and the management of IT systems (central informatics) which are performed by the service provider Avaloq Sourcing (Switzerland & Liechtenstein) SA, Bioggio. In November 2021, Swisscom AG, based in Zurich, took over responsibility for managing all IT hardware (PCs, laptops and printers) from Avaloq Sourcing (Switzerland & Liechtenstein) SA, based in Bioggio. The expenses related to payment transactions, securities administration and back office stock exchange/currency/treasury, are reported under the item "Commission expenses" and amount to CHF 3,893,000 in 2022 (CHF 3,666,000 in 2021). We also note two applications, the management of which has been outsourced (Sherpany and TiHome, the latter having been discontinued in 2022), which are subject to the criteria set out in the above circular.

In addition to the activities listed in the FINMA Circular, the Group contracts out activities pertaining to building management and maintenance as well as supplies.

In addition, within the Group, Axion outsources a number of middle office and support services to BancaStato.

5.2 ACCOUNTING AND VALUATION PRINCIPLES

5.2.1 In general

The accounting principles referred to by the Group and its various entities comply with the provisions of the Swiss Code of

Obligations (CO), the Swiss Federal Law on Banks and Savings Banks (Banking Act), the Ordinance on Banks and Savings Banks (Banking Ordinance) and the rules issued by the Swiss Financial Market Supervisory Authority (FINMA), in particular the FINMA Accounting Ordinance and the FINMA Circular 2020/1 "Accounting - Banks".

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

All transactions are recorded at the time they are concluded. The balance sheet is presented on a transaction date basis.

5.2.2 General valuation principles

The financial statements are prepared on the going-concern assumption.

Balance sheet items and off-balance-sheet items are valued individually.

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

Receivables and payables are offset only in the following cases:

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

Expenses and revenues are offset only in the following cases:

- value adjustments and losses for default risk and other newly constituted value adjustments and losses are offset against the corresponding recovered amounts and released value adjustments;
- profit from trading forex and from transactions calculated at fair value option are offset against foreign exchange losses derived from such operations or transactions;
- positive value adjustments on financial investments calculated according to the lower value principle are offset against negative valuation adjustments;
- the results from hedging operations are offset against the corresponding results from the hedged transaction.

5.2.3 Financial instruments

5.2.3.1 Liquid assets

Liquid assets are recognised at their nominal value.

5.2.3.2 Amounts due to and from securities financing transactions

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

Securities transferred are not recognised in the balance sheet where the transferor retains the economic power to dispose of the related rights. The subsequent sale of securities received must be reported in the balance sheet as a non-monetary commitment valued at fair value.

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

These are entered at their nominal value.

Loans are evaluated individually according to uniform standards established to analyse the borrowers' solvency and the value of the collateral provided. For non-performing and impaired loans, value depreciation is covered by individual value adjustments which are directly offset by assets, with collateral considered at its liquidation value.

Value adjustments for risk of default that are no longer economically necessary, and that are not used for other similar requirements, are released through the income statement. This release occurs via the item "Changes in value adjustments for default risk and losses from interest operations". Interest due beyond 90 days that is not retroactively reversed is considered to be in default and no longer regarded as interest income. Value adjustments have been made against these, which are offset directly against assets (for more information, refer to section 5.5 "Identifying Default Risks and Determining the Need for Value Adjustments").

The methods used in order to identify the default risk from impaired loans and the default risk from non-impaired loans are also presented in section 5.5.

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

5.2.3.4 Trading activities

Trading activities are securities and precious metals managed actively in order to take advantage of market price fluctuations or held in view of an arbitrage gain. Trading activities are valued and booked in the balance sheet at fair value. Fair value is the price set by an efficient and liquid market, in the absence of which the price is set at the lower of their cost or market value. Gains and losses, as well as adjustments to the abovementioned rate changes and the revenue from interest and dividends, are booked under "Result from trading activities and fair value option".

5.2.3.5 Positive and negative replacement values of derivative financial instruments

Operations with derivative financial instruments are used both for trading and hedging purposes.

Trading activities

All derivative financial instruments based on trading activities are valued at fair value and their positive or negative replacement value is recognised in the corresponding balance sheet entry. Fair value is based on the market value ("mark to market").

Derivative financial instruments include options, futures and forward contracts concluded on behalf of customers and on own account. Realised result from trading activities and non-realised result from valuation of trading activities are booked under the item "Result from trading activities and fair value option".

Hedging operations

For the management of its balance sheet, the Group makes use of derivative financial instruments in order to hedge interest rate risk and currency risk. Hedging operations have the same valuation as the hedged operation. The result from hedging transactions is booked under the same item of the income statement as the result from the underlying transaction. Where no value adjustment for the underlying was booked, the result of the valuation of hedging instruments is recognised in the compensation account. The net balance on the compensation account is reported under "Other assets" or respectively "Other liabilities". The Bank documents the hedging operation as well as the goals and strategies of those transactions at the time they are concluded and periodically verifies the efficacy of the hedging arrangement. For aspects relating to hedging operations as well as the goals and strategies of hedging operations, see section 5.7 "Business policy regarding the use of derivative financial instruments and hedge accounting".

Netting

The Group nets positive and negative replacement values whenever there is a recognised and legally valid *netting* agreement.

Transactions on client account

As a rule, replacement values for transactions on client account are recognised in the balance sheet if the contract entails a risk of loss for the bank up to its maturity.

Over-the-counter (OTC) contracts: replacement values for commission activities are reported in the balance sheet.

Exchange-traded contracts: as a rule, replacement values are not recognised in the balance sheet unless, in exceptional cases, the accumulated daily loss (variation margin) is not covered in full by the initial margin (initial margin) actually required. The requirement of recognition in the balance sheet only applies to the part that is not covered.

5.2.3.6 Financial investments

Financial investments include debt securities, equity securities, structured products, investment funds, precious metals in physical form as well as real estate acquired within the ambit of lending business and intended for resale.

Debt securities purchased to be held until maturity are recognised at acquisition cost, with the allocation of premiums and discounts over the duration of the instrument ("amortized cost"). The amount of the premium or discount over the residual term is reported under "Interest and dividend income from financial investments". Any value adjustment resulting from the deterioration of the debtor's solvency is booked to the income statement under "Changes in value adjustments for default risks and losses from interest operations". Any profit or loss resulting from early disposal of these securities is spread over their residual duration, i.e. until their original maturity.

Debt securities and structured products acquired in view of subsequent sale before maturity (securities which are not in the trading portfolio) are valued at the lower of their cost or market value. The balance of price changes is included in "Other ordinary expenses" (if the market value is lower than the purchase value) or in "Other ordinary income" (for revaluations up to the acquisition cost). Any value adjustment resulting from the deterioration of the debtor's solvency is booked to the income statement under "Changes in value adjustments for default risks and losses from interest operations".

Gains and losses are booked in the income statement under "Result from the disposal of financial investments".

Equity securities, shares in investment funds and precious metals are valued at the lower of their cost or market value. Value adjustments are reported under "Other ordinary expenses" or "Other ordinary income" (in the event of revaluation below or respectively above the purchase price).

Precious metals held for the purpose of covering metals account commitments are valued, as the latter are, at fair value.

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

5.2.3.7 Non-consolidated participations

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

Non-consolidated participations are recorded at acquisition value less economically necessary depreciation, providing the preconditions for a valuation based on the equity method are not given. Each individual participation is valued separately. On a yearly basis, the Group determines whether participations have been depreciated, in which case impairment is booked under "Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets".

Companies on which a significant influence, but no control, can be exerted are valued according to the equity method. The booked value of the participation is adjusted to the net portion of assets held. Influence is deemed to be significant when the shares range between 20% and 50% of capital with voting rights.

The participation share in the capital of the Central Mortgage Bond Issuing Body of the Swiss Cantonal Banks has been partially paid-up. The commitment to pay up the outstanding amount is posted in off-balance sheet under the item "Obligations to pay up shares and make further contributions". In order to be able to furnish liquidity quickly in the event of a crisis, the shareholder banks have granted a credit limit in the amount of the further contributions; this figure has not been included in the off-balance sheet entry for "irrevocable commitments" in order to avoid a dual entry.

The profits obtained from the sale of participations are reported under "Extraordinary income" and any losses incurred are reported under "Extraordinary expenses".

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

These items are reported on the balance sheet at nominal value.

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

5.2.3.9 Loans from central mortgage bond and loan issuing bodies

These items are reported on the balance sheet at nominal value.

5.2.4 Tangible fixed assets

Investments made in tangible fixed assets used over more than one accounting period are reported in the balance sheet. This item includes Group premises, computer hardware and telecommunication equipment, licenses and software, technical facilities, furniture and vehicles.

Fixed assets are valued at cost less appropriate depreciation.

Depreciation has been calculated according to the straight line method and reported under "Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets". The depreciation period starts when the items are first utilised.

Depreciation rates are calculated over the useful life, estimated on a prudential basis:

• Land and buildings (masonry)	40 years (up to the official estimated value of the land)
• Equipment	15 years
• Banking facilities	5 years
• Hardware	5 years
• Furniture	5 years
• Works of art	5 years
• Vehicles	3 years
• Licences and software	2 years

The Bank examines, with reference to the balance sheet closing date, whether each tangible fixed asset has suffered any loss in value. If so, the Bank establishes the realisation value of the tangible fixed asset concerned. The value of the asset is accordingly reduced if the book value exceeds the realisation value. As regards tangible fixed assets that are no longer used or that have depreciated to an extraordinary extent, they are subject to an impairment charge, which is reported under "Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets".

The profits obtained from the sale of tangible fixed assets are reported under "Extraordinary income" and any losses incurred are reported under "Extraordinary expenses".

5.2.5 Intangible fixed assets

Intangible fixed assets acquired are reported under assets in the balance sheet where they generate economic benefits over

more than one year. Any intangible fixed assets created by the Bank are not reported as assets. Intangible fixed assets are reported in the balance sheet at the purchase price and amortisation charges are imputed according to the straight line method to the item "Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets" according to a prudent estimate of the duration of usage.

The Bank establishes the realisation value for each intangible fixed asset on the balance sheet closing date and examines whether the value reported needs to be written down. The value of the asset is accordingly reduced if the book value exceeds the realisation value. The necessary accounting adjustment is reported under "Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets".

Goodwill is recognised on the balance sheet applying a straight-line amortisation over a 5-year period. An analysis is performed on a half-year basis in order to define the possible need for extraordinary amortisation. Also in this case, any extraordinary amortisation is reported under "Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets".

The profits obtained from the sale of intangible fixed assets are reported under "Extraordinary income" and any losses incurred are reported under "Extraordinary expenses".

5.2.6 Provisions

This item includes provisions for any inherent or latent default risk, provisions for off-balance sheet default risk, pension provisions, and a provision for deferred taxes in connection to Axion's "reserves for general banking risks".

Provisions are revalued every six months and are increased, maintained at the same level or released in line with the new valuations. Any provisions that are no longer economically necessary are released to the income statement.

The methods applied to "Provisions for default risks" in relation to off-balance sheet transactions in accordance with Article 28(6) OAPC-FINMA are described in section 5.5.2 "Non-impaired loans".

5.2.7 Reserves for general banking risks

"Reserves for general banking risks" are created in compliance with the FINMA Accounting Ordinance and the FINMA Circular 2020/1 Accounting – Banks. These prudently created reserves

are set aside to cover latent risks related to banking activities. As laid down in Art. 21c of the Swiss Federal Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Traders (CAO), such reserves are considered as equity. Only the "reserves for general banking risks" of the parent company BancaStato are not subject to taxation. Any addition or release is booked in the income statement under "Changes in reserves for general banking risks".

5.2.8 Off-balance-sheet

These are entered at their nominal value.

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

5.2.9 Foreign currency translation

The Group accounts are in Swiss francs.

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

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 close of the financial year for the major currencies were as follows:

EUR / CHF 0.9881 (2021: 1.0371)

USD/ CHF 0.9247 (2021: 0.9117)

5.2.10 Interest and discount income

Currency swaps are concluded with reference to interest operations; the result is reported under "Interest and discount income".

5.2.11 Treatment of the refinancing of trading positions

Income from interest and dividend from trading are offset against refinancing costs of the trading portfolio.

5.2.12 Consolidation principles

5.2.12.1 Consolidation perimeter

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

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

5.2.12.2 Consolidation method

Capital is consolidated following the purchase method. Acquisition costs of the stake are offset by existing equity at the time of purchase. Any goodwill is recognised on the balance sheet under "Intangible assets" and is amortised over a five-year period. Conversely, any negative goodwill (badwill) is immediately booked in the income statement under "Extraordinary income" if it is an authentic "lucky buy", while outflows of future resources are booked in the balance sheet under "Other liabilities". An impairment test is performed half-yearly. Should this test reveal that an asset value is no longer justified, a supplemental amortisation would be effected at that time.

Following the full consolidation method, and considering the above-mentioned offsets, 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 cancel each other out.

5.2.12.3 Consolidation period

The consolidation period corresponds to the calendar year beginning 1 January and ending 31 December. Acquisitions effected during the year are included in the income statement from the date of purchase. The statutory end-year closing for all Group entities is 31 December.

5.3 ADJUSTMENT OF THE ACCOUNTING PRINCIPLES FOR THE PRESENTATION OF FINANCIAL STATEMENTS

There were no changes in the accounting principles or in the presentation of accounts in 2022.

5.4 RISK MANAGEMENT

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

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

Risk management is defined in the Group's Rules and Regulations and in the Rules and Regulations of the single legal entities, and is reviewed annually. The Group's Rules and Regulations define the parameters the single legal entities must abide by.

The key elements of risk management are:

- a comprehensive risk policy;
- the use of recognised risk measurement and risk management methods and principles;
- the definition of the risk-tolerance and the various risk limits for each type of risk and the ongoing monitoring of compliance with these limits;
- timely and comprehensive reporting;
- the allocation of adequate financial, technical and human resources to risk management;
- emphasis on risk awareness and promoting a risk-sensitive corporate culture at all staff levels.

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

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

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

Both the Board of Directors and the Executive Board periodically analyse the information received as regards credit, market, liquidity and operational risks.

In its meeting of 13 April 2022, the Audit and Risk Committee of the Board of Directors of the Parent Bank and, subsequently, the Board of Directors of the Parent Bank in its meeting of 29 April 2022, assessed the Group's risk profile.

In this regard, the Board of Directors annually reviews the applicable regulations, risk limits and tolerance. Capital and liquidity planning is prepared annually for a period of three years.

5.4.1 Credit risks

Credit risk stems from the inability of a counterparty to fulfil its contractual obligations, or from the reduced value of collateral or financial instruments issued by a third party and held by the Bank (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 loans, commercial loans and loans secured against assets granted to clients.

BancaStato operates essentially in the local market of Ticino and only marginally in other Cantons and abroad. Axion Swiss Bank SA operates primarily by granting loans secured against assets to its clients.

Credit risk is managed by analysing the transaction and the counterparty, as well as by setting lending margins on collateral and through credit granting and monitoring procedures at different hierarchical levels on the basis of the aggregate amounts granted and risk incurred.

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.

The Board of Directors is responsible for approving large credit exposures as well as loans to members of the Executive Board and to the Chief Internal Auditor. At BancaStato, other loan granting competencies are entrusted to the Credit Risk Committee, and at Axion to the Executive Board who may delegate a limited part ad personam. The Credit Risk Committee is composed of three members of the Executive Board, the Head of Credit Management and Analysis Department or a Credit Officer. This Committee deals with all credit matters delegated to it and draws up notices to the Board of Director

for decisions falling within the Board's competence. In addition, at BancaStato, competencies are delegated to the Head of the Credit Management and Analysis Department and to the staff of the Credit Office which is independent of client advisory units. Still at BancaStato, the specific authority to grant loans involving low risk profiles is delegated ad personam to client advisers. However, such loans may be granted only within the limits of the predefined parameters. An internal control system ensures loan granting processes and competency delegation rules are complied with. Loans reviewed and approved by the competent authorities are managed by the Credit Administration unit which is independent of client advisors and credit officers.

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

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

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

Maximum loan values are set for each type of collateral on the basis of common banking standards. The maximum amount for a mortgage loan is established based on the debtor's ability to pay and on the value of the real estate being mortgaged.

The valuation principles applied to collateral are described in the section 5.6 "Valuation of collateral". For loans secured against assets, the assigned limit is determined on the basis of a foreseeable value of pledged assets which are revalued at market value on a daily basis.

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

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

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

Concentration risk is monitored by the Risk Management unit and results are submitted to the Executive Board and the Board of Directors. The Group undertakes periodic stress tests in relation to its own credit risk concentration.

The Executive Board and the Board of Directors are provided on a regular basis with updated information on the risk profile of the loan portfolio.

5.4.2 Market risks

5.4.2.1 Interest rate risk

As the Group is heavily involved in balance sheet transactions, interest rate risk may have a significant impact on the principal sources of income, and therefore on the interest margin. The Group's exposure to rate risk is primarily caused by the time lapse between fundraising and application. The measurement and control of risk resulting from this imbalance are of primary importance to any bank, and form part of the asset & liability management (ALM) function which lies within the competence of BancaStato's ALCO, comprised (with voting rights) of the members of the Executive Board, the Head of the Financial Markets Department and the Head of the Risk Management Department. At Axion this function is the responsibility of the Risk Committee.

As regards the ALM activity, the Group's risk policy, as approved by the Board of Directors, defines the modes of operation, the tolerance and limitations, and regulates risk

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

For the management of the rate risk inherent to variable rate products without fixed maturity, replication models are used to assess such 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. The validity of these replication models is verified annually.

To cover or mitigate exposure to interest rate risk, hedging derivative instruments may be used (these are substantiated to match the hedged item, and their effectiveness is periodically monitored by Risk Management Unit).

The Treasury, Forex & Trading organisational unit guarantees long-term refinancing and manages the interest rate risk by considering the Bank's objectives, i.e.:

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

5.4.2.2 Currency risk

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

5.4.2.3 Trading activities

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

limits). The Group does not engage in market making activities. The limits for trading positions are verified daily by independent units.

The Risk Management Unit submits to the Executive Board, on a regular basis, detailed information on exposures and compliance to the set limits, which the Executive Board then passes on to the Board of Directors.

5.4.3 Liquidity risk

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

The ALCO manages liquidity risk and draws up the strategy, the limits and the objectives in compliance with the mandate received by the Board of Directors. The Treasury, Forex & Trading organisational unit acts within the limits and according to the objectives set by the ALCO. The Risk Management Unit monitors liquidity, the financing situation and concentration risks. At Axion liquidity risk is managed by its Risk Committee, autonomously within the parameters defined by the Parent Bank.

The emergency liquidity plan is a key aspect of the crisis management plan. It includes intervention measures to counter any liquidity crisis, taking into account liquidity indicators and ratios, and outlining emergency procedures.

5.4.4 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.

The management of operational risk consists primarily in the adoption of risk mitigating measures aimed at eliminating or reducing risk. In-house rules and regulations define the organisation of work and limit the extent of operational risk.

Risk management, including operational risk, is effected through an internal control system comprising all control structures and processes which, at all levels, are fundamental to achieve the correct functioning of the Banks and the achievement of their business policy objectives. In implementing its internal control

system, the Group has defined three control levels. The first level, the so-called first line of defence, comprises the monitoring activities performed primarily by operational units, which are obliged to ensure an adequate control system within the scope of their activities. The second level or second line of defence, is formed by units which are independent of operational units. The third level comprises the oversight of the Internal Auditors.

In the second line of defence, the Legal and Compliance Department is responsible for verifying the adherence to applicable regulatory provisions, as well as due diligence duties. It also ensures that the internal regulations are continuously adapted to new legal and regulatory provisions. The Risk Management Department is in charge of designing and setting up appropriate risk-monitoring systems and verifying risks incurred. The Security unit is responsible for defining the process for the management of security risks as well as setting up and regularly updating a corporate continuity plan. The Group Internal Control Department coordinates priority internal control systems and monitors risks connected to providers of outsourced services under the terms of FINMA circular 2008/7.

The Group records and analyses all information on occurrences of operational malfunction which result in a financial impact (gain and loss) and classifies these data on the basis of standardised criteria. The frequency, seriousness and causes of the various events are duly assessed, and corrective measures implemented as needed. Periodic reporting to the Group's authorities is carried out by independent units.

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

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

Periodically, the independent organisational units tasked with monitoring operational risks submit to the Parent Bank's Risk Committee their findings resulting from the internal priority control system within the various Group entities along with a summary notice on major risks. The Risk Committee is responsible for ensuring appropriate surveillance of overall risks. A condensed analysis of information on these issues is forwarded to the Board of Directors.

5.4.5 Required capital and other risk indicators

The information requested on the basis of FINMA Circular 2016/1 "Disclosure - banks" regarding disclosure requirements with respect to required capital and other risk indicators is provided on BancaStato's website (www.bancastato.ch).

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

The need for value adjustments or provisions is reviewed whenever any given credit exposure features characteristics indicative of a potential risk of insolvency on the part of the debtor or a deterioration in the value of collateral, and also globally at least on a quarterly basis. Value adjustments and provisions are reported for both impaired and non-impaired loans.

5.5.1 Impaired loans

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

In order to guarantee the periodic and seamless monitoring of all assumed credit risks, all credit facilities must be renewed. Credit monitoring is performed through a variety of periodic analyses carried out by the responsible client adviser, the Credit Office and the Recovery and Repositioning unit with the aim of identifying any sign of reduced creditworthiness, and forestalling circumstances which might impair loans or require action to reduce risk. The prerequisites for the renewal of credit facilities are modelled on those for the granting of new loans. The results of such recurrent analyses will directly determine if the credit limit is to be adjusted or maintained.

The renewal conditions are established for each individual loan based on the type of client and product, as well as the collateral and loan characteristics. Moreover, each loan must be subjected to a fresh review in those circumstances affecting the debtor's solvency or if the debtor is more than 90 days overdue in interest, amortisation or commission payments or is unable to fully reimburse capital (non-performing loan).

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

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

Non-performing and impaired loans are assessed individually, considering existing collateral at its liquidation value. Any risk of default is subject to an individual value adjustment. The value adjustment represents the expected loss with the counterparty with regard to the corresponding transaction. The organisational unit proposing the loan is responsible for setting any necessary value adjustment which will be decided upon by

units independent of client interface. Similarly, the Recovery and Repositioning unit which is in charge of litigation procedures at BancaStato is tasked with proposing adequate provisions or adjustments with regard to the credits it was entrusted with.

BancaStato's ALCO and Axion's Investment Committee monitor the risk of loss in the financial investment portfolio on the basis of market values or specific analyses.

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

5.5.2 Non-impaired loans

Experience shows that, even for a loan portfolio that does not feature any specific signs of difficulty, there may be implicit risks of loss that only manifest themselves at a later stage. Value adjustments and provisions for inherent default risk (of intrinsic insolvency) have been recorded in order to cover this risk of default that has not yet manifested itself, but that is implicit within lending activity.

Significant credit exposure

Value adjustments for inherent default risk have been applied to the following balance sheet items:

- Due from banks;
- Debt securities from the portfolio of financial investments purchased to be held until maturity;
- Amounts due from clients;
- Mortgages.

Provisions for inherent default risk have been established for the following off-balance-sheet items:

- Contingent liabilities;
- Irrevocable commitments.

Impaired loans – which are individually assessed in order to establish the likely reduction in value of each, on the basis of which assessment specific value adjustments or provisions are made – are excluded from the procedure for calculating the need for value adjustments or provisions for default risk.

General valuation principles

Value adjustments and provisions for inherent default risk are established or released according to a calculation model based on the anticipated loss. The anticipated loss on individual credit exposure items or on off-balance sheet transactions is determined with reference to the probability of default for

different categories of rating, multiplied by a default rate (loss given default), calculated with reference to available collateral.

As regards the ratings of the respective exposures and the probability of default for the balance sheet items "Due from customers" and "Mortgage loans", as well as the off-balance-sheet "Contingent liabilities" and "Irrevocable commitments", BancaStato assesses clients mainly according to a ten-stage rating model developed by a specialist company, which takes account of both quantitative and qualitative factors. The probability of default is defined over a timeframe of one year and is adjusted periodically on the basis of actually observed instances of default. When allocating a rating to exposure to banks and for debt securities in the portfolio of financial investments, the Bank uses the ratings calculated by leading financial institutions. Losses in the event of default applied to the various types of collateral are determined on the basis of historical figures and market data. The anticipated loss is calculated based on effective exposure at the reference date, using conversion factors for off-balance sheet exposure.

Value adjustments and provisions for inherent default risk, which are calculated according to the methodology described above (over a timeframe of one year), are then extrapolated by multiplication to a timeframe of four years, in order to give full consideration to the potential risk that could manifest itself over the course of a full economic cycle.

The criteria defined and the parameters used in order to calculate value adjustments and provisions for inherent default risk (probability of default, loss in the event of default, exposure at the time of default, etc.) are reviewed annually by internal specialists based on an updated assessment of risks and – where considered necessary – are themselves updated.

Reporting method

Value adjustments for default risk inherent to non-impaired items have been deducted from the respective asset items in the balance sheet, whilst provisions for default risk inherent to off-balance-sheet items have been reported under the entry for "Provisions".

Constitution and release

The constitution and subsequent release of value adjustments (for balance sheet items) or respectively provisions (for off-balance-sheet items) for default risk inherent to non-impaired items have been reported under the entry in the income statement for "Changes in value adjustments for default risk and losses from interest operations" as regards the former and "Changes to provisions and other value adjustments, and losses" as regards the latter.

Usage

Value adjustments or provisions for inherent default risk may be used in order to apply individual value adjustments on impaired loans or to make specific provisions for off-balance sheet items. Having regard to the need to make value adjustments or provisions for exceptionally high amounts, the Board of Directors assesses whether it is appropriate to use all or part of the value adjustments or provisions for previously established inherent default risk.

An exceptional situation could arise for example where the total amount of value adjustments or individual provisions exceeded 5% of the item "Gross result from interest operations".

Reconstitution

In the event that part of the value adjustments or provisions for default risk inherent to non-impaired items are used in order to cover value adjustments or provisions for default risk relating to impaired items pursuant to Article 28(1) OAPC-FINMA, the amounts used must be reconstituted within no more than 5 financial years (on either a straight-line or accelerated basis). If the Group is faced with an extraordinary crisis that continues for several years, with the result that it is necessary to make value adjustments or draw on provisions for inherent default risk previously constituted, the time from which the shortfall must be reconstituted may be deferred, provided that it is mentioned in the notes to the financial statements.

Insufficient cover

As at 31 December 2022, the need for value adjustments and provisions for default risk inherent to non-impaired loans is covered in full by the amounts reported in the accounts.

5.6 VALUATION OF COLLATERAL

5.6.1 Mortgage-based loans

Within the Group, only BancaStato grants mortgage-based loans.

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

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

Residential properties may be evaluated, within specified

limits, by certified consultants with the help of specifically approved hedonic valuation models that compare property transactions data on the basis of the detailed characteristics of each property. In the case of multifamily housing, commercial buildings and special properties, internal real estate appraisers, as well as any external certified appraiser, calculate these values amongst others by taking into consideration rental income. If the credit rating is low, a liquidation value is calculated.

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

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

5.6.2 Securities-based loans

In general, transferable financial instruments (such as bonds and shares) that are liquid and actively traded, are accepted for securities-based loans. Similarly, transferable structured products for which there is regular market information and a market maker are also accepted.

To calculate the value of liquid and negotiable securities, the Banks apply a discount to the market value in order to cover market, credit and liquidity risks associated with these securities. Discounts may vary depending upon the type of product, the counterparty's rating, the residual duration of the financial instrument and the currency. The discounts used for structured products are higher than those for other financial securities. For life insurance policies and bank guarantees, these discounts are determined on the basis of the product and counterparty.

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

Derivative financial instruments are used for trading and hedging purposes.

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

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

In general, recognition in the income statement of the result of a hedging transaction follows the same principles applied to the secured underlying. As a consequence, results from hedging operations with derivative financial instruments within the framework of the structural management of the balance sheet are booked on a pro rata basis (accrual method). Hedging is considered effective when it is active from its inception and for the entire duration, when there is an economic relationship between the hedged operation and the hedging transaction, and when the changes in value (hedged and hedging transactions) have an inverse correlation with respect to the hedged risk. An independent risk-management unit monitors hedging operations in order to identify any surplus hedging, which is reclassified under the income statement under "Result from trading activities and fair value option".

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

Short term interest rate swaps are used to manage the gap between assets and liabilities with maturities below 12 months as well as for the current management of liquidity.

Currency swaps are used within the framework of the structural management of the balance sheet in order to manage currency risk resulting from the conversion of the available liquidity in foreign currency into Swiss francs or from the need to refinance loans in foreign currency. The Group uses currency swaps as an alternative to either an interbank investment in foreign currency of excess liquidity, particularly in the case of uncertainty with regard to the quality of foreign counterparts, or interbank refinancing in foreign currency. With currency swaps, banks can transform excess liquidity in foreign currency into Swiss francs, for a fixed period, thus enabling its placement in domestic currency without incurring an exchange rate risk, or convert excess liquidity in domestic currency into foreign currency in order to finance loans in foreign currency. The result from swap operations is booked in the income statement under "Interest and discount income". An independent risk-management unit supervises the correct utilisation of currency swaps.

Spot exchange, forward forex and currency options are used within the framework of the structural management of the balance sheet to hedge currency risk on economic flows (whether interest margins or commissions) in foreign currency.

5.8 EXPLANATIONS OF SIGNIFICANT EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No major event occurred after the balance sheet date that would have a decisive impact on assets, the financial position or the income of the Group as at 31 December 2022.

5.9 REASONS WHICH LED TO EARLY RESIGNATION OF THE EXTERNAL AUDITOR

PricewaterhouseCoopers SA, Lugano were designated as External Auditor for the Group, and are still in office. The External Auditor continues to fulfil this function.



5.10 INFORMATION ON THE BALANCE SHEET

5.10.1 Breakdown of securities financing transactions (assets and liabilities)

(CHF thousands)	31.12.2022	31.12.2021
Securities lending, securities borrowing and repurchase agreements		
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions ¹	-	-
Book value of obligations from cash collateral received in connection with securities lending and repurchase agreements ¹	400,000	270,000
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	454,557	267,703
<i>of which with unrestricted right to resell or repledge</i>	454,557	267,703
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	-	-
<i>of which repledged securities</i>	-	-
<i>of which resold securities</i>	-	-

¹ Before any netting agreement.

5.10.2 Presentation of collateral for loans / receivables and off-balance sheet transactions, as well as impaired loans/receivables at 31.12.2022

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)				
Amounts due from clients	159,041	754,017	776,107	1,689,165 ¹
Due from public corporations	1,130	1,896	781,411 ²	784,437
Mortgage loans	11,440,525	-	2,176	11,442,701
<i>Residential premises</i>	8,306,839	-	862	8,307,701
<i>Office and business premises</i>	1,816,421	-	275	1,816,696
<i>Crafts and industrial premises</i>	618,879	-	693	619,572
<i>Other</i>	698,386	-	346	698,732
Total loans (before netting with value adjustments)	11,600,696	755,913	1,559,694	13,916,303
Previous year	11,282,865	754,202	1,457,022	13,494,089
Total loans (after netting with value adjustments)	11,561,928	737,343	1,541,880	13,841,151
Previous year	11,242,904	737,679	1,436,057	13,416,640
Off-balance sheet transactions				
Contingent liabilities	5,590	47,907	122,225	175,722
Irrevocable commitments	38,970	67,972	262,675 ³	369,617
Commitments for calls on shares and other equities	-	-	19,416	19,416
Total off-balance sheet transactions	44,560	115,879	404,316	564,755
Previous year	19,416	165,967	428,456	613,839

(CHF thousands)	Gross debt amount	Estimated liquidation value	Net debt amount	Individual value adjustments
Impaired loans Year under review	112,877	77,107	35,770	35,770
Previous year	108,241	70,685	37,556	37,556

¹ Including CHF 107.1 million in COVID-19 and COVID-19 Plus loans (2021: 132.6 million), secured almost entirely by a guarantee provided by the federal government.

² Including loans to entities related to public institutions for CHF 95.2 million (2021: 95.4 million).

³ Including CHF 41.4 million (2021: CHF 40.6 million) as a required share for deposit guarantee purposes.

5.10.3 Breakdown of trading portfolios and other financial investments with fair value option (assets and liabilities)

(CHF thousands)	31.12.2022	31.12.2021
Trading portfolio assets		
Debt securities, money market securities	-	2,144
<i>of which listed</i>	-	2,144
Equity securities	-	526
Shares in investment funds	2,782	3,672
Precious metals and commodities	27,407	23,386
Structured products	5,086	2,829
Total trading portfolio assets	35,275	32,557
<i>of which determined using a valuation model</i>	-	-
<i>of which securities eligible for repurchase agreements, in accordance with liquidity requirements</i>	-	-

5.10.4 Presentation of derivative financial instruments (assets and liabilities)

(CHF thousands)	Trading instruments			Hedging instruments		
	Replacement values		Contract volume	Replacement values		Contract volume
	positive	negative		positive	negative	
Interest rate instruments						
Swaps	-	-	-	33,894	-	600,000
OTC Options	-	-	-	-	-	-
Total interest rate instruments	-	-	-	33,894	-	600,000
Foreign currencies / precious metals						
Forward contracts	2,335	7,952	326,915	124	191	85,730
Swaps (interest rate/currency)	12,873	6,920	1,193,104	10,140	36,866	2,661,109
OTC Options	546	541	129,741	-	-	-
Total foreign currencies / precious metals	15,754	15,413	1,649,760	10,264	37,057	2,746,839
Total derivative financial instruments	15,754	15,413	1,649,760	44,158	37,057	3,346,839
<i>of which determined using a valuation model</i>	<i>15,754</i>	<i>15,413</i>	<i>-</i>	<i>44,158</i>	<i>37,057</i>	<i>-</i>
Total previous year	9,112	8,833	1,394,091	1,191	79,794	3,630,199
<i>of which determined using a valuation model</i>	<i>9,112</i>	<i>8,833</i>	<i>-</i>	<i>1,191</i>	<i>79,794</i>	<i>-</i>

Recapitalisation

(CHF thousands)	Positive replacement values (cumulated)	Negative replacement values (cumulated)	Contract volume
Trading instruments	15,754	15,413	1,649,760
Hedging instruments	44,158	37,057	3,346,839
Total before netting agreements	59,912	52,470	4,996,599
Total previous year	10,303	88,627	5,024,290
Total after netting agreements	59,912	52,470	4,996,599
Total previous year	10,303	88,627	5,024,290

Breakdown by counterparty

(CHF thousands)	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	-	55,961	3,951

5.10.5 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Debt securities	1,174,615	338,937	1,132,350	341,748
<i>of which intended to be held to maturity</i>	1,167,543	327,060	1,125,278	329,791
<i>of which not intended to be held to maturity (available for sale)</i>	7,072	11,877	7,072	11,957
Shares in investment funds	27,801	35,221	27,860	29,765
Equity securities	16,484	17,560	17,029	25,272
<i>of which qualified participations (at least 10% capital stake or voting rights)</i>	-	-	-	-
Structured products	55	100	55	102
Precious metals	144	101	144	101
Real estate	13,442	13,587	13,442	13,587
Total financial investments	1,232,541	405,506	1,190,880	410,575
<i>of which securities eligible for repurchase agreements in accordance with liquidity requirements</i>	1,065,807	295,854	963,706	298,330

Breakdown of counterparties by rating

(CHF thousands)	AAA or higher AA- or lower	A+ or higher A- or lower	BBB+ or higher BBB- or lower	BB+ or higher B- or lower	Below B-	Unrated
Book value of debt securities	1,128,702	29,641	10,853	3,280	-	2,139

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

5.10.6 Presentation of non-consolidated participations

(CHF thousands)	Acquisition cost	Accumulated value adjustments and/or changes in book value (equity method)	Book value 31.12.2021	2022				Book value 31.12.2022	Market value
				Investments	Disposals	Value adjustments	Changes in book value of participations valued using the equity method / depreciation reversals		
Other participations									
listed	-	-	-	-	-	-	-	-	
unlisted	16,794	8,695	8,099	-	-	438	17	7,678	
Total nonconsolidated participations	16,794	8,695	8,099	-	-	438	17	7,678	

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

Companies are recognised on the basis of the full consolidation method

Company name	Head office	Activity	Company capital (CHF thousands)	Share of		Held	
				capital in %	votes in %	direct	indirect
Axion SWISS Bank SA	Lugano	Banking	43,000	100.0%	100.0%	100.0%	-

Other significant permanent non-consolidated participations

Company name	Head office	Activity	Company capital (CHF thousands)	Share of		Held	
				capital in %	votes in %	direct	indirect
Autosilo Piazza del Sole SA	Bellinzona	Car park	2,000	10.00%	10.00%	10.00%	-
Bille AG	Adliswil	Software development	128	14.19%	14.19%	14.19%	-
Centro Sci Nordico Campra SA	Blenio	Management of Nordic Ski Centre	2,000	5.00%	5.00%	5.00%	-
NNH Holding AG	Zurich	Real estate market promotion	100	5.70%	5.70%	5.70%	-
Teleticino SA	Melide	Radio and television productions	4,950	23.01%	17.24%	17.24%	-

The Group holds other permanent participations with a non-significant share of capital (holding smaller than 5%).

5.10.8 Presentation of tangible fixed assets

(CHF thousands)	Acquisition cost	Accumulated depreciation	Book value 31.12.2021	2022					Book value 31.12.2022
				Transfers	Investments	Disposals	Depreciation	Appreciation	
Bank buildings	186,659	137,105	49,554	-	2,607	-	4,104	-	48,057
Other real estate	27,081	15,496	11,585	-	332	-	563	-	11,354
Acquired software	103,027	95,709	7,318	-	3,657	-	5,663	-	5,312
Other tangible fixed assets	124,169	111,632	12,537	-	1,038	-	2,782	-	10,793
Total tangible fixed assets	440,936	359,942	80,994	-	7,634	-	13,112	-	75,516

Operating lease

(CHF thousands)	31.12.2022	31.12.2021
Leasing commitments not recognised in the balance sheet		
Expiry within 1 year	127	123
Expiry between 1 and 5 years	284	369
Expiry in more than 5 years	-	-
Total leasing commitments not recognised in the balance sheet	411	492
<i>of which eligible for cancellation within 1 year</i>	-	-

5.10.9 Presentation of intangible assets

(CHF thousands)	Acquisition cost	Accumulated depreciation	Book value 31.12.2021	2022					Book value 31.12.2022
				Transfers	Investments	Disposals	Depreciation	Appreciation	
Goodwill	8,130	1,436	6,694	-	-	-	1,843 ¹	-	6,694
Total intangible assets	8,130	1,436	6,694	-	-	-	1,843	-	6,694

¹ Half-yearly analyses have established the need to apply a supplementary amortisation charge of CHF 0.2 million, as mentioned in the Note in item 5.2.5 "Intangible assets".

5.10.10 Breakdown of other assets and other liabilities

(CHF thousands)	31.12.2022	31.12.2021
Other assets		
Compensation account	-	6,248
Indirect taxes	587	640
Various other assets	2,657	180,430 ¹
Total other assets	3,244	187,318
Other liabilities		
Direct / indirect taxes	4,266	3,559
Compensation account	33,195	-
Matured non-redeemed cash bonds	5	521
Memorandum accounts	213,39 ²	6,170
Various other liabilities	22,056 ³	1,440
Total other liabilities	272,914	11,690

¹ of which a balance of CHF 178.8 million for in-house banking transactions.

² of which a balance of CHF 209.7 million for in-house banking transactions.

³ of which a CHF 18.3 million additional payment to the Canton for 2021.

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

(CHF thousands)	31.12.2022		31.12.2021	
	Book value	Effective commitments	Book value	Effective commitments
Pledged / assigned assets (excluding securities financing transactions)				
Book value of mortgages set as collateral for mortgage bonds of the Mortgage Bond Issuing Body of the Swiss Cantonal Banks	2,800,897	2,320,000	2,544,934	2,064,000
Book value of securities delivered as collateral to SIX Group AG	3,368	-	1,012	-
Book value of securities delivered as collateral in connection with Repo Light credit with SNB	25,054	-	21,801	-
Book value of the Covid-19 loans assigned to the SNB.	-	-	118,800	118,800
Book value of assets pledged to secure own commitments	40,793	32,506	91,713	87,915
Total pledged / assigned assets	2,870,112	2,352,506	2,778,260	2,270,715
Assets under reservation of ownership Assets under reservation of ownership	-	-	-	-

5.10.12 Disclosure on the economic situation of pension schemes

5.10.12.1 Disclosure of liabilities relating to own pension schemes, and number and nature of equity instruments of the Bank held by own pension schemes

The Group has no own pension scheme.

5.10.12.2 Disclosures on the economic situation of own pension schemes

a) Employer contribution reserves (ECR)

There were no employer contribution reserves as at 31 December 2022.

b) Presentation of the economic benefit / obligation and pension expenses

	Over / underfunding at the end of 2022	Economic interest of the Bank		Change in economic interest and/or commitment versus previous year	Contributions paid for 2022	Pension expenses in personnel expenses	
		31.12.2022	31.12.2021			31.12.2022	31.12.2021
Group Pension plans unsecured overfunding / underfunding	-	-	-	-	10,915	10,984	26,121 ¹

Contributions are paid to the insurance company and the charge to the employer is reported under the item "Personnel expenses".

The Group 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.

The Group does not report any obligation towards pension foundations at the end of the accounting period. There are no contribution reserves on the part of the employers and the relationships between the Group's banks and their pension funds are based on global affiliation contracts. The pension fund reinsures all pension risks by means of a comprehensive insurance contract. Within the framework of these contracts no possibility of undercoverage exists and, consequently, there are no obligations in this regard on the part of the employers.

¹ Including provisions totalling CHF 15.9 million for the adjustment of the staff pension plan to be implemented over 5 years (2022 and 2026).

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

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

(CHF thousands)				
Interest rate	Type of bond	Issue year	Due date	Net amount
0.500%	Non subordinated loan ¹	2015	24/06/24	150,000
0.300%	Non subordinated loan ¹	2017	15/06/27	200,000
0.375%	Non subordinated loan ¹	2018	08/02/28	250,000
0.450%	Non subordinated loan ¹	2019	26/02/29	150,000
0.050%	Non subordinated loan ¹	2019	10/07/29	100,000
0.050%	Non subordinated loan ¹	2020	10/07/29	50,000
Total bond issues				900,000
Bonds and loans from central mortgage institutions ²				2,320,000
Total outstanding bonds and mortgage bonds from central mortgage bond institutions and mandatory convertible bonds				3,220,000

5.10.13.2 Overview of maturities of bonds and mortgage bonds from central issuing institutions and mandatory convertible bonds

(CHF thousands)							
	Within one year	> 1 - ≤ 2 years	> 2 - ≤ 3 years	> 3 - ≤ 4 years	> 4 - ≤ 5 years	> 5 years	Total
Bonds	-	150,000	-	-	200,000	550,000	900,000
Mortgage bonds from central issuing institutions	158,000	239,000	59,000	196,000	251,000	1,417,000	2,320,000
Total	158,000	389,000	59,000	196,000	451,000	1,967,000	3,220,000

¹ No early repayment.

² Average interest rate 0.726%

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

(CHF thousands)	Balance at 31.12.2021	2022				Balance at 31.12.2022
		Use in conformity with designated purpose	Currency conversion differences	New creations to income	Releases to income	
Provisions						
Provisions for default risk ¹	2,746	-	-13	3,423	-1,259	4,897
<i>of which provisions for likely commitments</i>	386	-	-	2,922	-382	2,926
<i>of which provisions for default risks</i>	2,360	-	-13	501	-877	1,971
Value adjustments and provisions for other operating risks	1,098	-29	-	54	-92	1,031
Other provisions additional pension provision ²	14,997	-4,665	-	824	-	11,156
Provisions for deferred taxes	900	-	-	300	-	1,200
Total provisions	19,741	-4,694	-13	4,601	-1,351	18,284
Reserves for general banking risks	506,500	-	-	33,500	-	540,000
Value adjustments for default and country risks	77,768	-1,892	90	13,778	-13,750	75,994
<i>of which value adjustments for default risk from impaired loans</i>	37,556	-1,892	87	4,513	-4,494	35,770
<i>of which value adjustments for default risk inherent to financial investments</i>	-	-	-	465	-	465
<i>of which value adjustments for default risk inherent to receivables</i>	39,893	-	12	8,619	-9,142	39,382
<i>of which value adjustments for default risk inherent to other items</i>	319	-	-9	181	-114	377

¹ On off-balance sheet commitments.

² See table 5.10.12 Disclosure of the economic position of own pension schemes.

5.10.15 Disclosure of amounts due from / to related parties

(CHF thousands)	31.12.2022		31.12.2021	
	Receivables	Payables	Receivables	Payables
Holders of qualified participations	25,000	339,224	25,012	368,385
Linked companies	212,068	144,075	142,526	108,693
Members of governing bodies	17,209	7,518	17,666	8,277

The amounts indicated include any off-balance sheet operation that may have been effected.

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 at market conditions in compliance with standard lending parameters.

5.10.16 Presentation of the maturity structure of financial instruments

(CHF thousands)	At sight	Cancellable	Due				Reported as fixed assets	Total
			within 3 months	within 3 to 12 months	within 1 to 5 years	after 5 years		
Assets / Financial instruments								
Liquid assets	3,045,337	-	-	-	-	-	-	3,045,337
Amounts due from banks	260,168	-	37,918	-	-	-	-	298,086
Amounts due from clients	27,164	880,829	318,999	260,348	643,428	305,491	-	2,436,259
Mortgage loans	1,540	169,595	469,294	820,180	6,990,098	2,954,185	-	11,404,892
Trading portfolio assets	35,275	-	-	-	-	-	-	35,275
Positive replacement values of derivative financial instruments	59,912	-	-	-	-	-	-	59,912
Financial investments	28,112	-	506,750	209,872	190,221	284,144	13,442	1,232,541
Total	3,457,508	1,050,424	1,332,961	1,290,400	7,823,747	3,543,820	13,442	18,512,302
Previous year	3,856,024	885,843	1,083,597	1,459,477	6,400,576	3,949,612	13,587	17,648,716
Debt capital / financial instruments								
Amounts due to banks	240,076	238	139,689	-	-	-	-	380,003
Liabilities from securities financing transactions	-	-	400,000	-	-	-	-	400,000
Amounts due in respect of customer deposits	7,065,337	4,395,507	482,488	161,595	444,755	288,580	-	12,838,262
Negative replacement values of derivative financial instruments	52,470	-	-	-	-	-	-	52,470
Bond issues and Central Mortgage Bond Institution loans	-	-	6,000	152,000	1,095,000	1,967,000	-	3,220,000
Total	7,357,883	4,395,745	1,028,177	313,595	1,539,755	2,255,580	-	16,890,735
Previous year	6,912,582	4,767,693	1,077,792	354,163	1,081,164	2,341,130	-	16,534,524

5.10.17 Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle

(CHF thousands)	31.12.2022		31.12.2021	
	Switzerland	Foreign	Domestic	Foreign
Assets				
Liquid assets	3,045,337	-	3,434,270	-
Amounts due from banks	128,813	169,273	309,799	39,641
Amounts due from clients	2,023,997	412,262	1,936,146	393,353
Mortgage loans	11,404,892	-	11,087,141	-
Trading portfolio assets	31,107	4,168	26,623	5,934
Positive replacement values of derivative financial instruments	51,370	8,542	7,105	3,198
Financial investments	1,091,366	141,175	320,213	85,293
Prepaid expenses and deferred income	16,028	748	13,468	616
Non-consolidated participations	7,548	130	7,986	113
Tangible fixed assets	75,516	-	80,994	-
Intangible assets	4,851	-	6,694	-
Other assets	3,244	-	187,318	-
Total assets	17,884,069	736,298	17,417,757	528,148
Liabilities				
Amounts due to banks	216,756	163,247	435,344	182,308
Liabilities from securities financing transactions	400,000	-	270,000	-
Amounts due in respect of customer deposits	9,666,421	3,171,841	8,948,831	3,595,414
Negative replacement values of derivative financial instruments	31,506	20,964	65,720	22,907
Bond issues and central mortgage institution loans	3,220,000	-	3,014,000	-
Prepaid expenses and deferred income	47,622	311	44,111	-120
Other liabilities	272,914	-	11,690	-
Provisions	18,215	69	19,567	174
Reserves for general banking risks	540,000	-	506,500	-
Endowment capital	500,000	-	500,000	-
Retained earnings reserve	286,110	-	274,297	-
Group profit	64,391	-	55,162	-
Total liabilities	15,263,935	3,356,432	14,145,222	3,800,683

The breakdown by domestic and foreign origin is made on the basis of the customer's domicile, with the exception of mortgage loans where the domicile of the property is the relevant criterion. Liechtenstein is deemed to be a foreign country.

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

(CHF thousands)	31.12.2022		31.12.2021	
	Amount	Share as %	Amount	Share as %
Assets held abroad				
Europe¹	398,293	2.14	391,198	2.18
Belgium	10,966		2,706	
Cyprus	4,022		5,178	
Finland	9,218		-	
France	16,508		17,418	
Germany	18,161		8,326	
Guernsey	3,234		8,192	
Italy	120,519		150,311	
Jersey	93,519		45,583	
Liechtenstein	10,354		12,088	
Luxembourg	56,977		52,053	
Malta	2,346		3,271	
Monaco	11,843		27,019	
Norway	47		12,786	
Netherlands	6,326		976	
Czech Republic	424		1,970	
United Kingdom	14,820		16,432	
Romania	54		10,679	
Russia	5,002		3,283	
San Marino	4,725		2,570	
Turkey	2,810		3,139	
Other countries	6,418		7,218	
North America	198,471	1.07	21,014	0.12
Canada	11,006		11,250	
United States	187,465		9,764	
Asia¹	121,556	0.65	97,800	0.54
South Korea	2,398		912	
United Arab Emirates	12,302		20,379	
Philippines	9,070		-	
Israel	-		2,237	
Kazakhstan	95,566		62,779	
Uzbekistan	1		6,760	
Other countries	2,219		4,733	
Caribbean	16,622	0.09	15,903	0.09
British Virgin Islands	3,656		2,083	
Panama	12,698		13,412	
Other countries	268		408	
South America	958	0.01	1,007	0.01
Ecuador	920		907	
Other countries	38		100	
Oceania	-	-	336	0.00
Africa	398	-	890	-
Total assets abroad	736,298	3.96	528,148	2.94
Domestic	17,884,069	96.04	17,417,757	97.06
Total assets	18,620,367	100.00	17,945,905	100.00

¹ Amounts from the previous year have been adjusted in order to ensure comparability with the level of detail used for financial year 2022.

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

Bank's own country rating (CHF thousands)	Rating Standard & Poor's	31.12.2022		31.12.2021	
		Net foreign exposure	Share as %	Net foreign exposure	Share as %
1 Excellent and high quality	AAA to AA-	455,025	61.8%	225,480	42.7%
2 Above-average quality	A+ to A-	5,835	0.8%	8,557	1.6%
3 Average quality	BBB+ to BBB-	243,717	33.1%	248,035	47.0%
4 Default risk	BB+ to BB	169	0.0%	37	0.0%
5 Default risk material	BB-	1	0.0%	6,944	1.3%
6 Speculative, high default risk	B+ to B-	4,435	0.6%	5,224	1.0%
7 Poor quality, very high risk	CCC+ to D	1,455	0.2%	1,083	0.2%
Unrated	-	25,661	3.5%	32,788	6.2%
Total		736,298	100.0%	528,148	100.0%

The breakdown by domestic and foreign origin is made on the basis of the customer's domicile, with the exception of mortgage loans where the domicile of the property is the relevant criterion. Liechtenstein is deemed to be a foreign country.

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

(CHF thousands)	Currency				Total
	CHF	EUR	USD	Others	
Assets					
Liquid assets	3,018,359	24,391	1,374	1,213	3,045,337
Amounts due from banks	59,636	18,817	149,050	70,583	298,086
Amounts due from clients	1,749,523	355,687	327,773	3,276	2,436,259
Mortgage loans	11,404,892	-	-	-	11,404,892
Trading portfolio assets	5,679	1,416	773	27,407	35,275
Positive replacement values of derivative financial instruments	59,366	410	35	101	59,912
Financial investments	1,128,053	27,413	76,931	144	1,232,541
Prepaid expenses and deferred income	15,750	475	544	7	16,776
Non-consolidated participations	7,548	130	-	-	7,678
Tangible fixed assets	75,516	-	-	-	75,516
Intangible assets	4,851	-	-	-	4,851
Other assets	3,105	53	10	76	3,244
Total assets shown in balance sheet	17,532,278	428,792	556,490	102,807	18,620,367
Delivery entitlements from spot exchange, forward forex and forex options transactions ¹	427,471	2,660,108	1,079,346	229,187	4,396,112
Total assets	17,959,749	3,088,900	1,635,836	331,994	23,016,479
Liabilities					
Amounts due to banks	215,448	92,411	70,627	1,517	380,003
Liabilities from securities financing transactions	400,000	-	-	-	400,000
Amounts due in respect of customer deposits	9,193,177	2,257,938	1,141,829	245,318	12,838,262
Negative replacement values of derivative financial instruments	51,929	410	31	100	52,470
Bond issues and central mortgage institution loans	3,220,000	-	-	-	3,220,000
Prepaid expenses and deferred income	47,517	208	184	24	47,933
Other liabilities	271,679	149	1,084	2	272,914
Provisions	17,701	482	101	-	18,284
Reserves for general banking risks	540,000	-	-	-	540,000
Endowment capital	500,000	-	-	-	500,000
Retained earnings reserve	286,110	-	-	-	286,110
Group profit	64,391	-	-	-	64,391
Total liabilities in balance sheet	14,807,952	2,351,598	1,213,856	246,961	18,620,367
Delivery obligations from spot exchange, forward forex and forex options transactions ¹	3,178,046	733,273	411,362	87,751	4,410,432
Total liabilities	17,985,998	3,084,871	1,625,218	334,712	23,030,799
Net position per currency	-26,249	4,029	10,618	-2,718	-14,320
Net position per currency in the previous year	-81,349	14,110	-439	-852	-68,530

¹ Options have been delta-weighted.



5.11 INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

5.11.21 Breakdown of contingent liabilities and contingent assets

(CHF thousands)	31.12.2022	31.12.2021
Contingent liabilities		
Guarantees to secure credits and similar instruments	105,755	103,427
Performance guarantees and similar	46,097	47,955
Irrevocable commitments arising from documentary letters of credit	23,870	67,560
Total contingent liabilities	175,722	218,942

5.11.22 Breakdown of fiduciary transaction

(CHF thousands)	31.12.2022	31.12.2021
Fiduciary investments with third-party companies	676,913	175,570
Fiduciary loans	4,670	4,604
Total fiduciary transactions	681,583	180,174

5.12 INFORMATION ON THE INCOME STATEMENT

5.12.23 Breakdown of the result from trading activities and fair value option

Breakdown of result from trading activities by business line

(CHF thousands)	2022	2021
Trading activities with private clients	10,304	8,982
Trading activities with corporate clients	8,512	7,767
Trading activities on own account	4,908	4,061
Total result from trading activities	23,724	20,810

Result from trading activities and fair value option

(CHF thousands)	2022	2021
Equity-type securities (including investment funds)	-1,678	77
Foreign currencies and banknote trading	24,887	20,556
Commodities / precious metals	515	177
Total result from trading activities	23,724	20,810

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

Refinancing income in the item "Result from interest operations"		
Interest and dividend income from trading portfolio is offset with costs of refinancing of that portfolio.		
(CHF thousands)	2022	2021
Negative interest		
Negative interest on assets (decrease in interest and discount income)	2,489	2,759
Negative interest on liabilities (decrease in interest expenses)	3,454	7,492

5.12.25 Breakdown of personnel expenses

(CHF thousands)	2022	2021
Salaries	72,628	68,492
<i>of which expenses relating to share-based compensation and alternative forms of variable compensation</i>	-	-
Social benefits	18,848	33,617 ¹
Other personnel expenses	3,315	2,901
Total personnel expenses	94,791	105,010

¹ Including provisions totalling CHF 15.9 million for the adjustment of the BancaStato staff pension plan to be implemented over 5 years (2022 and 2026).

5.12.26 Breakdown of general and administrative expenses

(CHF thousands)	2022	2021
Expenses for premises	5,490	5,481
Expenses for information and communications technology	28,272	27,686
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	514	477
Fees of audit firm	704	766
<i>of which for financial and regulatory audits</i>	640	642
<i>of which for other services</i>	64	124
Other operating expenses	14,895	13,519
<i>of which compensation for any State guarantee</i>	-	-
Total general and administrative expenses	49,875	47,929

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

<p>5.12.27.1 Material losses No material losses were incurred during the financial year.</p>
<p>5.12.27.2 Extraordinary income and extraordinary expenses No extraordinary income or extraordinary expenses were recorded during the 2022 financial year.</p>
<p>5.12.27.3 Hidden reserves The Group does not hold any hidden reserve as it discloses its financial statements on the basis of the true and fair view principle.</p>
<p>5.12.27.4 Reserves for general banking risks CHF 33.5 million were deducted from "Changes in reserves for general banking risks" and allocated to reserves for general banking risks.</p>
<p>5.12.27.5 Value adjustments and provisions no longer required There is nothing to report under this heading.</p>
<p>5.12.27.6 Revaluations from participations and tangible fixed assets There is no relevant information to provide under this heading.</p>

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

(CHF thousands)	31.12.2022	31.12.2021
Current taxes	3,086	1,524
Other taxes	198	152
Provisions for deferred taxes	-	-
Total taxes	3,284	1,676
Average current tax rate weighted on the basis of the result for the year¹	3.1%	1.9%

¹ The Parent company (Banca dello Stato del Cantone Ticino) is subject to communal taxation for intercommunal apportionment in accordance with Art. 279 ff of the TL. The Parent company (Banca dello Stato del Cantone Ticino) is exempt from federal taxation as it is a Cantonal establishment (Art. 56b of the Federal Act on Direct Federal Taxation), and from cantonal taxation (legislative decree of 19.05.1952).

Report of the auditor

to the Council and to the Cantonal Parliament of the Republic and
Canton of Ticino, Bellinzona

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Banca dello Stato del Cantone Ticino and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2022, consolidated income statement, cash flow statement, statement of changes in equity and annex for the year then ended, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 36-68) give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the accounting rules for banks and comply with Swiss law and the Law on Banca dello Stato del Cantone Ticino.

Basis for opinion

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

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

Our audit approach

Overview



Overall group materiality: CHF 5'000'000

We performed full scope audits at Banca dello Stato del Cantone Ticino and Axion Swiss Bank SA.

As key audit matter the following area of focus has been identified:

- Valuation of amounts due from customers and mortgage loans

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Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall group materiality	CHF 5'000'000
Benchmark applied	Operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items).
Rationale for the materiality benchmark applied	We chose the operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items) because it is the benchmark against which the performance of a banking group is most commonly measured and it is the generally accepted benchmark in the financial industry.

We agreed with the Audit Committee of the Board of Directors that we would report to them misstatements above CHF 250'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

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



Valuation of amounts due from customers and mortgage loans

Key audit matter

As shown in the note 5.10.2 of the annual report 2022, the Group grants loans and advances to customers and mortgage loans.

We consider the valuation of amounts due from customers and mortgage loans to be a key audit matter for the following reasons:

- Amounts due from customers and mortgage loans represent 13% (MCHF 2'436), respectively 61% (MCHF 11'405) of total assets;
- the determination of the amount of any impairment is based on the customer's capacity to repay the amount due and on the liquidation value of the collateral, both of which may be influenced by subjective factors and involve management's judgement;
- the determination of value adjustments for default risks on loans that are not-impaired is based on an internal model. Such internal model includes assumptions and parameters on which the Group exercises a significant degree of estimation.

The Bank has a control system in place that allows to identify and to analyse the risk of default, to take precautionary measures and to determine the impairment necessary.

The accounting and valuation principles for amounts due from customers and mortgage loans and the methods used to identify default risks and to determine the need for impairment are described in the notes to the consolidated financial statements (notes 5.2.3.3, 5.4.1 and 5.5).

How our audit addressed the key audit matter

We identified and tested the key controls relating to amounts due from customers and mortgage loans, more specifically:

Impaired loans

- controls aimed to identify signs of potential default in order to determine the scope of non-performing and/or impaired loans;
- controls relating to the calculation of value adjustment including the determination of the market value of the collaterals.

Not-impaired loans

- controls aimed to validate the internal model used to determine value adjustments for default risks on not-impaired loans according to FINMA-AO (art. 25).

We concluded that we are able to rely on key controls tested.

In addition, we tested on a sample basis that:

- the risk category given to the selected credit was adequate;
- the market value of the collateral was determined or updated in accordance with market practice;
- the impairments were calculated and recorded in accordance with the applicable accounting principles;
- the assumptions and parameters included in the internal model used to determine value adjustments for default risks on not-impaired loans are adequate;
- data included into the internal model is complete and accurate.

We concluded that the methods and assumptions used to determine value adjustments on both doubtful and on not-impaired loans are appropriate and in accordance with our expectations.

Other information

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

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

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

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



Board of Directors' responsibilities for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with accounting rules for banks and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law and SA-CH, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate to the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.




From the matters communicated to the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers SA


Beresford Caloia
Audit expert
Auditor in charge


Lorenzo Morelli
Audit expert

Lugano, 29 March 2023





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1. Balance sheet

(CHF thousands)	Reference to the Notes	31.12.2022	31.12.2021	Change
Assets				
Liquid assets		2,951,564	2,888,873	62,691
Amounts due from banks		403,284	352,849	50,435
Amounts due from clients	5.6.2	2,019,048	1,940,385	78,663
Mortgage loans	5.6.2	11,404,892	11,087,141	317,751
Trading activities	5.6.3	35,275	30,087	5,188
Positive replacement values of derivative financial instruments	5.6.4	61,072	15,693	45,379
Financial investments	5.6.5	661,932	383,821	278,111
Prepaid expenses and deferred income		15,903	12,634	3,269
Participations		71,522	71,960	-438
Tangible fixed assets		74,193	79,272	-5,079
Intangible assets		4,851	6,694	-1,843
Other assets	5.6.6	3,164	186,764	-183,600
Total assets		17,706,700	17,056,173	650,527
Total subordinated loans		27,456	28,869	-1,413
<i>of which subject to mandatory conversion and/or debt waiver</i>		27,456	28,869	-1,413
Liabilities				
Amounts due to banks		920,191	1,121,991	-201,800
Liabilities from securities financing transactions	5.6.1	400,000	270,000	130,000
Amounts due in respect of customer deposits		11,401,869	11,155,859	246,010
Negative replacement values of derivative financial instruments	5.6.4	53,772	89,174	-35,402
Bond issues and central mortgage institution loans	5.6.7	3,220,000	3,014,000	206,000
Deferred expenses and prepaid income		37,789	35,526	2,263
Other liabilities	5.6.6	270,765	9,701	261,064
Provisions	5.6.9	16,353	18,135	-1,782
Reserves for general banking risks	4 and 5.6.9	538,500	506,500	32,000
Endowment capital	4 and 5.6.10	500,000	500,000	-
Statutory retained earnings reserve	4	291,938	282,764	9,174
Profit (result for the period)	4	55,523	52,523	3,000
Total liabilities		17,706,700	17,056,173	650,527
Total subordinated liabilities		250,654	250,654	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		250,654	250,654	-
Off-balance sheet transactions				
Contingent liabilities	5.6.2	169,333	212,481	-43,148
Irrevocable commitments	5.6.2	321,328	341,042	-19,714
Commitments for calls on shares and other equities	5.6.2	19,416	19,416	-

2. Income Statement

(CHF thousands)	Reference to the Notes	2022	2021	Change
Costs and expenses from ordinary banking business				
Result from interest operations				
Interest and discount income		192,714	174,491	18,223
Interest and dividend income from financial investments		2,942	1,518	1,424
Interest expenses		-28,355	-20,625	-7,730
Gross result from interest operations		167,301	155,384	11,917
Changes in value adjustments for default risks and losses from interest operations		451	-1,384	1,835
Net result from interest operations		167,752	154,000	13,752
Result from commission business and services				
Commission income from securities trading and investment activities		28,507	30,613	-2,106
Commission income from lending activities		5,245	5,167	78
Commission income from other services		10,838	9,658	1,180
Commission expenses		-7,031	-7,186	155
Result from trading activities and fair value option	5.8.15	18,382	15,297	3,085
Other results from ordinary activities				
Result from the disposal of financial investments		-1,292	2,585	-3,877
Participation income		5,028	3,360	1,668
Real estate income		598	514	84
Other ordinary income		3,542	3,799	-257
Other ordinary expenses		-6,895	-1,132	-5,763
Net revenues		224,674	216,675	7,999
Operating expenses				
Personnel expenses	5.8.17	-77,334	-87,151 ¹	9,817
General and administrative expenses	5.8.18	-43,027	-41,648	-1,379
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		-14,471	-12,049	-2,422
Changes to provisions and other value adjustments, and losses	5.8.19.1	-1,941	-127	-1,814
Operating result		87,901	75,700	12,201
Extraordinary income	5.8.19.02	141	492	-351
Extraordinary expenses	5.8.19.02	-	-81	81
Changes in reserves for general banking risks	5.8.19.04	-32,000	-23,116	-8,884
Taxes	5.8.20	-519	-472	-47
Profit (result for the period)		55,523	52,523	3,000

¹ Including provisions totalling CHF 15.9 million for the adjustment of the staff pension plan to be implemented over 5 years (2022 and 2026).

3. Proposed appropriation of retained earnings

(CHF thousands)	2022	2021	Change
Appropriation of retained earnings			
Profit (result for the period)	55,523	52,523	3,000
Profit carried forward	-	-	-
Balance sheet profit	55,523	52,523	3,000
Proposal of the Board of Directors			
Assignment to statutory retained earnings reserve	10,174	9,174	1,000
Payment to the Canton	45,349	43,349	2,000
<i>of which 5% interest on the endowment capital</i>	25,000	25,000	-
<i>of which additional payment to the Canton</i>	20,349	18,349	2,000
Amount carried forward	-	-	-

4. Statement of Changes in Equity

(CHF thousands)	Endowment capital	Retained earnings reserve	Reserves for general banking risks	Result of the period	Total
Equity at 01.01.2022	500,000	282,764	506,500	52,523	1,341,787
Appropriation of retained earnings 2021					
<i>Assignment to statutory retained earnings reserve</i>	-	+9,174	-	-9,174	-
<i>5% interest on endowment capital</i>	-	-	-	-25,000	-25,000
<i>Additional payment to the Canton</i>	-	-	-	-18,349	-18,349
Allocation to reserves for general banking risks	-	-	+32,000	-	32,000
Profit (result for the period)	-	-	-	+55,523	55,523
Total equity at 31.12.2022	500,000	291,938	538,500	55,523	1,385,961

The Law on Banca dello Stato del Cantone Ticino does not provide for the possibility of distributing the Retained earnings reserve. This reserve can be used exclusively in order to cover any operating losses. In such an eventuality, the Retained earnings reserve must be brought back to the level it had reached before it was drawn upon, using the portion of net profits from subsequent years that exceeds the portion due in respect of interest on endowment capital, without any limit in time.

The Bank did not issue any participation rights.

5. Notes to the Financial Statements

5.1 ACTIVITIES OF THE BANK AND PERSONNEL

5.1.1 Activities of the Bank

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

Its operations have evolved over 100 years and comprise the complete range of banking services provided by full service banks.

Amongst other things as part of a move to diversify its sources of revenue, BancaStato holds the capital of Axion SWISS Bank SA, Lugano (Axion).

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

5.1.2 Personnel

As at 31 December 2022, the Bank had a total of 455 employees on payroll (413.65 FTEs) with apprentices calculated at 50%, compared to 432 staff at the end of 2021 (391.40 FTEs).

5.2 ACCOUNTING AND VALUATION PRINCIPLES

5.2.1 In general

The financial statements of BancaStato as at 31 December 2022 were prepared in accordance with applicable legal and regulatory provisions as well as the true and fair view principle, in compliance with the provisions of the Swiss Code of Obligations and the Swiss Banking legislation, in particular the guidelines of the Swiss Financial Market Supervisory Authority FINMA, the Swiss listing rules and the directives of SIX Group AG.

All business transactions are recorded at the time they are concluded. The balance sheet is presented on a transaction date basis.

5.2.2 Accounting and valuation principles

Accounting and valuation principles reflect those of the consolidated financial statements (refer to section 5.2.2 and following of the Notes to the Group Financial Statements) except for the item "Participations".

5.2.3 Participations

Participations comprise company equity stakes held by the Bank as long-term investments.

Participations are carried at cost less appropriate depreciation, regardless of the share held.

The participation share in the capital of the Central Mortgage Bond Issuing Body of the Swiss Cantonal Banks has been partially paid-up. The commitment to pay up the outstanding amount is posted in off-balance sheet under the item "Obligations to pay up shares and make further contributions". In order to be able to furnish liquidity quickly in the event of a crisis, the shareholder banks have granted a credit limit in the amount of the further contributions; this figure has not been included in the off-balance sheet entry for "irrevocable commitments" in order to avoid a dual entry.

5.3 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 disclosed in the income statement under "Result from trading activities and fair value option".

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 0.9881 (2021: 1.0371)

USD 0.9247 (2021: 0.9117)

5.4 ADJUSTMENT OF THE ACCOUNTING PRINCIPLES FOR THE PRESENTATION OF FINANCIAL STATEMENTS

There were no changes in the accounting principles or in the presentation of accounts in 2022.

5.5 OTHER INFORMATION

For information on "Risk management", "Methods used for identifying default risks and determining the need for value adjustments", "Valuation of collateral", "Business policy regarding the use of derivative financial instruments and hedge accounting", "Explanations of material events occurring after the balance sheet date" and "Reasons which have led to early

resignation of the auditors”, refer to the Notes to the Group Financial Statements as these points are also applicable to BancaStato’s Individual Financial Statements.

The information regarding capital adequacy and liquidity required by the FINMA Circular 2016/1 “Disclosure - banks” is published on BancaStato’s website (www.bancastato.ch).

5.6 INFORMATION ON THE BALANCE SHEET

5.6.1 Breakdown of securities financing transactions (assets and liabilities)

(CHF thousands)	31.12.2022	31.12.2021
Securities lending, securities borrowing and repurchase agreements		
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions ¹	-	-
Book value of obligations from cash collateral received in connection with securities lending and repurchase agreements ¹	400,000	270,000
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	454,557	267,703
<i>of which with unrestricted right to resell or repledge</i>	454,557	267,703
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	-	-
<i>of which repledged securities</i>	-	-
<i>of which resold securities</i>	-	-

¹ Before any netting agreement.

5.6.2 Presentation of collateral for loans / receivables and off-balance sheet transactions, as well as impaired loans/receivables at 31.12.2022

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)				
Amounts due from clients	159,041	340,442	772,393	1,271,876 ¹
Due from public corporations	1,130	1,896	781,411 ²	784,437
Mortgage loans	11,440,525	-	2,176	11,442,701
<i>Residential premises</i>	8,306,839	-	862	8,307,701
<i>Office and business premises</i>	1,816,421	-	275	1,816,696
<i>Crafts and industrial premises</i>	618,879	-	693	619,572
<i>Other</i>	698,386	-	346	698,732
Total loans (before netting with value adjustments)	11,600,696	342,338	1,555,980	13,499,014
Previous year	11,282,865	369,878	1,452,148	13,104,891
Total loans (after netting with value adjustments)	11,561,927	325,781	1,536,232	13,423,940
Previous year	11,242,904	353,439	1,431,183	13,027,526
Off-balance sheet transactions				
Contingent liabilities	5,590	34,584	129,159	169,333
Irrevocable commitments	38,971	21,255	261,102 ³	321,328
Commitments for calls on shares and other equities	-	-	19,416	19,416
Total off-balance sheet transactions	44,561	55,839	409,677	510,077
Previous year	19,416	119,537	433,986	572,939

(CHF thousands)	Gross debt amount	Estimated liquidation value	Net debt amount	Individual value adjustments
Impaired loans				
Year under review	112,470	76,778	35,692	35,692
Previous year	107,768	70,296	37,472	37,472

¹ Including CHF 107.1 million in COVID-19 and COVID-19 Plus loans (2021: 132.6 million), secured almost entirely by a guarantee provided by the federal government.

² Including loans to entities related to public institutions for CHF 95.2 million (2021: 95.4 million).

³ Including CHF 41.4 million (2021: CHF 39.2 million) as a required share for deposit guarantee purposes.

5.6.3 Breakdown of trading portfolios and other financial investments with fair value option (assets and liabilities)

(CHF thousands)	31.12.2022	31.12.2021
Trading portfolio assets		
Equity securities	-	200
Shares in investment funds	2,782	3,672
Precious metals and commodities	27,407	23,386
Structured products	5,086	2,829
Total trading portfolio assets	35,275	30,087
<i>of which determined using a valuation model</i>	-	-
<i>of which securities eligible for repurchase agreements, in accordance with liquidity requirements</i>	-	-

5.6.4 Presentation of derivative financial instruments (assets and liabilities)

(CHF thousands)	Trading instruments			Hedging instruments		
	Replacement values		Contract volume	Replacement values		Contract volume
	positive	negative		positive	negative	
Interest rate instruments						
Swaps	-	-	-	33,894	-	600,000
Total interest rate instruments	-	-	-	33,894	-	600,000
Foreign currencies / precious metals						
Forward contracts	2,268	7,976	332,806	102	191	79,801
Swaps (interest rate/currency)	12,873	6,920	1,193,104	11,389	38,144	3,383,229
OTC Options	546	541	129,741	-	-	-
Total foreign currencies / precious metals	15,687	15,437	1,655,651	11,491	38,335	3,463,030
Total derivative financial instruments	15,687	15,437	1,655,651	45,385	38,335	4,063,030
<i>of which determined using a valuation model</i>	<i>15,687</i>	<i>15,437</i>	<i>-</i>	<i>45,385</i>	<i>38,335</i>	<i>-</i>
Total previous year	9,070	8,850	1,394,086	6,623	80,324	4,428,217
<i>of which determined using a valuation model</i>	<i>9,070</i>	<i>8,850</i>	<i>-</i>	<i>6,623</i>	<i>80,324</i>	<i>-</i>

Recapitalisation

(CHF thousands)	Positive replacement values (cumulated)	Negative replacement values (cumulated)	Contract volume
Trading instruments	15,687	15,437	1,655,651
Hedging instruments	45,385	38,335	4,063,030
Total before netting agreements*	61,072	53,772	5,718,681
Total previous year	15,693	89,174	5,822,303
Total after netting agreements*	61,072	53,772	5,718,681
Total previous year	15,693	89,174	5,822,303

Breakdown by counterparty

(CHF thousands)	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)*	-	58,240	2,832

* No netting contracts exist for derivative financial instruments open as at 31.12.2022 and 31.12.2021.

5.6.5 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Debt securities	613,881	327,169	572,013	329,900
<i>of which intended to be held to maturity</i>	606,809 ¹	315,292	564,941	317,943
<i>of which not intended to be held to maturity (available for sale)</i>	7,072	11,877	7,072	11,957
Shares in investment funds	17,981	25,404	18,040	19,616
Equity securities	16,484	17,560	17,029	25,272
<i>of which qualified participations (at least 10% of capital or votes)</i>	-	-	-	-
Precious metals	144	101	144	101
Real estate	13,442	13,587	13,442	13,587
Total financial investments	661,932	383,821	620,668	388,476
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	531,158	295,854	492,201	298,330

Breakdown of counterparties by rating

(CHF thousands)	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Book value of debt securities	579,340	23,828	7,022	2,934	-	757

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

¹ of which money market debt register claims issued by the Swiss National Bank with a nominal value of CHF 165.0 million.

5.6.6 Breakdown of other assets and other liabilities

(CHF thousands)	31.12.2022	31.12.2021
Other assets		
Compensation account	-	6,248
Indirect taxes	586	636
Various other assets	2,578	179,880 ¹
Total other assets	3,164	186,764
Other liabilities		
Direct / indirect taxes	3,524	2,535
Compensation account	32,853	-
Unredeemed cash bonds	5	521
Memorandum accounts	213,391 ²	5,396
Various other liabilities	20,992 ³	1,249
Total other liabilities	270,765	9,701

¹ of which a balance of CHF 178.8 million for in-house banking transactions.

² of which a balance of CHF 209.7 million for in-house banking transactions.

³ of which a CHF 18.3 million additional payment to the Canton for 2021.

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

(CHF thousands)	31.12.2022		31.12.2021	
	Book value	Effective commitments	Book value	Effective commitments
Pledged / assigned assets (excluding advances and repurchase agreements with securities)				
Book value of mortgages set as collateral for mortgage bonds of the Mortgage Bond Issuing Body of the Swiss Cantonal Banks	2,800,897	2,320,000	2,544,934	2,064,000
Book value of securities delivered as collateral to SIX Group AG	3,368	-	1,012	-
Book value of securities delivered as collateral in connection with Repo Light credit with SNB (unused)	25,054	-	21,801	-
Book value of the Covid-19 loans assigned to the SNB.	-	-	118,800	118,800
Book value of assets pledged to secure own commitments	27,126	27,126	81,227	81,227
Total pledged / assigned assets	2,856,445	2,347,126	2,767,774	2,264,027
Assets under reservation of ownership Assets under reservation of ownership	-	-	-	-

5.6.8 Disclosure of the economic position of own pension schemes

5.6.8.1 Disclosure of liabilities relating to own pension schemes, and number and nature of equity instruments of the Bank held by own pension schemes

The Bank has no own pension scheme.

5.6.8.2 Disclosure of liabilities relating to own pension schemes

a) Employer contribution reserves (ECR)

There were no employer contribution reserves as at 31 December 2022.

b) Presentation of the economic benefit / obligation and pension expenses

	Over- / underfunding at the end of 2022	Economic interest of the Bank		Change in economic interest and/or commitment versus previous year	Contributions paid for 2022	Pension expenses in personnel expenses	
		31.12.2022	31.12.2021			31.12.2022	31.12.2021
Pension plans unsecured overfunding / underfunding	-	-	-	-	9,796	9,416	24,377 ¹

Contributions are paid to the insurance company and the charge to the employer is reported under the item "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.

The Bank does not report any obligation towards the pension foundation at the end of the accounting period. There are no contribution reserves on the part of the employer and the relationship between the Bank and its pension fund is based on a global affiliation contract. 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 employer.

¹ Including provisions totalling CHF 15.9 million for the adjustment of the staff pension plan to be implemented over 5 years (2022 and 2026).

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

(CHF thousands)	Status 31.12.2021	2022				Status 31.12.2022
		Use in conformity with designated purpose	Currency conversion differences	New creations charged to income	Releases to income	
Provisions						
Provisions for default risk ¹	2,746	-	-13	3,423	-1,259	4,897
<i>of which provisions for likely commitments</i>	386	-	-	2,922	-382	2,926
<i>of which provisions for default risks</i>	2,360	-	-13	501	-877	1,971
Value adjustments and provisions for other operating risks	392	-	-	-	-92	300
Additional pension provision	14,997	-4,665	-	824	-	11,156
Total provisions	18,135	-4,665	-13	4,247	-1,351	16,353
Reserves for general banking risks	506,500	-	-	32,000	-	538,500
Value adjustments for default and country risks	77,684	-1,886	93	13,291	-13,731	75,451
<i>of which value adjustments for default risk from impaired loans</i>	37,472	-1,886	90	4,491	-4,475	35,692
<i>of which value adjustments for default risk inherent to receivables</i>	39,893	-	12	8,619	-9,142	39,382
<i>of which value adjustments for default risk inherent to other items</i>	319	-	-9	181	-114	377

¹ On off-balance sheet commitments.

5.6.10 Presentation of the Bank's endowment capital

(CHF thousands)	31.12.2022			31.12.2021		
	Total par value	Quantity	Capital eligible for dividend	Total par value	Quantity	Capital eligible for dividend
Endowment capital						
Endowment capital	500,000	500,000	500,000	500,000	500,000	500,000
<i>of which paid up</i>	500,000	500,000	500,000	500,000	500,000	500,000
Total endowment capital	500,000	500,000	500,000	500,000	500,000	500,000

5.6.11 Disclosure of amounts due from / to related parties

(CHF thousands)	31.12.2022		31.12.2021	
	Receivables	Payables	Receivables	Payables
Holders of qualified participations	25,000	339,224	25,012	368,385
Group companies	134,513	557,244	32,514	519,437
Linked companies	212,068	144,075	142,526	108,693
Members of governing bodies	17,209	7,465	17,666	8,230

The amounts indicated include any off-balance sheet operation that may have been effected.

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 at market conditions in compliance with standard lending parameters.

5.6.12 Disclosure of holders of significant participations

(CHF thousands)	31.12.2022		31.12.2021	
	Nominal	Share as %	Nominal	Share as %
Canton Ticino With voting rights	500,000	100	500,000	100

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

Bank's own country rating (CHF thousands)	Rating Standard & Poor's	31.12.2022		31.12.2021	
		Net foreign exposure	Share as %	Net foreign exposure	Share as %
1 Excellent and high quality	AAA to AA-	276,380	80.4%	108,649	58.6%
2 Above-average quality	A+ to A-	2,502	0.7%	2,479	1.3%
3 Average quality	BBB+ to BBB-	58,191	16.9%	65,520	35.3%
4 Default risk	BB+ to BB	33	0.0%	37	0.0%
5 Default risk material	BB-	-	0.0%	101	0.1%
6 Speculative, high default risk	B+ to B-	100	0.0%	-	0.0%
7 Poor quality, very high risk	CCC+ to D	-	0.0%	-	0.0%
Unrated	-	6,871	2.0%	8,697	4.7%
Total		344,077	100.0%	185,483	100.0%

The breakdown by domestic and foreign origin is made on the basis of the customer's domicile, with the exception of mortgage loans where the domicile of the property is the relevant criterion. Liechtenstein is deemed to be a foreign country.

5.7 INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

5.7.14 Breakdown of fiduciary transaction

(CHF thousands)	31.12.2022	31.12.2021
Fiduciary investments with third-party companies	240,217	22,703
Total fiduciary transactions	240,217	22,703

5.8 INFORMATION ON THE INCOME STATEMENT

5.8.15 Breakdown of the result from trading activities and fair value option

Breakdown of result from trading activities by business line

(CHF thousands)	2022	2021
Trading activities with private clients	7,134	6,124
Trading activities with corporate clients	5,972	5,136
Trading activities on own account	5,276	4,037
Total result from trading activities	18,382	15,297

Result from trading activities and fair value option

(CHF thousands)	2022	2021
Equity-type securities (including investment funds)	-1,310	53
Foreign currencies and banknote trading	19,177	15,067
Commodities / precious metals	515	177
Total result from trading activities	18,382	15,297

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

Refinancing income in the item "Result from interest operations"		
Interest and dividend income from trading portfolio is offset with costs of refinancing of that portfolio.		
(CHF thousands)	2022	2021
Negative interest		
Negative interest on assets (decrease in interest and discount income)	401	332
Negative interest on liabilities (decrease in interest expenses)	4,569	10,498

5.8.17 Breakdown of personnel expenses

(CHF thousands)	2022	2021
Salaries	58,557	54,250
<i>of which expenses relating to share-based compensation and alternative forms of variable compensation</i>	-	-
Social benefits	16,156	30,538 ¹
Other personnel expenses	2,621	2,363
Total personnel expenses	77,334	87,151

¹ Including provisions totalling CHF 15.9 million for the adjustment of the staff pension plan to be implemented over 5 years (2022 and 2026).

5.8.18 Breakdown of general and administrative expenses

(CHF thousands)	2022	2021
Office space expenses	4,920	4,792
Expenses for information and communications technology	23,540	23,038
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	496	468
Fees of audit firm	466	509
<i>of which for financial and regulatory audits</i>	418	385
<i>of which for other services</i>	48	124
General and administrative expenses	13,605	12,841
<i>of which compensation for any State guarantee</i>	-	-
Total general and administrative expenses	43,027	41,648

5.8.19 Explanations concerning material losses, extraordinary income and extraordinary expenses, and any significant release of hidden reserves, reserves for general banking risks and value adjustments and provisions no longer required

<p>5.8.19.1 Material losses No material losses were incurred during the financial year.</p>
<p>5.8.19.2 Extraordinary income and extraordinary expenses No extraordinary income or extraordinary expenses were recorded during the 2022 financial year.</p>
<p>5.8.19.3 Hidden reserves The Bank does not hold any hidden reserves as it discloses its individual financial statements on the basis of the true and fair view principle.</p>
<p>5.8.19.4 Reserves for general banking risks CHF 32 million were deducted from "Changes in reserves for general banking risks" and allocated to reserves for general banking risks.</p>
<p>5.8.19.5 Value adjustments and provisions no longer required There is nothing to report under this heading.</p>
<p>5.8.19.6 Revaluations from participations and tangible fixed assets There were no revaluations of participations or tangible fixed assets during the reporting year.</p>

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

(CHF thousands)	2022	2021
Current taxes	321	320
Other taxes	198	152
Total taxes	519	472

The Bank is subject to communal taxation for intercommunal apportionment in accordance with Art. 279 ff of the TL.

The Bank is exempt from federal taxation as it is a Cantonal establishment (Art. 56b of the Federal Act on Direct Federal Taxation) and from cantonal taxation (legislative decree of 19.05.1952).



Report of the auditor

to the Council and to the Cantonal Parliament of the Republic and
Canton of Ticino, Bellinzona

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Banca dello Stato del Cantone Ticino (the Bank), which comprise the balance sheet as at 31 December 2022, income statement and statement of changes in endowment capital and annex for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 76-89) give a true and fair view of the financial position as at 31 December 2022, the financial performance and the cash flows for the year then ended in accordance with the accounting rules for banks and comply with Swiss law and the Law on Banca dello Stato del Cantone Ticino.

Basis for opinion

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

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

Our audit approach

Overview

Overall materiality: CHF 4'300'000



We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

As key audit matter the following area of focus has been identified:

- Valuation of amounts due from customers and mortgage loans

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Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 4'300'000
Benchmark applied	Operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items).
Rationale for the materiality benchmark applied	We chose the operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items) because it is the benchmark against which the performance of a bank is most commonly measured and it is the generally accepted benchmark in the financial industry.

We agreed with the Audit Committee of the Board of Directors that we would report to them misstatements above CHF 215'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matters

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

Valuation of amounts due from customers and mortgage loans

Key audit matter	How our audit addressed the key audit matter
<p>As shown in the note 5.6.2 of the annual report 2022, the Bank grants loans and advances to customers and mortgage loans.</p> <p>We consider the valuation of amounts due from customers and mortgage loans to be a key audit matter for the following reasons:</p> <ul style="list-style-type: none">• Amounts due from customers and mortgage loans represent 11% (MCHF 2'019), respectively 64% (MCHF 11'405) of total assets;• the determination of the amount of any impairment is based on the customer's capacity to repay the amount due and on the liquidation value of the collateral, both	<p>We identified and tested the key controls relating to amounts due from customers and mortgage loans, more specifically:</p> <p><i>Impaired loans</i></p> <ul style="list-style-type: none">• controls aimed to identify signs of potential default in order to determine the scope of non-performing and/or impaired loans;• controls relating to the calculation of value adjustment including the determination of the market value of the collaterals.



Key audit matter

of which may be influenced by subjective factors and involve management's judgement;

- the determination of value adjustments for default risks on loans that are not-impaired is based on an internal model. Such internal model includes assumptions and parameters on which the Bank exercises a significant degree of estimation.

The Bank has a control system in place that allows to identify and to analyse the risk of default, to take precautionary measures and to determine the impairment necessary.

The accounting and valuation principles for amounts due from customers and mortgage loans and the methods used to identify default risks and to determine the need for impairment are described in the notes to the consolidated financial statements (notes 5.2.3.3, 5.4.1 and 5.5).

How our audit addressed the key audit matter**Not-impaired loans**

- controls aimed to validate the internal model used to determine value adjustments for default risks on not-impaired loans according to FINMA-AO (art. 25).

We concluded that we are able to rely on key controls tested.

In addition, we tested on a sample basis that:

- the risk category given to the selected credit was adequate;
- the market value of the collateral was determined or updated in accordance with market practice;
- the impairments were calculated and recorded in accordance with the applicable accounting principles;
- the assumptions and parameters included in the internal model used to determine value adjustments for default risks on not-impaired loans are adequate;
- data included into the internal model is complete and accurate.

We concluded that the methods and assumptions used to determine value adjustments on both doubtful and on not-impaired loans are appropriate and in accordance with our expectations.

Other information

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

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

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

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

Board of Directors' responsibilities for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the Law on Banca dello Stato del Cantone Ticino, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and SA-CH, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

We communicate to the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

Furthermore, we confirm that the proposed appropriation of available earnings complies with Swiss law and the Law on Banca dello Stato del Cantone Ticino. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA



Beresford Caloia
Audit expert
Auditor in charge



Lorenzo Morelli
Audit expert

Lugano, 29 March 2023



Board of Directors at 31.12.2022

Chairman

Bernardino Bulla ¹

Deputy Chairman

Raoul Paglia ^{1,2}

Secretary

Daniel Joss ^{1,3}

Members

Avv. Giovanni Jelmini ^{1,2}

Avv. Michela Ferrari-Testa ¹

Stefano Santinelli ¹

Luca Soncini ^{1,2}

Public Mandate Control Commission at 31.12.2022

Chairman

Omar Balli

Deputy Chairman

Samantha Bourgoin

Members

Tiziano Galeazzi

Fabrizio Garbani Nerini

Giacomo Garzoli

Marco Passalia

¹ Independent members as specified in FINMA Circular 2017/01

² Members of the Audit and Risk Committee.

³ Daniel Joss died at the start of February 2023. At the time this document was finalised, a successor had not yet been appointed by the Council of State.

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

PricewaterhouseCoopers SA

Internal Audit

Head of Internal Audit

Gabriele Guglielmini

Deputy

Guido Gianetti

Executive Board

at 31.12.2022

President of the Executive Board

Fabrizio Cieslakiewicz

Members of the Executive Board

Glenda Brändli

Curzio De Gottardi

Nicola Guscelli

Patrick Lafranchi

Gabriele Zanzi

Members of the Management at 31.12.2022

BELLINZONA

Senior Vice Presidents

Luca Bordonzotti
Clio Indemini
Gabrio Lavizzari
Stefano Marra
Roberto Nuschak
Luca Previtali
Matteo Saladino
Pietro Soldini
Lorenzo Squellati
Norman Stampanoni
Fabrizio Stöckli
Carlo Tomasini
Mirko Zoppi

First Vice Presidents

Mauro Bazzotti
Maurizio Derada
Massimiliano Morelli
Massimo Penzavalli
Giorgio Sala

Vice Presidents

Davide Albergati
Loris Alzati
Roberto Angeretti
Luca Baciocchi
Enrico Bertozzi
Boris Bionda
Omar Cadola
Dario Caramanica
Medardo Caretti
Lorenzo Cattaneo
Eliana Cereghetti
Franco Engelberger
Bryan Frigerio
Roberto Frigo
Adolfo Genzoli
Luca Ghiringhelli
Manuel Giambonini

Tiziano Gianini
Stefano Giedemann
Roberto Landis
Dante Manara
Daniele Manzoni
Raffaele Marti
Roberto Meyer
Carlo Nodari
Emanuele Palmas
Cesare Pedrocchi
Corrado Pellanda
Stéphane Pellegrini
Patrick Pestelacci
Francesco Pisano
Fiorenzo Poretti
Aris Rogic
Ferruccio Unternährer

LUGANO

Senior Vice Presidents

Luigi Longoni
Carlo Ruggia

First Vice Presidents

Filippo Dotti
Sura Fini Di Pietro
Alberto Pedrazzi
Luca Todesco

Vice Presidents

Marco Airoldi
Gianluca Bassi
Roberto Barbera
Enrico Bentoglio
Gianluca Colpo
Luca Comisetti
Jurica Drinjak
Sergej Mancastrappa

Gabriele Mantegazzi
Alessandro Massetti
Isabella Pastore Pacia
Giuseppe Polli
Carmen Polo
Roberto Vassalli
Jvan Zatta

LOCARNO

Senior Vice Presidents

Marco Meschiari

First Vice Presidents

Fabrizio Conti Rossini
Claudio Gnesa

Vice Presidents

Gabriele Jelmolini
Stephan Mair
Gianmaria Mondada
Maurizio Ostinelli
Franco Storni

CHIASSO

Senior Vice Presidents

Marco Soragni

First Vice Presidents

Lorenzo Imperiali
Gilberto Pittaluga

Vice Presidents

Maurizio Brenta
Fulvio Soldini

INTERNAL AUDIT

Equivalent to Senior Vice Presidents

Gabriele Guglielmini

Equivalent to First Vice President

-

Equivalent to Vice Presidents

Guido Gianetti
Christian Steffen

Head Office

Viale H. Guisan 5
Casella Postale
6501 Bellinzona

Branches

Corso S. Gottardo 4
6830 Chiasso

Via Naviglio Vecchio 4
6600 Locarno

Via Pioda 7
6900 Lugano

Agencies

Via Contrada San Marco 41
6982 Agno

Via della Stazione 21
6780 Airolo

Viale Papio 5
6612 Ascona

Via Pini 2
6710 Biasca

Via Leoncavallo 31
6614 Brissago

Via Pretorio 3
6675 Cevio

Stabile Isra
6715 Dongio

Piazza S. Franscini 5
6760 Faido

Largo Libero Olgiati 81a
6512 Giubiasco

Via San Gottardo 77
6596 Gordola

Piazza Riforma
6900 Lugano

Via Trevano 97
6904 Lugano-Molino Nuovo

Via Cantonale 38
6928 Manno

Via Lavizzari 18
6850 Mendrisio

Via Pietro Fontana 8
6950 Tesserete

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c/o Sede Centrale

ATM ONLY

San Giovanni Hospital
6500 Bellinzona

Piazza Collegiata
6500 Bellinzona

Viale Stazione
6500 Bellinzona

Via San Francesco 1
6600 Locarno-Città Vecchia

Via Emmuaus 1
(Centro Comm. Cattori)
6616 Losone

Civico Hospita
6900 Lugano

Via Sonvico 5
(Centro Coop Resega)
6952 Lugano-Canobbio

Beata Vergine Hospital
6850 Mendrisio

Viale Stefano Franscini
6850 Mendrisio

Via Angelo Maspoli 18
(FoxTown)
6850 Mendrisio

Via Cantonale 19
6805 Mezzovico

Via alle Brere 5
6598 Tenero

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