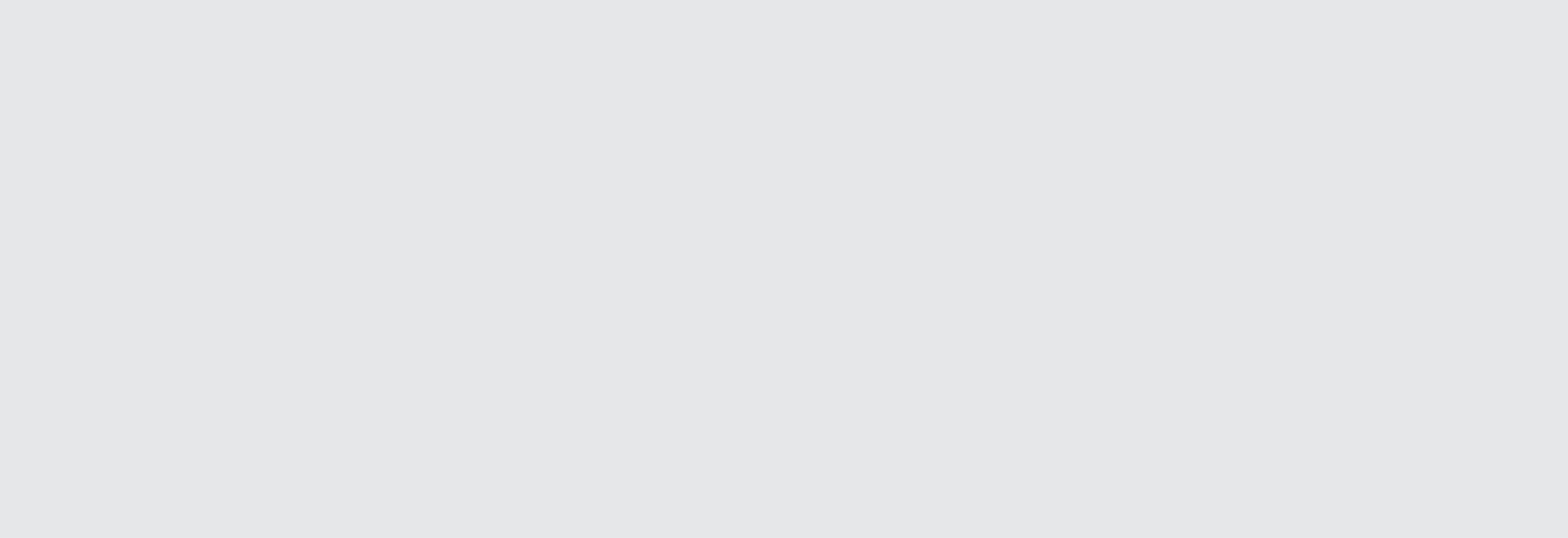




# ANNUAL REPORT 2011



# Table of Contents

<b>Message from the Chairman of the Board of Directors</b>	<b>5</b>
<b>Corporate Governance</b>	<b>7</b>
<b>Ticino's Economy in 2011 and Outlook for 2012</b>	<b>23</b>
<b>Report of the Board of Directors of Banca dello Stato del Cantone Ticino</b>	<b>25</b>
<b>Group Financial Statements</b>	<b>31</b>
<b>Auditors' Report</b>	<b>60</b>
<b>Individual Financial Statements</b>	<b>63</b>
<b>Auditors' Report</b>	<b>74</b>
<b>Board of Directors</b>	<b>76</b>
<b>Public Mandate Control Commission</b>	<b>76</b>
<b>External Auditors</b>	<b>77</b>
<b>Internal Auditors</b>	<b>77</b>
<b>Executive Board</b>	<b>78</b>
<b>Members of the Management</b>	<b>78</b>
<b>Head Office and Branches</b>	<b>79</b>
<b>Agencies</b>	<b>80</b>



**Dr. Fulvio Pelli**

Chairman of the Board of Directors

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.....  
*During 2011, the Bank performed well in the area of business volumes, and succeeded in improving most of its balance sheet items.*

”  
.....

# Message from the Chairman of the Board of Directors

Dear Madam,  
Dear Sir,

For Banca dello Stato del Cantone Ticino, 2011 was a momentous year. In view of the expected difficulties related to the implementation of several high-priority strategic projects, the Board of Directors has decided to part ways with former President of the Executive Board Donato Barbuscia. After an intensive search for, and evaluation of, suitable candidates, both in-house and outside, Bernardino Bulla was nominated President of the Executive Board as of 1st January 2012. The decision for this turnover has not been an easy one, but the Board of Directors are confident that the most appropriate solution has been found in order to implement the needed changes for the Bank's increased efficiency and profitability in the medium term.

The importance of 2011 also lies in the completion of major strategic projects in the Bank's Focus 2014 strategy over the 2010-2014 period. The "Sales Efficiencies" project was completed with new client segmentation, as well as the introduction of new consulting processes and intensive training for client advisors on banking techniques, sales and internal rules and regulations. At the same time, the Client Service Centre was further bolstered and is now able to offer high-quality advisory services via telephone. With regard to the asset management business, the Bank has brought to completion the last steps of the "Private Banking Development" project which is pivotal to the strategic objective aiming at diversifying sources of income. In addition to improving the specific instruments used in advisory services as well as launching and promoting the "BancaStato Private Banking" brand, a number of experienced financial advisors were hired, and assets managed in Ticino by the Lucerne Cantonal Bank were acquired (three of their employees also joined our staff).

During 2011, the Bank performed well in the area of business volumes, and succeeded in improving most of its balance sheet items. Of particular note is the CHF 185.4 million increase in mortgage loans which are now just short of CHF 6 billion. Fresh capital inflow totalled CHF 393 million and client assets managed reached CHF 7.4 billion.

The increase in business volumes was however not matched by a corresponding growth in net revenues. Several factors took their toll on the evolution of the Bank's revenues which witnessed a slight decrease. These include the European debt crisis, the general economic slowdown, persistently low interest rates and, more important, the strengthening of the Swiss franc in relation to the main currencies, cautiousness on the part of investors, problems related to the management of assets of clients based abroad, and finally new regulations on capital adequacy and ongoing fierce competitive pressure. To counter this trend, the Institution was able to reduce its operating expenses and was successful in improving its gross profit by just over CHF 2 million.

Thanks to prudent risk management and a healthy loan portfolio, provisions released in the past more than made up for the need for new provisions. Net revenues rose by an amount equivalent to the gross profit which made it possible for the Bank to increase the profits transferred to Canton Ticino (CHF 27 million) by approximately CHF 2 million. In addition to the increase in profit distribution as well as loans granted to the productive economy, BancaStato continued to actively promote the economy of the Canton by providing support to research institutions, professional labour organisations and a large number of sports, cultural and music societies. These activities continue to be part of the Bank's characteristic public mandate and are particularly meaningful at this time of uncertainty in the Swiss and Ticino economies.



In 2011, BancaStato successfully improved its efficiency (in terms of its ratio of net operating expenses to net revenues) as well as its profitability and financial base. The Bank must however continue to aim for further improvement particularly when compared to other cantonal banks. With this in mind, the Institution has decided to replace its IT system and adopt a new organisational structure in order to streamline work processes and respond more efficiently to client requirements. Both these cardinal projects will consume sizeable resources over the next three years, but are nevertheless expected to produce significant positive outcomes.

A fact worth mentioning is the considerable improvement in the Bank's financial structure over the past year. BancaStato floated a subordinated bond issue of CHF 175 million which is now part of the Bank's own available funds. This issuance became imperative in order to abide by the capital adequacy obligation arising from the cancellation of the discount reserved for cantonal banks as well as the increase in business volumes registered over the last few years. Among the other reasons behind this bond issue were the stricter federal capital and liquidity rules (Basel 3), the Institution's controlling share in Axion SWISS Bank SA, and the anticipated major future investments required as a result of the implementation of the various strategic projects mentioned earlier. As the value in terms of available equity of the subordinate loan decreases gradually over time (a 10% annual linear decrease over its initial value), BancaStato has requested the State Council to increase the endowment capital by CHF 10 million to CHF 110 million in 2011 (the current legislative decree states that the State Council may increase the endowment capital from CHF 90 million to CHF 110 million) and to request the Grand Council (i.e. Cantonal Parliament) to issue a new legislative decree allowing for further gradual increases in the Bank's capital up to a maximum of CHF 240 million.

After close examination, the State Council released CHF 10 million to the endowment capital and furthermore addressed a message to this effect to Parliament for debate in the coming months.

With regard to the expected results in 2012, the current instability in financial markets, coupled with the trying economic situation and the major future changes in federal banking provisions, have made it increasingly difficult to draw up reliable forecasts, particularly in terms of business volumes and proceeds. In this climate of uncertainty, the Bank will nevertheless continue to strive to curb operating expenses in view of at least reconfirming the results it achieved in 2011.

**Dr. Fulvio Pelli**

Chairman of the Board of Directors

# Corporate Governance

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

## Introduction

For the seventh year in a row, Banca dello Stato del Cantone Ticino (BancaStato) chose to voluntarily publicise information on its corporate governance.

The publication draws reference from the outline proposed by the Directive on Information Relating to Corporate Governance, issued by SIX Swiss Exchange, latest version effective 1 July 2009<sup>1</sup>. All data herein are at 31 December 2011 or refer to the entire 2011 financial year, unless otherwise indicated.

## Corporate Name, Legal Status, Duration and Head Office

Banca dello Stato del Cantone Ticino, founded in 1915, is an autonomous institution operating under public law. The Republic and Canton of Ticino owns 100% of the Bank's equity. The Institution's statute is that of a cantonal bank, in accordance with the Swiss Federal Law on Banks and Savings Banks<sup>2</sup>. The activities of the Bank are regulated by the Law on Banca dello Stato del Cantone Ticino dated 25 October 1988. The Bank is established with no time limit. Its head office is in Bellinzona<sup>3</sup>.

## Purpose and Activities

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

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

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

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

<sup>1</sup> Refer to: [http://www.six-exchange-regulation.com/admission\\_manual/06\\_15-DCG\\_en.pdf](http://www.six-exchange-regulation.com/admission_manual/06_15-DCG_en.pdf)

<sup>2</sup> Refer to: [http://www.admin.ch/ch/i/rs/c952\\_0.html](http://www.admin.ch/ch/i/rs/c952_0.html)

<sup>3</sup> Refer to: [http://www.bancastato.ch/dms/site-bancastato/documenti/Corporate-BancaStato/Legge\\_di\\_istituzione/Leggelstituzione.pdf](http://www.bancastato.ch/dms/site-bancastato/documenti/Corporate-BancaStato/Legge_di_istituzione/Leggelstituzione.pdf)

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

## Supervision

The Bank is subject to the supervision of the Swiss Financial Market Supervisory Authority (FINMA) pursuant to the provisions of the banking legislation<sup>4</sup>.

## 1. BANK STRUCTURE AND OWNERSHIP

### 1.1 Operational structure

#### 1.1.1 Group operational structure

Banca dello Stato del Cantone Ticino is a Group. As at 31 December 2011 Banca dello Stato del Cantone Ticino held an 80% share in AHSA Holding SA, Lugano (nominal capital: CHF 7.5 million; BancaStato participation: CHF 6 million). The remaining 20% of AHSA Holding SA's nominal capital is held by Bellflower Holding SA, with headquarters in Lugano. The capital of Bellflower Holding SA is entirely owned by the management of Axion SWISS Bank SA.

AHSA Holding SA in turn owns 100% of the share capital of Axion SWISS Bank SA (nominal capital: CHF 43 million). With this structure, BancaStato guarantees its active involvement in the group of the present management of Axion SWISS Bank SA, while at the same time remaining legally autonomous.

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

#### 1.1.2 Bank operational structure

The Heads of each Division, along with the President, form the Executive Board. As of 1 January 2012, the following business units report to the President of the Executive Board: Management and Credit Control, and Finances as well as the Senior Executive Management: Legal and Compliance, Human Resources, and Strategic Planning and Communications.

The other business units are: Retail and Corporate, Markets and Private Banking, and Logistics.

### 1.2 Ownership

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

### 1.3 Cross-shareholdings

The Bank does not have any cross-shareholdings.

## 2. CAPITAL STRUCTURE

### 2.1 Capital<sup>5</sup>

By law, the State assigns the Bank an endowment capital and the Bank is authorized to issue participation certificates. To this date the Bank has not made use of the latter source of capital, and its capital solely consists of the endowment capital provided by the State, that is CHF 110 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 2011.

### 2.2 Specifications concerning capital

Pursuant to Art. 6 of the Law on Banca dello Stato del Cantone Ticino, any increase in endowment capital must be authorised by the Grand Council (Cantonal Parliament). With the legislative decree of 22 May 1989<sup>6</sup> the Grand Council of Ticino stipulated that the endowment capital amounts to CHF 110 million. As mentioned earlier, CHF 110 million was paid out.

<sup>4</sup> Refer to: <http://www.finma.ch/e/regulierung/gesetze/Pages/banken.aspx>

<sup>5</sup> Refer to: [http://www.bancastato.ch/documenti/chisiamo/PUBLIC-legge\\_d'istituzione.pdf](http://www.bancastato.ch/documenti/chisiamo/PUBLIC-legge_d'istituzione.pdf)

<sup>6</sup> Refer to: <http://www3.ti.ch/CAN/rl/program/books/rst/htm/490a.htm>

On 23 November 2011, the Government issued a request to Parliament in view of increasing BancaStato's endowment capital from CHF 110 million to CHF 240 million<sup>7</sup> in order to satisfy the new requisites of the Federal Supervisory Authority on financial markets in terms of capital adequacy<sup>8</sup> and to sustain the investments entailed by several important projects which BancaStato will be implementing in the next years, while still guaranteeing a margin of financial autonomy. At the end of the reporting year this message had not been debated by Parliament.

### **2.3 Changes in capital**

On 30 December 2011, in conformity with Government Resolution n° N. 6685 of 6 December 2011, the endowment capital was increased from CHF 100 million to CHF 110 million.

### **2.4 Shares and participation certificates**

The Bank's endowment capital is not divided up into shares. According to Art. 6 of the Law on Banca dello Stato del Cantone Ticino, the Institution is authorised to issue participation certificates not exceeding 50% of its endowment capital. As at 31 December 2011 there was no participation capital.

### **2.5 Bonus certificates**

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

### **2.6 Limitations on transferability and nominee registrations**

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

### **2.7 Convertible bonds and options**

Banca dello Stato del Cantone Ticino has not issued any convertible bonds and there are no options on the Bank's equity.

## **3. BOARD OF DIRECTORS**

### **3.1 Members of the Board of Directors and activities**

The Board of Directors exercises the ultimate responsibility for the management of the Bank and the supervision and control of the state of business. The Board is composed of seven members who must be Swiss citizens of which at least six must be domiciled in the Canton (Art. 19 of the Law on Banca dello Stato del Cantone Ticino).

Based on the provisions of Art. 20 of the Law on Banca dello Stato del Cantone Ticino, members of the State Council (Cantonal Government), government officials, magistrates of any type (except for justices of peace), directors, administrators and employees of other credit institutions (with the exception of members of the Swiss National Bank governing bodies), cannot be appointed to the Board of Directors. Relatives and next of kin, spouses, registered partners or cohabiting partners, siblings or siblings-in-law, business partners and employees of the same company may not be members of the Board of Directors simultaneously. This is in line with the provisions of the Swiss Financial Market Supervisory Authority, FINMA Circular 2008/24<sup>9</sup>.

The members of the Board of Directors do not carry out operational functions. No member of the Board of Directors has been a member of the Executive Board or a member of the Auditors (previous or present). Hereunder is a brief presentation of the members of the Board in office as at 31 December 2011, their function, education, professional background and principal activities.

#### **FULVIO PELLI**

##### **Function**

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

##### **Education and professional background**

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

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

<sup>8</sup> Refer to: <http://www.finma.ch/e/regulierung/Documents/finma-rs-2011-02-e.pdf>

<sup>9</sup> Refer to: <http://www.finma.ch/e/regulierung/Documents/finma-rs-2008-24-e.pdf>

He was Assistant Public Prosecutor for the Sottoceneri area for an extraordinary period of four years. He is at present the co-owner of the law and notary firm Pelli e Associati, Lugano.

#### **Other principal activities**

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

#### **MARCO BERNASCONI**

##### **Function**

Member of the Board of Directors, born on 21 April 1940, Swiss. On the Board of Directors since 1 October 2009. Member of the Audit Committee.

##### **Education and professional background**

Degree and PhD in Political Sciences and History, degree and PhD in History and Master's in Historical Sciences from Milan's Università Cattolica. From 1967 to 1990 he worked for the cantonal administration where, from 1977, he was first vice-director and later director of the Cantonal Tax Administration. He has been teaching taxation law at the Scuola superiore dei quadri e dell'economia since 1989. In 1990 he became the owner of a taxation consulting firm in Lugano. Until 2009 he was full professor and director of the Taxation Institute at SUPSI.

He has also taught Taxation Law at the Centre for Banking Studies in Vezia. From 1994 to 1998 he lectured on Taxation Law at the University of Fribourg, and from 1996 to 2001 he was a lecturer without tenure in International Taxation Law at the Università Insubrica in Varese. Since 1998 he has been a sessional lecturer on Taxation Law at the University of Lugano (USI) and, since 2006, sessional lecturer in International Taxation Law at Bocconi University in Milan. Publication of approximately ten books on tax law.

#### **Other principal activities**

No other activities to mention.

#### **CARLO DANZI**

##### **Function**

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

##### **Education and professional background**

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

#### **Other principal activities**

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

#### **MARCO FANTONI**

##### **Function**

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

##### **Education and professional background**

He graduated in Commercial Sciences from the Cantonal Business School in Bellinzona, he worked for Fidinam Fiduciaria SA, Lugano from 1977 to 1985.

In 1987 he became the owner of Comafim SA, Lugano, a company active in the area of real estate promotion, administration of revenue buildings and condominiums and intermediation in houses, villas and apartments.

#### **Other principal activities**

No other activities to mention.

## **ROBERTO GRASSI**

### **Function**

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

### **Education and professional background**

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

### **Other principal activities**

- » Chairman or Member of the Board of Directors of various companies of the Fidinam Group SA, Lugano;
- » Chairman of the Board of Directors of Pizzarotti SA, Lugano;
- » Member of the Board of Directors of Aziende Industriali di Lugano (AIL) SA;
- » Member of the Board of Directors of SRP Services SA, Lugano;
- » Member of the Chairman's Office of the Chamber of Commerce, Industry and Crafts of Canton Ticino (CCIATI);
- » Member of the Board of Directors of SAINT GEORGE CAPITAL MANAGEMENT SA, Lugano;

## **GIOVANNI JELMINI**

### **Function**

Member of the Board of Directors since 1<sup>st</sup> December 2011, born on 10 July 1962, Swiss. Member of the Projects Committee.

### **Education and professional background**

Degree in Law from the University of Fribourg, lawyer and public notary. Owner of the law and notary firm Jelmini from 1996 to 2009. Since 2010 he has been working as a lawyer and notary for Respini, Rossi, Beretta Piccoli & Jelmini.

## **Other principal activities**

Grand Council Deputy from 1995 to 2011. Since 2007, Cantonal President of Ticino's Popular Democratic Party. From 2007 to 2011 he was Chairman of the Public Mandate Control Commission of Banca dello Stato del Cantone Ticino.

## **MICHELE MORISOLI**

### **Function**

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

### **Education and professional background**

Degree in Business Economics from the University of Lausanne in 1988. Worked for a leading banking institution in both Zurich and Ticino from 1988 to 1997. From 1997 to 2002, he was Administrative Director at the University of Lugano (USI). Until 31 December 2011 he was Director of the Regional Hospital of Bellinzona and Valleys, Director of the Oncology Institute of Southern Switzerland in Bellinzona and member of the General Management of the Cantonal Hospital Organisation (EOC – Ente Ospedaliero Cantonale). Since 1 January 2012, he has been General Agent for Ticino of the insurance company Nationale Suisse.

### **Other principal activities**

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

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

This information is included in Section 3.1.

### 3.3 Elections and terms of office

The members of the Board of Directors are appointed by the State Council. Their education, competence and professional history are decisive criteria for their appointment. They remain in office for 3 years, until 30 June. Retiring members may be re-elected. On an annual basis, the State Council renews two, two and three mandates respectively (Articles 21 and 22 of the Law on Banca dello Stato del Cantone Ticino). Article 6 of the Regulation on committees, working groups and representatives with State Council nomination entities of 6 May 2008 sets the age limit at 70 and maximum term of office at 12 years for members of the Board of Directors.

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

Fulvio Pelli, Chairman: 1 July 2004 / 30 June 2014

Marco Bernasconi: 1 October 2009 / 30 June 2012

Carlo Danzi, Secretary: 10 July 2007 / 30 June 2013

Marco Fantoni: 10 March 2009 / 30 June 2012

Roberto Grassi: 1 July 2004 / 30 June 2013

Giovanni Jelmini: 1 December 2011 / 30 June 2013

Michele Morisoli: 2 December 2008 / 30 June 2014

### 3.4 Internal organisational structure

The Board of Directors elects among its members the Chairman, the Deputy Chairman and the Secretary, who together form the Chairman's Office. The Board of Directors reaches a quorum when at least five of its seven members are present. Decisions are determined by a simple majority of those present, and abstention is not permitted.

In principle, the President of the Executive Board attends the meetings in an advisory capacity. With prior agreement from the Chairman of the Board of Directors, he may invite members of the Executive Board to the meetings for the presentation of specific points on the agenda.

Every member of the Board of Directors must inform the other members of possible conflicts of interest and/or conflicts in personal business or that of relatives, and may not in those circumstances attend or take part in deliberations or vote on the subject matter. Minutes are taken at each meeting.

The Board of Directors defines its own committees, which are described below. The organisation, functioning and competences of the Chairman's Office and the committees are illustrated and set out in specific rules and regulations. Every member of the Board of Directors is entitled to obtain, under absolute observance of professional secrecy (Art. 11 of the Law on Banca dello Stato del Cantone Ticino), information and details on all Bank business.

The members of the committees of the Board of Directors have, within the framework of their mandate, an unlimited right to information on and consultation of Bank documents. The Executive Board and the Internal Auditors must provide the committees of the Board of Directors with all information they require.

In 2011, the Board of Directors convened 17 times. On average, the meetings of the Board of Directors and its committees last half a day.

### 3.5 Areas of responsibility

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

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

#### *Regulatory duties*

- establishing the Bank's regulatory provisions;
- laying down the operating rules and regulations and special regulations;
- laying down special rules and regulations on risk management, expense limitations and organisational responsibilities;

- drawing up a formal document on the public mandate in view of defining the general and specific objectives which are to be met in the medium term by the Bank in favour of the development of the cantonal economy, specifying the instruments to be used to this end and priorities;
- issuing, upon prior consultation with personnel, Bank Rules on Work Contracts and Staff Salaries.

### *Organisational duties*

- establishment of the Bank's organisation;
- definition of the Bank's organisational chart;
- appointment, compensation, adoption of disciplinary measures, suspension, removal of the President of the Executive Board, members of the Executive Board, Members of the Management, Chief Auditor, Deputy Chief Auditor and the Compliance Officer;
- organisation of accounting, controlling and financial planning;
- establishment and closing of branches, agencies and representative offices;
- appointment and dismissal of External Auditors;
- granting or revoking power to sign as laid down in Art. 22 and 23 of the Operating Rules and Regulations;
- authorisation to assume mandates as corporate or foundation bodies on the part of all Bank staff;
- authorisation to operate in new sectors;
- approval of tasks and objectives of each division;
- decision to appear in court and initiate legal proceedings, with power to delegate;
- appointment of the Chairs of the Committees of the Board of Directors.

### *Strategic and financial duties*

- approval of the Bank's financial plans and strategic guidelines laid down in the strategic planning document;
- review and approval of budgets, accounts, semi-annual and annual financial reports;
- review and approval of the annual social and environmental report;
- decision on the issuance of participation certificates as per special regulations and the annual setting of the base dividend on equity;
- decision-making, upon notice to the Executive Board, on requests for loans, credits or advances and on operations which engage Bank funds or its pecuniary responsibility and which are not part of delegated responsibilities as laid down in the special regulation on the reference framework for risk management;
- approval of loans to the members of the Executive Board and the Chief Auditor;
- ratification of loans granted to members of the Board of Directors by the Executive Board or by its subordinate offices within the framework of their delegated responsibilities;
- decision-making on the acquisition and disposal of participations exceeding 15% of the subsidiary's capital or exceeding CHF 2 million, within the limits set by Art. 14 of the Law on Banca dello Stato del Cantone Ticino;
- fixation, in agreement with the State Council, of the interest rate on the endowment capital;
- providing the State Council with the annual report, the financial statements, the proposal for appropriation of available earnings and the External Auditors' report by 31 March of each year;
- establishment of reference rates and oversight to ensure that the individual rates set by the Executive Board are in conformity with Art. 3 of the Law on Banca dello Stato del Cantone Ticino;

- reporting to the Swiss Financial Market Supervisory Authority (FINMA) in the event that capital requirements are not met;
- current operating expenses and investments in infrastructure which are not specifically delegated to the Executive Board.

#### *Supervision and control duties*

- determining the control procedures to undertake in line with current applicable external regulatory provisions;
- approval and review, at regular intervals, of the Bank's risk management policy which is drawn up by the Executive Board;
- oversight on compliance with banking regulatory provisions with respect to risks, in particular the control of major risks as per Art. 18 of the Banking Ordinance and Art. 83 of the Capital Adequacy Ordinance;
- supervision of the work of the Executive Board, including assessment of the Executive Board in terms of meeting its objectives and its work procedures;
- supervision of the work performed by the Internal Auditors and the Legal and Compliance Office;
- review of the reports of the External Auditors, the Internal Auditors and the Legal and Compliance Office, and their treatment.

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

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

In compliance with Art. 25, the Board of Directors may delegate part of its duties, to the exclusion of those inalienable on the analogy of Art. 716a of the Swiss Civil Code, to permanent or ad hoc committees composed of members of the Board of Directors or to the Executive Board.

As a rule, the Committees do not have any decision-making authority; they draw up notices to the Board of Directors on matters relating to their own charter. Specific decisional authority may be attributed by the Board of Directors. Minutes are taken at every meeting of the Chairman's Office and of the Committees. With respect to the delegation of duties to the Executive Board, refer to the corresponding paragraph under Executive Board.

The functions and organisation of the Chairman's Office and the Board of Directors' Committees as at the end of 2011, are described hereunder. As laid down in internal regulatory provisions, at Group level, the activities of the Committees of the Board of Directors also comprise all issues entrusted for the Group to BancaStato's Board of Directors.

#### **CHAIRMAN'S OFFICE**

The Chairman's Office makes all urgent and extremely momentous decisions on any matter which the Law or the Rules and Regulations assign to the Board of Directors. In such an event the Chairman's Office will take all necessary steps, insofar as possible, to gather the opinion of the other members of the Board and, in any case, to inform them immediately.

The Chairman's Office brings to the attention of the Board of Directors all matters relating to the approval of Rules and Regulations which fall within the authority of the Board of Directors, as well as matters of personnel policy. It handles relations with the authorities and communications of the Board of Directors, both internal and external. The Chairman's Office is composed of the Chairman, Dr. Fulvio Pelli, the Deputy Chairman, Dr. Roberto Grassi and the Secretary, Mr. Carlo Danzi. In 2011, the Chairman's Office convened five times.

#### **Audit Committee of the Board of Directors**

The Audit Committee of the Board of Directors deals with issues relating to financial matters, internal control systems and risk management, as well as internal and external audits. With respect to financial matters, the Committee examines the issues and draws up recommendations to the Board of Directors regarding accounting principles to be adopted for the preparation of accounts, approval of accounts and annual reports, approval of semi-annual reports, approval of the budget, approval of expenses and overrun expenditures for matters which fall within the authority of the Board of Directors, as well as the organisation of accounting and financial planning.

As regards the internal control system and risk management, the Audit Committee examines and submits notices to the Board of Directors on the functioning and the results of the internal control and risk management system, compliance with current banking rules and regulations, the system for monitoring irregularities or recommendations issued by the audit authorities, the reports of the Executive Board on risk management as well as reports on the activities and risk-assessment of the Legal and Compliance Office and the Risk Management and Security Service.

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

The Audit Committee of the Board of Directors is composed of the Chairman, Dr. Roberto Grassi, and Mr. Carlo Danzi and Dr. Marco Bernasconi, members. In 2011 the Committee convened seven times.

### **Projects Committee**

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

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

The Projects Committee is composed of the Chairman, Mr. Michele Morisoli and Messrs. Marco Fantoni and Giovanni Jelmini, members. In 2011 the Committee met six times.

### **Strategy Committee**

The Strategy Committee examines the issues and submits notices to the Board of Directors in matters of the Bank's strategy. This Committee is composed of the Chairman, Dr. Fulvio Pelli and Mr. Carlo Danzi (from 8 July 2011) and Dr. Roberto Grassi, members. In 2011 the Committee met once.

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

In line with the Operating Rules and Regulations, the President of the Executive Board reports monthly to the Board of Directors: the balance sheet and income statements, information on the Bank's liquidity, capital adequacy, the situation as regards risks as well as information on the functioning, effectiveness and results of the internal control system. Moreover, quarterly, he must convey to the Board of Directors information regarding the business development with respect to targets and strategies set by the Board of Directors, as well as information regarding the general business state of the Bank and information on major risks, as per Art. 18 of the Ordinance on Banks and Savings Banks and Art. 83 and following of the Capital Adequacy Ordinance. Semi-annually, he must provide the balance sheet and the semi-annual income statement.

On a yearly basis, he must submit the strategic planning, budgets, the financial statements and annual report, the social and environmental report, the risk management policy, a report on the activity and risk assessment of the Legal and Compliance Office, the Risk Management Office, the In-House Control Office and the Security Service.

As deemed necessary, other documents or data may be requested. Information concerning the management of risks is provided in the Notes to the Financial Statements. The basic principles of information flows have been set also at the level of the Group.

The Bank has External Auditors, in conformity with current banking legislation (cf. Section 8.1) as well as Internal Auditors. The Internal Auditors' Office (Inspectorate) is independent of the Executive Board and was composed at the end of 2011 of seven staff, including the Chief Auditor (Mr. Gabriele Guglielmini, Chartered Accountant – Federal Accounting Diploma). The Chairman of the Board of Directors acts as the Chief Auditor's direct superior and oversees his activity.

The annual audit is planned in agreement with the External Auditors and the Board of Directors. The latter may assign specific checks, investigations or controls to the Internal Auditors. Details pertaining to the organisation, functions and duties of the Internal Auditors are laid down by the Board of Directors in special regulations. The staff of the Internal Auditors Office are not permitted to participate in bank operations. The members of the Board of Directors receive all reports relating to ordinary audits.

These documents comprise also the stance of the Executive Board on the recommendations formulated by the Internal Auditors.

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

#### **4. EXECUTIVE BOARD**

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

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

##### *Regulatory duties*

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

##### *Management and organisational duties*

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

##### *Financial duties*

- preparation of budgets, semi-annual and annual financial statements, and social and environmental reports;
- approval of monthly accounts to be submitted to the Board of Directors;
- implementation of the decisions taken by the Board of Directors with regard to loan requests, credits or advances on operations which engage Bank funds or pecuniary responsibility and which are not included in delegated responsibilities as outlined in the Special Regulation on Risk Management;
- decision on risk-incurring, investments and expenditure, within the limits of the relevant Special Regulations;

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

#### *Supervision and control duties*

- implementation of the control procedures based on applicable external regulatory provisions;
- implementation of the provisions envisaged in special regulations relating to risk management, limits to expenditure and organisational duties;
- formulation and implementation of the risk management policy;
- supervision on risks incurred and adequacy of allocated capital;
- preparation of the records for the Public Mandate Control Commission of the Cantonal Parliament;
- establishing an evaluation with respect to its own work procedures and the meeting of its objectives.

#### *Credit duties*

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

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

The activities of the Executive Board are supported by the Executive Management, as well as by specific Commissions of the Executive Board, whose principal responsibilities are summarised below, reflecting the structure decided upon by the Executive Board in January 2012. These committees carry out their own functions also for specific issues pertaining to the Group.

#### **Risk Committee**

The Risk Committee ensures adequate supervision of overall risks, and in particular of operational risks.

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

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

#### **Credit Risk Committee**

The Credit Risk Committee is responsible for managing the credit risk with the aim of optimising its administration. Within the framework of the competencies assigned to it, the Credit Risk Committee decides on loan applications (loan granting, extension, renewal, increase).

It also proceeds to a preliminary examination of, and submits prior notice on all matters which are brought to the attention of the Board of Directors for information or debate.

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

### **Alm Committee (Assets & Liabilities Management)**

Within the framework of assignments entrusted to it, the ALM Committee is responsible for the market risk on all Bank portfolios in view of optimising the management of this risk based on the Bank's strategy and budget.

More specifically, this Committee manages rate and currency risk exposure on the balance sheet (as regards both benefits and economic value), overall liquidity, positions in the investment portfolio, and exposure to market risk derived from trading activities. This Committee is chaired by the Head of Markets and Private Banking Division.

The Deputy Chairman is the President of the Executive Board.

### **4.1 Members of the Executive Board**

The Executive Board is composed of the President of the Executive Board and four members who are all Heads of Divisions. The members' term is indefinite and they retire three years earlier than the standard age of retirement. No member of the Executive Board was ever a member of the Bank's Board of Directors or worked for the Auditors (past or present).

Following is a short introduction to the members in office as at 1 January 2012 along with their functions on the Executive Board, their educational background, their professional record of accomplishments and their other activities.

#### **BERNARDINO BULLA**

##### **Function**

Appointed President of the Executive Board on 16 December 2011, in charge since 1 January 2012.

Born on 7 February 1957, Swiss. Member of the Executive Board since 1 October 2000.

##### **Education and professional background**

Degree in Economics and Social Sciences from the University of Geneva in 1983. He started work for the Credit Department of BSI SA in Lugano in 1984.

In 1997, he joined the Swiss Bank Society as Head of Private and Corporate Clients, then transferred to UBS SA as Head of International Clients and Trading within the Corporate Clients Division. In 1998 was responsible for corporate customers at Credit Suisse-Lugano. From 16 April 2007 to 31 December 2011, he was Head of the Risk Control Division.

In January 2012, he became President of the Executive Board (competencies listed under 1.1.2).

##### **Other activities<sup>10</sup>**

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

#### **RENATO ARRIGONI**

##### **Function**

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

##### **Education and professional background**

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

##### **Other activities**

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

<sup>10</sup> The duties of Bernardino Bulla as President of the Executive Board include being a member of the Board of Directors of the Committee of the Association of Swiss Cantonal Banks (CASCB) in Basel. This will be voted on at the General Meeting of the CASCB on 15 June 2012.

## FABRIZIO CIESLAKIEWICZ

### Function

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

### Education and professional background

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

### Other activities

- » Secretary of the Board of Directors of the Società di Fideiussione per lo sviluppo dell'economia ticinese (Guaranty Company);
- » Member of the Board of the Carlo and Albina Cavargna Foundation;
- » Member of the Board of Directors of the Gottardo SA Demonstration Cheese Factory;
- » Member of the Board of Directors of Area City Quinto SA;
- » Member of the Board of Directors of Gestione Gottardo SA;
- » Member of the Board of Governors of the Ticino Cancer League.

## CLAUDIO GENASCI

### Function

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

### Education and professional background

Degree in Economics and Social Sciences from the University of Fribourg in 1985. Hired at UBS SA as an all-rounder and later as an asset manager in their Finance Department in Lugano. Starting in 1990 he was Head of Asset Management at UBS SA in Locarno. He moved to Corner Banca in 1996 as Head of Investment Strategies. Joined BancaStato on 1 August 2001 as Head of the Markets and Finances Division. In 2003, the Board of Directors appointed him Member of the Executive Board. Since 16 April 2007 he has been Head of the Markets and Private Banking Division.

### Other activities

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

## 5. COMPENSATION, PARTICIPATIONS AND LOANS

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

The fixed and variable compensation of the Executive Board, as well as that of the Chief Auditor, his Deputy, Members of the Management and Head of Compliance fall within the responsibility of the Board of Directors. Present compensations of the Members of the Board of Directors are established on the basis of a Resolution of the State Council dated 23 June 2004, effective 1 July 2004.

The Board of Directors approves the Staff Rules and Regulations and the Management Rules and Regulations, which also outline the Bank's policy with regard to salaries, allowances and variable retributions.

On an annual basis and acting on proposals from the Executive Board, the Board of Directors makes decisions with regard to the review of annual salaries and the variable component within the framework of MbO (management by objectives).

The social security coverage of the members of the Executive Board is calculated using the same parameters as used for calculating the compensation to Members of the Management.

Guaranteed coverage exceeds minimum legal requirements. Moreover, they benefit from the family allowances granted to all staff. The following figures include fixed retribution, variable retribution and a lump sum figure for entertainment expenses. Total compensation for members of the Bank's bodies amounted to CHF 297,389 for the Board of Directors and CHF 2,414,316 for the Executive Board. The highest compensation within the Board of Directors was CHF 63,259 and the highest compensation within the Executive Board was CHF 534,400. Among the Bank's providers there are entities connected to the members of the Board of Directors and the Executive Board.

The members of the Board of Directors and the members of the Executive Board benefit from mortgage loans under the same conditions as the Bank staff. At the end of 2011, loans to Bank governing bodies totalled CHF 55,864 million. (See also Table 3.13 of the Notes to the Financial Statements).

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

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

## **6. SHAREHOLDERS' PARTICIPATION RIGHTS** **Relations with Ownership**

The information to be disclosed as per paragraphs 6.1 to 6.5 of the Annex to the Directive on Information Relating to Corporate Governance issued by SIX Swiss Exchange does not apply to Banca dello Stato del Cantone Ticino. However, it was deemed useful to sum up the main features of the Bank's relation with its ownership. The members of the Board of Directors are appointed by the State Council.

As laid down in Art. 33 of the Law on Banca dello Stato del Cantone Ticino, the Grand Council and the State Council ensure that the law is adhered to and that the general policy of the Bank is in line with the objectives laid down in the Law. Within the authority of the Grand Council and the State Council lie, in particular, the overview and approval of the Bank's income statement and balance sheet. Moreover, the State Council sends to the Grand Council the specific annual report drawn up by the Bank's Auditor, after examination and after formulating its remarks in this regard.

At the same time, it transmits the message on the Bank's income statement and balance sheet. In conformity with Art. 34 of the Law on Banca dello Stato del Cantone Ticino, the Grand Council exercises a supervisory duty as regards the fulfilment of the public mandate by way of the Public Mandate Control Commission. The Commission is made up of one member per parliamentary group each of whom is appointed by the Grand Council for a period corresponding to one legislative session.

In compliance with the provisions of Art. 35 of the Law on Banca dello Stato del Cantone Ticino, the Public Mandate Control Commission verifies the correct fulfilment of the public mandate and draws up a special report to the attention of the Management and Finance Commission on the achievement of the public mandate. The report prepared by the Commission must include its opinion on the degree of fulfilment of the general and specific objectives laid down in the strategic document, based in particular on its analysis of the Annual Social and Environmental Report.

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

With the renewal of Parliament in 2011, the composition of the Public Mandate Control Commission was changed. On 30 May 2011, the Grand Council appointed: Saverio Lurati (chairman), Raffaele De Rosa (deputy chairman), Michele Barra (member), Marco Chiesa (member), Sergio Savoia (member) and Christian Vitta (member).

In accordance with Art. 39 of the Law on Banca dello Stato del Cantone Ticino, the Board of Directors must submit its report on the state of business at the Bank, the income statement and the balance sheet, the proposal for appropriation of available earnings and the report of the External Auditors to the State Council by 31 March of every year. By 30 April, the State Council transmits the documentation to the Grand Council for approval of the annual accounts, the proposed appropriation of available earnings and the sign off of the Bank's governing bodies.

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

## 7. CONTROL AND DEFENCE MEASURES

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

## 8. AUDITORS

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

The appointment of the Auditors falls under the authority of the Board of Directors (Art. 37 of the Law on Banca dello Stato del Cantone Ticino). In 2005, the Board of Directors entrusted the External Auditor mandate to PricewaterhouseCoopers SA in accordance with the Banking Law. In 2011, Mr. Beresford Caloia, partner at PricewaterhouseCoopers SA, assumed the function of lead auditor for the second time. This mandate is annual.

### 8.2 Auditing honorarium

For the year 2011, the auditing honorarium of PricewaterhouseCoopers SA for the ordinary audit and other special audits amounted to CHF 370'050.

### 8.3 Additional honorariums

In 2011 additional services for CHF 28,000 were required from PricewaterhouseCoopers SA in connection to the floating of a bond issue in December 2011.

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

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

The Board of Directors meets at least once a year with the External Auditors. The banking report is presented by the External Auditors to the Board of Directors. Representatives of the External Auditors take part in the meetings of the Audit Committee of the Board of Directors.

## 9. INFORMATION POLICY

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

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

Financial results are published twice a year and communicated to the Ticinese media (radio, television and newspapers as well as on the internet), to press agencies, as well as to the press offices of all Cantonal Banks and the Association of Swiss Cantonal Banks.

As a rule, the annual financial report is presented during the first quarter at a press conference held at BancaStato's Head Office. It is sent to the Swiss Financial Market Supervisory Authority (FINMA), the State Council, the Grand Council, the Public Mandate Control Commission, all Cantonal Banks, the Association of Swiss Cantonal Banks, as well as to correspondent banks, and Swiss and foreign clients upon request. Annual reports, in Italian and in English, can be accessed via the BancaStato website at [www.bancastato.ch](http://www.bancastato.ch)<sup>11</sup> and are available at any BancaStato counter.

For the 2011 financial year, the Bank published for the seventh year in a row its Social and Environmental Report<sup>12</sup> BancaStato can be accessed by the public via their website [www.bancastato.ch](http://www.bancastato.ch) which was redesigned in December 2011 in order to better facilitate access to information on products, services and news from the Bank. The website was developed in cooperation with IT professionals. It is updated on an ongoing basis and has become a choice communication channel with the public.

<sup>11</sup> Refer to: <http://www.bancastato.ch/bancastato/Area-media/Pubblicazioni/Rapporti-di-esercizio.html>

<sup>12</sup> Refer to: <http://www.bancastato.ch/bancastato/Area-media/Pubblicazioni/Rapporti-di-esercizio.html>



The Bank publishes the magazine "BancaStato News"<sup>13</sup> twice a year (in January and July) and contributes to various publications which deal with financial and economic issues with interviews, presentations and financial articles<sup>14</sup>. Moreover, representatives of BancaStato participate regularly in conferences and other public events.

The Executive Board receives journalists on a regular basis for the presentation of the financial reports and in order to introduce various issues relating to the Bank's activities, thus promoting dialogue and reciprocal knowledge. All principal documents published by BancaStato are available at its branches and agencies as well as on its website.

For further information, contact:

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<sup>13</sup> Refer to: <http://www.bancastato.ch/bancastato/Area-media/Pubblicazioni/BancaStato-News.html>

<sup>14</sup> Refer to: <http://www.bancastato.ch/bancastato/Area-media/Novita/Rassegna-stampa.html>

# Ticino's Economy in 2011 and Outlook for 2012

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## The International Overview

In spite of an initially positive performance in Europe and the United States, and the persistent dynamism shown by emerging economies, the economic situation around the world was characterised by a sense of fear for most of 2011. This fear was connected at first to the spectre of a double dip recession in the United States, a repeat of the events of 2008 and 2009 when, in less than a year, the U.S. economy lost over 4% of its GDP and unemployment soared above 10%. This same fear soon extended throughout Europe which was paralyzed by the growing imbalance in public finances.

In this climate of uncertainty, with markets performing inconsistently while the world of politics fitfully groped for solutions, world economic growth weakened progressively. Despite the race among emerging economies, the growth rate of the global economy dropped to +3.8% in 2011 (compared to +5.2% in 2010) with BRIC countries (Brazil, Russia, India and China) ranking highest. Contributing factors of this slowdown were the 50% reduction in the growth rate recorded in the United States (+1.8%), the recession in Japan (-0.9%) and the modest growth in the Eurozone (+1.6%) economy. World economic growth overall is expected to continue to shrink in 2012 (+3.3%), despite anticipated improvements in the American and Japanese economies (+1.8% and +1.7% respectively). The situation will be more difficult in the Eurozone which will probably have to struggle with a recession (-0.5%).

## The National Overview

In Switzerland, a drop in global demand coupled with the strengthening of the Swiss franc have only marginally affected the performance of the economy which still closed 2011 with a positive growth rate (+1.8%). In the face of risk factors, Switzerland maintained its position at the top rank of global competitiveness, remaining attractive for multinational companies: of the 500 major world firms listed in Fortune magazine in 2011, 15 have headquarters in Switzerland. By way of comparison, Germany and France host 30, and Italy 10. The stabilisation of the exchange rate operated by the BNS allowed many enterprises to contain losses, although at the cost of major concessions on prices. The year even ended with an increase in exports (+8.1%). Among the best performing branches, the watch industry shone, improving by +20.8%, just short of last year's sales record. On the domestic front, construction continued to expand thanks to favourable interest rates and sizeable investments in infrastructure. Trade was also on the upturn, driven by an increase in resident population and in transportation. However, the energy sector in general, as well as industrial goods manufacturing, both suffered from slumping market conditions.

With regard to how the Swiss economy is expected to perform in 2012, financial forecasting institutions anticipate a scenario verging on stagnation and an extremely low growth rate (+0.5%). The increase in spending power and immigration are likely to bolster consumption, at least during the first part of the year, while the pressure of a strong Swiss franc and the persistent difficulties of the European economy will continue to weigh heavily on exports and investments. Some improvement to the economic situation remains possible in the medium term, although much will depend on the successful negotiation of measures aimed at curbing the deficit and reviving growth and employment in Europe.



### **The Overview for Canton Ticino**

In Ticino, the GDP rose by +1.5% in 2011 as indicated by BAK Basel data. Employment continued to rise in the first part of the year, equalling the excellent performance of 2010. However, it receded significantly as the year wound down. With regard to production, the industrial sector was the driving force behind the Canton's economic growth along with transportation and logistics services. Among the most conspicuous contributors to this growth were those sectors connected to the manufacturing of precision instruments, watches, machinery and electrical appliances.

The positive trend in the construction branch held its ground for a third straight year of uninterrupted growth. As for the service sector, tourism had to face both the impediments arising from a strong franc and the overall negative long-term trends (crisis in the reference markets and reduced offer), while business continued to bear the brunt of steady pressure and fierce competition from shops just beyond the Swiss borders and the arrival on the local market of foreign discount shops.

For 2012, BAK Basel forecasts a real GDP growth of 0.5% in Ticino. The driving force behind this growth will be the real estate market and internal demand, while employment will be further slowed down. The demand for services to the business sector is likely to remain high for all growth branches (i.e. IT, research and development, telecommunications, wholesale trade).

For companies operating in foreign markets, the growth rates are expected to remain positive, although reduced by half compared to 2011: the recession in Europe is likely to affect primarily transportation and logistics with a reduction in orders and performance in both areas. Finally, the difficulties of the financial marketplace, coupled with a slowed-down economy, may compromise growth in the financial sector and call for a reorientation of strategies and activities.

*February 2012*

# 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 2011**

In 2011, BancaStato continued to operate within a particularly complex economic framework. Beyond the national borders, the Eurozone countries and the United States witnessed a further deterioration brought about by the financial crisis which began in 2008. These circumstances weighed heavily on the Swiss economy, and even more so on export-led businesses, to the extent that the Swiss National Bank (SNB) was forced to intervene to prevent an excessive strengthening of the Swiss franc in the currency exchange markets.

At the same time, financial analysts reviewed and toned down their optimism regarding an economic recovery, which now seems even more delayed. The impact of these issues on the SNB's monetary policy is a further reduction in rates which dropped to an unforeseen historical low.

Within this context, there was no opportunity for an inversion in the last years' prevailing trend of shrinking commercial margins for those banking institutions operating in Switzerland. Expectations on results in this sector are – at best – only slightly above the 2010 balances.

BancaStato's performance in the year under review should therefore be considered in light of these prevailing conditions. The growth in client business volumes, both in the loan area (+2.4% to CHF 7.5 billion) and in funding (+1.9% to CHF 5.6 billion), is a clear sign of the Bank's pivotal role in the development of the Ticinese economy.

Moreover, the significant increase in gross profit (+4.3% to CHF 50.6 million) and net earnings (+8.3% to CHF 38 million) guaranteed higher remuneration to the ownership (+ 7.8% or CHF 27 million).



## **Comment on the Evolution of Major Balance Sheet and Off-balance Sheet Items<sup>15</sup>**

The focus of BancaStato's core activity is on mortgage lending. In the course of this past year, concerns were repeatedly voiced regarding a bursting real estate bubble in Switzerland. In this regard, it must be stated that, over the years, BancaStato has maintained a lending policy based on cautiousness and the evaluation of overall sustainability of any real estate financing. Mortgage lending grew by CHF 185.4 million (+3.2%) to just below CHF 6 billion. As a result of persistently low interest rates, almost 90% of mortgage loans were fixed-rate.

In terms of amounts due from customers, loan volumes to private individuals and companies remained at prior year levels while loans to public corporations were up by 1.8%, and stood at CHF 685.5 million, thereby guaranteeing the Bank an important market share in this segment.

As regards funding, amounts due to customers in savings and investment accounts increased by CHF 86.8 million (+3.7%). This item confirmed our clients' interest in the special savings products designed by the Bank to favour private individual accounts. These deposits increased by over 25% compared to the previous year.

Other amounts due to customers (+1.3% or + CHF 40.6 million) have also shown a particularly pleasing increase, primarily in the private account segment (+ CHF 256 million); deposits by institutional clients, however, experienced a downward trend.

The new and more stringent federal provisions on capital (abrogation of the discount applying to cantonal banks, increase of the minimum coverage ratio from 120% to 140% the prospect of a variable anti-cyclical buffer, the adoption of the Basel III requirements and the Federal Council's tighter provisions on funding requirements for residential property), as well as the progressive increase in the Bank's loan volumes, and the acquisition of a controlling stake in Axion SWISS Bank SA added to the implementation of a new IT platform, all contributed to the need to increase the Institution's capital base.

In the last quarter of 2011, a request was presented to the Government, for approval by Parliament, to increase the Bank's endowment capital from CHF 110 million to CHF 240 million. It must be mentioned that the increase in endowment capital to CHF 110 million, pursuant to a 1989 legislative decree, was completed at the end of 2011 with the payment of a last share of CHF 10 million. In light of the above, and in view of the upcoming strategic projects, the Board of Directors has decided to float a subordinate bond issue of CHF 175 million for 10 years. This allowed the Bank to fulfil its activities with the needed capital and financial autonomy thereby guaranteeing full compliance of its key role in the Cantonal economy. The bond issue was met with considerable interest, primarily on the part of institutional investors, thus quickly securing full subscription.

The evolution of the balance sheet total continued its 20 year upward trend from CHF 4.3 billion in 1991 to CHF 6.3 billion in 2001, reaching almost CHF 9 billion at the end of 2011.

Under off-balance sheet operations worth mentioning are growing contract volumes on derivatives used by the Bank for interest rate risk hedging purposes and the substantial increase (just below 10%) in fiduciary transactions resulting from the development of this activity by Axion SWISS Bank SA<sup>16</sup>.

## **Evolution of Assets under Management**

The volume of assets under management at BancaStato increased from a little over CHF 7.1 billion to CHF 7.4 billion, a 3.6% rise. Net new money totalled approximately CHF 393 million, surpassing the excellent result reported in 2010 (CHF 338 million). At the end of 2011, assets under custody totalled CHF 1.3 billion – a further confirmation of the trustworthiness of BancaStato in the Swiss domestic market. The evolution of assets under management by Axion SWISS Bank SA showed a negative trend, decreasing from CHF 2.08 billion to CHF 1.74 billion, which was partly due to the strengthening of the Swiss franc against the Euro and the dollar.

<sup>15</sup> The data refer to the Bank's individual annual statements. A distinction is made between individual and group statements only in the case of significant variances.

<sup>16</sup> For further information on the results achieved by Axion SWISS Bank SA, please refer to the company's Annual Report.

### Comment on the Evolution of the Main Revenue Items<sup>17</sup>

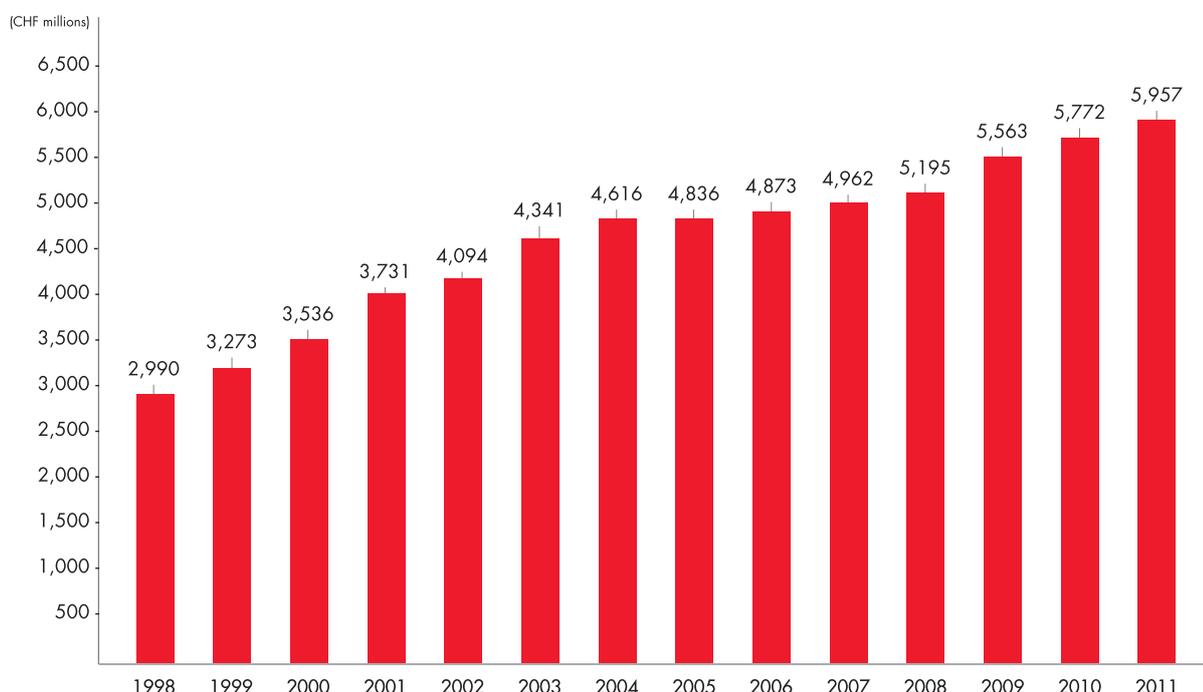
In 2011, BancaStato's net income increased by 8.3% to CHF 38 million. The proposed appropriation of available earnings entailed a total payment to ownership of CHF 27 million, a 7.8% increase as compared to 2010.

The current critical economic conditions have taken their toll on the Bank's revenue items. Although the Bank has increased its business volumes, both in lending and in funding, commercial margins shrunk as a result of increasingly fiercer competition in the Ticino market. As a result there was only a modest increase in the interest margin (+ CHF 0.6 million to CHF 105.1 million). The low level of market rates significantly reduced the Bank's margin on client deposits which in turn had a substantial penalising effect on net interest margin. The expected increase in the reference rates by the SNB has not materialised due to contingent pressures on the Swiss franc in relation to the other main currencies.

This has induced the Bank to exercise even more caution in the management of its balance sheet structure through financing that is consistent with its lending exposure, with evident repercussions on interest expenses.

Reduced trust on the part of investors in an uncertain market as well as depreciation of the main currencies against the Swiss franc and the ongoing low risk propensity of BancaStato clientele, are among the primary causes for the 5.2% (CHF 1.4 million) drop in net fees and commissions income which levelled at CHF 26.5 million. The reporting year was characterised by positive growth in the main items under recurrent commissions (commissions on assets management operations and commissions on investment funds); only custody charges showed an opposing trend due to a depreciated Euro. However, as a result of the uncertainties mentioned above, income from intermediation on the securities market for customer accounts shrank considerably.

### EVOLUTION OF MORTGAGE LENDING



<sup>17</sup> A comparison of the consolidated figures of 2011 with those of 2010 is not significant, as the 2010 figures include only the share of results (proceeds and costs) of the subsidiaries from the date of acquisition (October 2010).

Another noteworthy result is the increase in income from commissions on lending activities (+12% to CHF 2.1 million).

The excellent growth in trading income (+ CHF 2.5 million or +28.4%) was driven by an increased volume of intermediation activities with clients resulting from the high volatility of exchange rates (primarily EUR and USD) in relation to the Swiss franc.

The substantial reduction in other operating results (- CHF 3.6 million or -49.2%) is due almost entirely to a non-recurring operation undertaken in February 2010 when securities of the financial investment portfolio were sold. The proceeds of this divestment amounted to slightly over CHF 4 million. Without this last item, net revenues would not have registered a 1.3% decrease (CHF 1.9 million), but rather a positive trend.

The Bank's efforts to implement its strategies in the Private Banking segment, as well as increased commitments in the area of staff training, brought about a slight increase in personnel expenses (+ CHF 0.4 million to CHF 67.7 million). An opposite result was achieved in other operating expenses which were reduced from CHF 32.8 million to CHF 28.4 million (-13.5%) with generalised reductions in all components making up this item.

Gross profit showed a gratifying 4.3% progression, up from CHF 48.5 million to CHF 50.6 million.

Depreciation on fixed assets remained at their 2010 level, with the same applying to value adjustments, provisions and losses. With regard to this last item, the need for net provisions has remained virtually nil for the last three years which confirms the quality of the Bank's loan portfolio along with its stringent lending policies.

Extraordinary income grew by about CHF 0.8 million, primarily as a result of the divestment of a stake held in a real estate company.

The evolution of gross and net profit at Axion SWISS Bank SA showed similar, although more marked, trends as compared to BancaStato.

The consolidated gross profit grew by CHF 2.7 million (+5.5%), up from CHF 49.2 million in 2010 to CHF 51.9 million in 2011. Net revenues also progressed from CHF 35.1 million to CHF 37.8 million (+ CHF 2.7 million or +7.6%).

### **Profitability, Efficiency and Financial Strength**

BancaStato's profitability improved slightly as compared to 2010; return on equity stood at 5.9% (5.5% in 2010) while return on risk adjusted capital was up from 10% to 10.1%. Improved results achieved by the Bank in 2011, as compared to 2010, were offset by a growth of approximately CHF 15.5 million in average core equity as regards ROE and, for RORAC, by an increase in average required capital of CHF 17.3 million (due to growing balance sheet size).

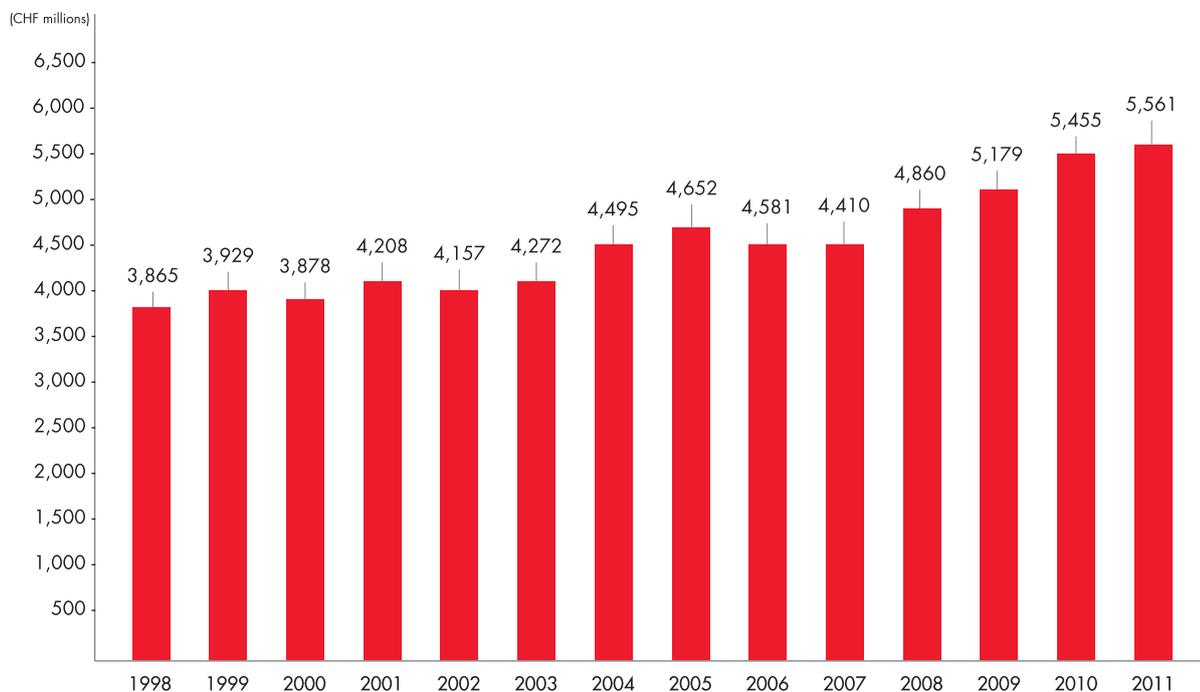
Efficiency, which is a measure of the ratio of operating costs to net revenues (cost/income), improved from 67.4% to 65.5%. This is primarily attributable to the cost containment measures implemented by the Bank throughout 2011.

Staff was up from 453.7 full time equivalents (FTEs) at 31 December 2010, to 461.7 FTEs at the end of 2011. This was due to both natural staff fluctuation and to new hires required for the development of the Bank's Private Banking segment.

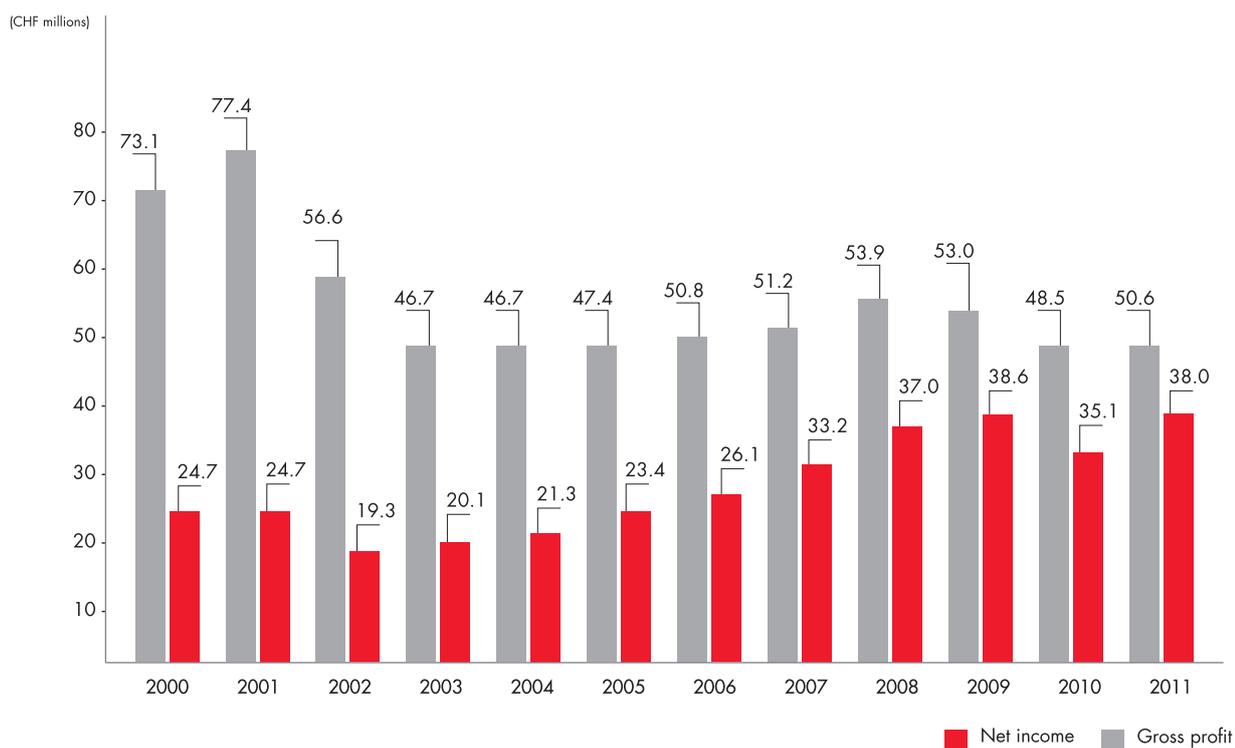
The Bank's capital adequacy, determined by the ratio of required capital to available funds and calculated on the basis of Basel II standards, has recorded a hoped-for trend inversion with respect to previous years. Even considering a further reduction of the cantonal bank discount over the previous year, the capital coverage ratio improved from 155.7% at the end of 2010 to 196% as at 31 December 2011. Thanks to the CHF 10 million increase in endowment capital effected by the Canton, and to the allocation of CHF 11 million to the legal reserve on the basis of the results achieved in 2011, *Tier 1* capital was up from 12.5% to 12.8%. The subordinate bond issue (*Lower Tier 2* hybrid instrument), floated in mid-December 2011, increased *Tier 2* capital from 12.5% to 15.7%. Without taking into consideration the discount granted to cantonal banks (which will be abolished in 2012), this latter Bank for International Settlements (BIS) index stood at 15%.

The consolidated capital adequacy rate fared even better with a coverage ratio of 204.9% as at 31 December 2011 (compared to 167.4% at the end of 2010). The BIS indicators are fixed at 12.4% for *Tier 1* capital and 15.7% for *Tier 2* (excluding the deduction for cantonal banks).

## EVOLUTION OF TOTAL AMOUNTS DUE TO CUSTOMERS

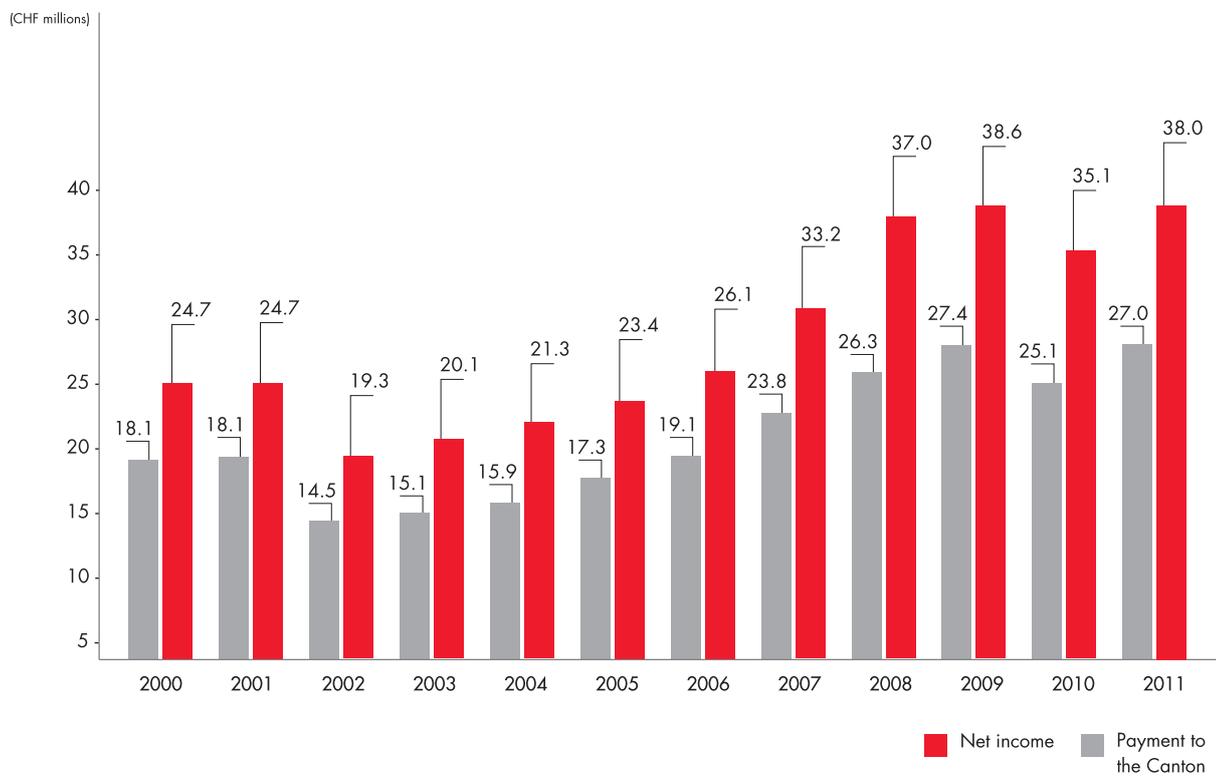


## EVOLUTION OF GROSS PROFIT AND NET INCOME





## EVOLUTION OF THE PAYMENT TO THE CANTON



# Group Financial Statements

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<b>Consolidated Balance Sheet</b>	<b>32</b>
<b>Consolidated Income Statement</b>	<b>33</b>
<b>Consolidated Statement of Cash Flows</b>	<b>34</b>
<b>Notes to the Group Financial Statements</b>	<b>35</b>
1. Group – Activities and Personnel	<b>35</b>
2. Consolidated Financial Statements Reporting Principles	<b>35</b>
3. Risk Management	<b>39</b>
4. Information on the Balance Sheet	<b>42</b>
5. Information on Off-Balance Sheet Transactions	<b>52</b>
6. Information on the Income Statement	<b>53</b>
7. Additional Information on Risks and Capital Adequacy (Basel II)	<b>54</b>

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# Consolidated Balance Sheet

(CHF thousands)	Notes	31.12.2011	31.12.2010	Change
<b>Assets</b>				
Liquid funds		421,752	75,409	346,343
Amounts due arising from money market papers		10,288	8,679	1,609
Due from banks		362,517	540,034	-177,517
Due from customers	4.1	1,615,614	1,642,612	-26,998
Mortgages	4.1, 4.6	5,957,253	5,771,841	185,412
Securities and precious metals held for trading purposes	4.2	5,347	3,832	1,515
Financial investments	4.2, 4.6	420,058	419,734	324
Non-consolidated participations	4.3.2	5,569	5,746	-177
Fixed assets	4.4	98,491	100,637	-2,146
Intangible assets	4.4	4,973	4,443	530
Accrued income and prepaid expenses		22,918	19,263	3,655
Other assets	4.5	68,163	50,325	17,838
<b>Total assets</b>		<b>8,992,943</b>	<b>8,642,555</b>	<b>350,388</b>
Total subordinated assets		-	500	-500
Total receivables from non-consolidated participations and from owners of significant holdings		37,749	60,265	-22,516
<i>of which total amounts due from the Canton</i>		10,142	10,150	-8
<b>Liabilities</b>				
Due to banks		300,892	307,312	-6,420
Due to customers in savings and investment accounts		2,459,660	2,372,902	86,758
Other amounts due to customers		3,212,643	3,184,254	28,389
Cash Bonds		46,856	68,262	-21,406
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	4.6, 4.8	1,958,000	1,756,000	202,000
Accrued expenses and deferred income		33,140	37,203	-4,063
Other liabilities	4.5	126,924	71,558	55,366
Value adjustments and provisions	4.9	166,851	179,800	-12,949
Reserves for general banking risks	4.9, 4.10	365,386	365,386	-
Corporate capital	4.10	110,000	100,000	10,000
Reserves and retained earnings	4.10	173,313	163,263	10,050
Minority stakes in equity	4.10	1,505	1,500	5
Group available earnings	4.10	37,773	35,115	2,658
<i>of which minority shares in Group available earnings</i>		-48	5	-53
<b>Total liabilities</b>		<b>8,992,943</b>	<b>8,642,555</b>	<b>350,388</b>
Total subordinated liabilities		175,000	-	175,000
Total due to non-consolidated participations and to owners of significant holdings		95,723	81,063	14,660
<i>of which total amounts due to the Canton</i>		94,416	80,345	14,071
<b>Off-balance sheet transactions</b>				
Contingent liabilities	4.1, 5.1	159,524	183,913	-24,389
Irrevocable commitments	4.1	227,673	170,709	56,964
Commitments for calls on shares and other equities	4.1	7,725	7,725	-
Outstanding derivative financial instruments (contracts volume)	5.2	1,662,341	1,491,233	171,108
Positive replacement values	5.2	44,221	37,134	7,087
Negative replacement values	5.2	59,869	45,639	14,230
Fiduciary transactions	5.3	957,153	875,081	82,072

# Consolidated Income Statement

(CHF thousands)	Notes	2011	2010 <sup>1</sup>	Change
<b>Income and expenses from ordinary banking operations</b>				
<b>Net interest income</b>		<b>107,519</b>	<b>105,117</b>	<b>2,402</b>
Interest and discount income		182,344	185,102	-2,758
Interest and dividend income from trading portfolio	6.1	59	3	56
Interest and dividend income from financial investments		13,587	11,144	2,443
Interest expenses		-88,471	-91,132	2,661
<b>Net fees and and commissions income</b>		<b>34,543</b>	<b>30,319</b>	<b>4,224</b>
Commission income from lending activities		2,159	1,907	252
Commission income from securities and investment activities		31,084	25,617	5,467
Other fees and commission income on other service fee activities		6,711	6,629	82
Commission expenses		-5,411	-3,834	-1,577
<b>Net trading income</b>	6.2	<b>12,344</b>	<b>9,177</b>	<b>3,167</b>
<b>Other ordinary results</b>		<b>2,659</b>	<b>7,066</b>	<b>-4,407</b>
Income on disposal of financial investments		574	4,361	-3,787
Participation income		660	1,111	-451
<i>of which non-consolidated participations</i>		660	1,111	-451
Real estate income		153	-128	281
Other ordinary income		1,436	2,104	-668
Other ordinary expenses		-164	-382	218
<b>Net revenues</b>		<b>157,065</b>	<b>151,679</b>	<b>5,386</b>
<b>Operating expenses</b>		<b>-105,122</b>	<b>-102,464</b>	<b>-2,658</b>
Personnel expenses	6.3	-73,806	-68,402	-5,404
Other operating expenses	6.4	-31,316	-34,062	2,746
<b>Gross profit</b>		<b>51,943</b>	<b>49,215</b>	<b>2,728</b>
Depreciation of fixed assets	4.4	-14,101	-12,935	-1,166
Value adjustments, provisions and losses	4.9	-912	-992	80
<b>Result before extraordinary items and taxes</b>		<b>36,930</b>	<b>35,288</b>	<b>1,642</b>
Extraordinary income	6.5	1,673	321	1,352
Extraordinary expenses	6.5	-20	-	-20
Taxes		-810	-494	-316
<b>Net income</b>		<b>37,773</b>	<b>35,115</b>	<b>2,658</b>
<i>of which minority shares in Group available earnings</i>		-48	5	-53

<sup>1</sup> The Consolidated Income Statement for 2010 comprises the economic flows of BancaStato in 2010, and those of the controlled companies from the time of their constitution or acquisition.

# Consolidated Statement of Cash Flows

(CHF thousands)	2011		2010	
	Source	Application	Source	Application
<b>Cash flow from operating activities (internal sources)</b>	<b>23,582</b>		<b>10,691</b>	
Group income	37,773		35,115	
Depreciation of fixed assets	14,072		12,634	
Value adjustments and provisions		12,949		15,792
Accrued income and prepaid expenses		3,655	1,223	
Accrued expenses and deferred income		4,064	1,282	
Other assets and liabilities	17,469		3,653	
Interest on endowment capital of the previous year		5,000		5,000
Previous financial year dividend		20,064		22,424
<b>Cash flow resulting from capital transactions</b>	<b>10,005</b>	-	-	-
Increase in paid-in capital	10,000			
Changes in minority shares in investee companies	5			
<b>Cash flow from changes in fixed assets and participations</b>		<b>12,279</b>		<b>64,036</b>
Participations	177			54,184
Fixed assets		10,692	2,640	8,206
Intangible assets		1,764	226	4,512
<b>Cash flow from banking activities</b>	<b>325,035</b>		<b>55,337</b>	
<b>Medium and long-term transactions (&gt; 1 year)</b>		<b>22,674</b>		<b>8,552</b>
Due to banks		66,000		
Other amounts due to customers	5,416		69,743	
Cash bonds	8,226	29,632	7,329	55,523
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	154,000	127,000	240,000	89,000
Bond issues	175,000			
Due to customers in savings and investments accounts	86,758		58,731	
Due from customers		23,706		36,594
Due from banks		20,000		
Mortgages		185,412		208,754
Financial investments		324	5,516	
<b>Short-term transactions</b>	<b>347,709</b>		<b>63,889</b>	
Due to banks	59,580			124,918
Due to public sector institutions	20,059			
Other amounts due to customers	22,973		196,099	
Amounts due arising from money market papers		1,609	1,348	
Due from banks	197,517		87,379	
Due from customers	50,704			95,531
Securities and precious metals held for trading purposes		1,515		488
<b>Liquid funds</b>		<b>346,343</b>		<b>1,992</b>
Liquidity variation		346,343		1,992
	<b>358,622</b>	<b>358,622</b>	<b>66,028</b>	<b>66,028</b>

# Notes to the Group Financial Statements

## 1. GROUP ACTIVITIES AND PERSONNEL

### 1.1 Group activities

Banca dello Stato del Cantone Ticino is an autonomous banking institution under public law which operates as a universal bank whose primary aim is to favour the development of the economy in Ticino. Its activities have evolved over more than 90 years and comprise the full range of banking services provided by universal banks. These activities are geared towards facilitating access to capital for small and medium-sized companies as well as individuals.

In the last quarter of 2010, as part of a move to diversify its sources of revenue, BancaStato acquired a majority stake in the capital of AHSA Holding SA, Lugano, in order to gain indirect control over Axion Swiss Bank SA, Lugano. The controlled bank's core business is asset management for private and institutional clients, and it is active in the principal international markets.

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

#### 1.1.1 Balance sheet transactions

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

Interbank operations primarily consist of short-term transactions. In consideration of the current financial crisis, interbank exposure has been reduced by making ample use of security repurchase agreements (REPO) and short-term money market book claims with the Swiss National Bank. For medium- and long-term funding, BancaStato turns to the capital market. In addition, it is a member of the Central Mortgage Bond Issuing Body of the Swiss Cantonal Banks and therefore regularly utilises bond issues floated by this institution.

BancaStato holds a strategic security portfolio in medium- to long-term investments, booked under financial investments.

#### 1.1.2 Trading operations

Banca dello Stato del Cantone Ticino provides, on behalf of its customers, 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) and equity securities (shares and participation certificates).

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

#### 1.1.3 Commission activities and other services

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

### 1.2 Group personnel

As at 31 December 2011, the Group employed a total of 537 staff and management (compared to 530 at the end of 2010). In terms of the number of full-time equivalents (FTE) as determined by the parameters set at margin number 148 of the Guidelines concerning the provisions governing financial statements reporting (FINMA Circular 2008/2 "Accounting - Banks"), personnel employed by the Group rose from 487.5 FTEs to 494.65 FTEs during the same period.

## 2. CONSOLIDATED FINANCIAL STATEMENTS REPORTING PRINCIPLES

### 2.1 General principles

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

## 2.2 Consolidation perimeter

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

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

## 2.3 Consolidation method

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

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

Following the full consolidation method, the amounts of all balance sheet, off-balance sheet and income statement items of the subsidiaries are aggregated with the corresponding amounts of the Parent Bank's balance sheet, off-balance sheet and income statement.

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

## 2.4 Consolidation period

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

## 2.5 True and fair view principle

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

## 2.6 Recording of transactions

All transactions are entered at the time they are concluded.

## 2.7 Foreign currency translation

The Group's financial statements are reported in Swiss francs.

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

Proceeds and expenses generated in foreign currency are converted at the exchange rate applicable at the time the individual transactions are entered or the single economic flows are effected.

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

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

EUR 1.2169 (2010: 1.2525)  
USD 0.9379 (2010: 0.9336).

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

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

These transactions are recorded at their nominal value, with the exception of money market book claims issued by the Swiss National Bank which are reported at their issuance price and for which the discount is accrued.

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

### 2.8.2 Amounts due from customers and mortgage loans

Amounts due from customers and mortgage loans are entered at their nominal value. Loans are evaluated individually according to uniform standards established to analyse the borrowers' solvency. For non-performing and impaired loans, impairments covered by individual provisions are recorded under "Value adjustments and provisions".

Interest which is more than 90 days overdue is considered non-performing. Interest on non-performing loans is not booked in the income statement, but directly under "Value adjustments and provisions".

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

### 2.8.3 Securities and precious metals trading portfolio

The securities and precious metals trading portfolio is carried at the market value at the closing date, provided the securities are negotiated at a recognised stock exchange or within a representative market as defined by the banking legislation. Otherwise, the valuation is determined on the basis of purchase value less any necessary provisions. Resulting gains and losses, as well as adjustments to the above-mentioned values, are recorded under "Net trading income".

Interest and dividend income can be found under the appropriate item within "Net interest income".

### 2.8.4 Financial investments

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

Fixed-interest-bearing securities purchased to be held until maturity are entered in the financial statements at acquisition cost, with the allocation of premiums and discounts over the duration of the instrument.

Any profit or loss resulting from early disposal of these securities is spread over their residual duration, i.e. until their original maturity. Value adjustments resulting from the deterioration of the debtor's solvency are booked to "Value adjustments, provisions and losses".

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

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

### 2.8.5 Participations

This item comprises company equity stakes held as long-term investments.

These non-consolidated participations are accounted for on the balance sheet at cost less appropriate depreciation.

### 2.8.6 Fixed assets

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

• land	40 years
• buildings (masonry)	40 years
• equipment	15 years
• banking facilities	5 years
• hardware	5 years
• licences and software	5 years
• furniture	5 years
• works of art	5 years
• vehicles	3 years

The evaluation of fixed assets is updated every half-year. Fixed assets which are no longer in use, or under extraordinary depreciation, are written down (impairment of fixed assets).

### **2.8.7 Intangible fixed assets**

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

### **2.8.8 Method of depreciation**

Fixed assets are valued at cost less appropriate depreciation.

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

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

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

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

### **2.8.10 Valuation adjustments and provisions**

This item comprises value adjustments and provisions at the closing date in view of a prudent assessment of existing risks related to credits (Refer to 2.8.2) or other risks.

In addition to the necessary provisions for credit and other risks, this item includes a social security deposit fund for BancaStato's personnel and a fund for other provisions.

### **2.8.11 Reserves for general banking risks**

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

### **2.8.12 Contingent liabilities, irrevocable commitments, fiduciary transactions**

These items are stated off-balance sheet at their nominal value. Specific value adjustments are made for risks identifiable at the balance sheet date.

This item also comprises the call/put option for the acquisition of the remaining 20% of the capital of AHSA Holding SA, Lugano.

### **2.8.13 Derivative financial instruments**

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

Gross positive and negative replacement values of derivative products open at the balance sheet date are carried under "Other assets" and "Other liabilities".

At closing date, the derivative financial instruments held were primarily for hedging purposes and, marginally, for trading. The gain or loss from the revaluation of hedging positions is taken to the same item in the income statements as the gain or loss from the transaction hedged. For trading positions, resulting gains or losses form part of "Net trading income".

## **2.9 Principles for the calculation of capital**

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

## **3. RISK MANAGEMENT**

The aim of risk management is to identify, measure and monitor banking risks in order to preserve the Group's assets and to enhance profitability.

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

The Executive Board of the Parent Bank is committed to the promotion and development of risk-awareness at all levels of the Bank's hierarchy as part of the Bank's corporate culture.

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

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

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

### 3.1 Credit risks

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

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

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

Competence delegating procedures on the part of the Board of Directors, as well as the specific internal organisational structure ensure that risk-incurring units are completely separate from risk-managing units.

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

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

For mortgage loans, the amount granted is tied to the building's value and to the borrower's capacity to fulfil the loan obligation.

As for commercial loans, creditworthiness is assessed by taking into consideration the debtor's solvability, as well as the profitability of the business, as indicated by appropriate analyses. The results of such recurrent analyses will directly determine if the credit limit is to be adjusted or maintained.

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

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

At BancaStato, credit monitoring is performed through a variety of credit surveillance procedures and predetermined methods based on the risk profile of exposures. This methodology comprises a recurrent periodical analysis by the responsible client advisor, the Credit Office and the Recovery unit, in order to identify any signs of reduced creditworthiness, and forestalling circumstances which might impair loans or require further action. In such an event, potential losses are covered by specific provisions.

The Operating Rules and Regulations, the Group's Rules and Regulations, the Special Risk Management Rules and Regulations and the Risk Policy Statement set the limits within which the various Group entities are authorised to assume a country risk.

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

### 3.2 Market risks

Market risks are determined by the exposure to unexpected and adverse market conditions which could potentially cause financial losses on trading portfolio positions (trading book) and balance sheet positions (banking book).

Market risks encompass the analysis of interest rate risk, currency exchange risk, share price and precious metals risks, volatility risk and liquidity risk.

The Board of Directors has set specific limitations for the Executive Boards of the Group's banks, in terms of exposed equity to market risk, both within the structural management of the balance sheet (ALM) and the management of the trading portfolio.

As regards Assets & Liabilities Management (ALM), competencies are determined in terms of current equities for a 1% sudden parallel shift in market rates (value effect) and a movement in interest margin in the following 12 months still with the same market parameter variations (income effect). The limits for trading are defined in terms of value at risk, position and loss limits.

The Group's exposure to rate risk is primarily caused by the time lapse between fundraising and application. The rate risks related to balance and off-balance sheet operations are managed and monitored centrally by the ALM Committee which was assigned an operational limit. On the basis of the chosen methodology, monitoring refers to the present value of equity and to the variation of net interest income in the 12 months following measurement. A software feature enables Risk Management to provide the ALM Committee with information on portfolio duration and simulations of the interest margin, as well as stress testing, i.e. analyses based on predetermined potentially negative scenarios.

For the management of the rate risk inherent to variable rate products without fixed maturity, replication models are used to assess such risks. These models take into consideration both the evolution of interest rates and the impact on balance sheet volumes as a result of client behaviour. For BancaStato, these procedures are laid down in the Risk Policy as approved by the Board of Directors.

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

The Group's exposure to other market risks arises from trading operations which are limited and mostly in relation to client requirements. In this respect, prudent limits of maximum exposure have been established based on value at risk, position and loss. The limits for trading positions are verified daily, while financial investments are assessed every month.

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

### 3.3 Operational risks

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

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

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

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

BancaStato records and analyses all information on occurrences of operational malfunction which result in a financial impact (gain and loss), and classifies these data on the basis of the criteria laid out by the Basel II provisions.

The frequency, seriousness and causes of the various events are duly assessed, and corrective measures implemented as needed. Periodic reporting to the Group's authorities is carried out by independent units.

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

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

### **3.4 Other risks**

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

### **3.5 Risk assessment**

In its meeting of 8 April 2011, the Audit Committee of the Board of Directors of the Parent Bank and, subsequently, the Board of Directors of the Parent Bank in its meeting of 21 April 2011, assessed BancaStato's level of risk. Furthermore, both the Parent Bank's Board of Directors and its Audit Committee analyse the monthly information provided by the Executive Board on credit, market and operational risks, on a quarterly basis.

The principal elements which formed the basis of the Board of Directors' evaluation were, for credit risks, the evolution of BancaStato's exposure as regards products, hedging, geographic breakdown, concentration and rating, and for market risks, the evolution of the balance sheet structure and its sensitivity to interest rate variation (including stress scenarios), as well as exposure in terms of value at risk of the trading portfolio. The findings of the recurring analysis of operational risks and measures implemented on the basis of results from internal controls also came under scrutiny.

These analyses took into account aspects connected to the risk of compliance and the physical and logical security risks inherent in the banks' activities.

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

## 4. Information on the Balance Sheet

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

(CHF thousands)	Type of collateral			
	Mortgage collateral	Other collateral	Unsecured	Total
<b>Loans</b>				
Due from customers	138,498	117,237	673,839 <sup>1</sup>	929,574
Due from public corporations	552		685,488	686,040
Mortgages	5,957,253			5,957,253
<i>Residential real estate</i>	4,454,353			4,454,353
<i>Office and business premises</i>	324,560			324,560
<i>Commercial and industrial buildings</i>	803,653			803,653
<i>Other</i>	374,687			374,687
<b>Total loans</b>	<b>6,096,303</b>	<b>117,237</b>	<b>1,359,327<sup>2</sup></b>	<b>7,572,867</b>
Prior year	5,941,128	172,796	1,300,529	7,414,453
<b>Off-balance sheet transactions</b>				
Contingent liabilities		53,151	106,373	159,524
Irrevocable commitments	180,249		47,424 <sup>3</sup>	227,673
Commitments for calls on shares and other equities			7,725	7,725
<b>Total off-balance sheet transactions</b>	<b>180,249</b>	<b>53,151</b>	<b>161,522</b>	<b>394,922</b>
Prior year	124,860	94,155	143,332	362,347

(CHF thousands)	Gross amount	Estimated collateral realisation proceeds	Net amount	Specific allowance
<b>Impaired loans</b>				
<b>Year under review</b>	<b>260,261</b>	<b>102,875</b>	<b>157,386</b>	<b>157,386</b>
Prior year	291,812	120,247	171,565	171,565

<sup>1</sup> Including loans to entities related to public institutions for CHF 88.0 million (2010: CHF 87.2 million).

<sup>2</sup> The growth in unsecured lending stems for the most part from loans to private accounts.

<sup>3</sup> Including CHF 36.7 million (2010: CHF 37.7 million) as a deposit guarantee and CHF 6.1 million as an option for the acquisition of the minority share in AHSA Holding SA, Lugano.

## 4.2 Securities and precious metals held for trading purposes and financial investments

(CHF thousands)	31.12.2011	31.12.2010
<b>Securities and precious metals held for trading purposes</b>		
Debt securities	4,261	7
listed	4,261	7
unlisted	–	–
Equity securities	684	3,547
Share in investment funds	402	278
Precious metals	–	–
<b>Total securities and precious metals held for trading purposes</b>	<b>5,347</b>	<b>3,832</b>
<i>of which securities valid for repurchase agreements in accordance with liquidity regulatory requirements</i>	267	–

(CHF thousands)	Book Value		Fair Value	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010
<b>Financial investments</b>				
Debt securities	414,235	403,443	428,322	409,379
<i>of which valued according to accrual method</i>	414,235	403,443	428,322	409,379
<i>of which carried at lower of cost or market</i>	–	–	–	–
Share in investment funds	287	8,787	365	9,120
Equity securities	528	541	598	615
<i>of which significant holdings</i>	376	376	376	376
Precious metals	144	218	144	218
Real estate*	4,864	6,745	4,864	6,745
<b>Total financial investments portfolio</b>	<b>420,058</b>	<b>419,734</b>		
<i>of which securities valid for repurchase agreements in accordance with liquidity regulatory requirements</i>	99,805	78,673		

\* Insured value as at 31.12.2011 CHF 9'789 (31.12.2010 CHF 12'149).

## 4.3 Participations

### 4.3.1 Consolidated participations

The following Group companies are fully consolidated:

Company name	Head office	Activity	Capital (CHF thousands)	31.12.2011 Participating share in %	31.12.2010 Participating share in %
AHSA Holding SA	Lugano	Financial company	7,500 <sup>1</sup>	80.00	80.00
Axion SWISS Bank SA	Lugano	Bank	43,000 <sup>2</sup>	100.00	100.00

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

<sup>2</sup> AHSA Holding SA detains 100% of the share capital of Axion SWISS Bank SA.

### 4.3.2 Other non-consolidated participations

(CHF thousands)	31.12.2011	31.12.2010
With quoted value	4	4
Without quoted value	5,565	5,742
<b>Total participations</b>	<b>5,569</b>	<b>5,746</b>

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

Company name	Head office	Activity	Capital (CHF thousands)	31.12.2011 Participating share in %	31.12.2010 Participating share in %
<b>Financial and services companies held with cantonal banks</b>					
Aduno Holding SA	Opfikon	Financial company	25,000	0.40	0.40
Caleas SA	Zurich	Financial company	6,000	2.24	2.24
SCB's Central Mortgage Bond Issuing Body	Zurich	Mortgage institution	825,000	1.10	1.10
Swisscanto Holding AG	Bern	Services company	24,204	1.88	1.88
<b>Financial and services companies held with Swiss banks</b>					
SIX Group AG	Zurich	Services company	19,522	0.15	0.15
Swiss Bankers Prepaid Services SA	Grosshöchstetten	Financial company	10,000	0.20	0.17
<b>Other participations</b>					
Alloggi Ticino SA	Bioggio	Real estate company	15,200	2.11	2.11
Autosilo Piazza del Sole SA	Bellinzona	Car park	2,000	10.00	10.00
Società di fideiussione per lo sviluppo dell'economia ticinese	Bellinzona	Guaranty company	4,000	26.25	26.25
Swiss Hotel Loan Company	Zurich	Financial company	26,777	1.40	1.40
Tecnopolo Lugano SA	Lugano	Services company	350	28.57	28.57

### 4.3.3 Significant shares held for investment purposes

Company name	Head office	Activity	Capital (CHF thousands)	31.12.2011 Participating share in %	31.12.2010 Participating share in %
Teleticino SA	Melide	Radio and television productions	4,950	12.12	12.12

#### 4.4 Breakdown of participations and fixed assets

(CHF thousands)	Purchase cost	Accumulated depreciation	Book value 31.12.2010	2011			Book value 31.12.2011
				Investments	Disposals	Depreciation	
<b>Participations, total</b>	<b>14,291</b>	<b>8,545</b>	<b>5,746</b>	<b>-</b>	<b>177</b>	<b>-</b>	<b>5,569</b>
other participations	14,291	8,545	5,746		177		5,569
<b>Fixed assets, total</b>	<b>324,873</b>	<b>224,236</b>	<b>100,637</b>	<b>10,692</b>	<b>-</b>	<b>12,838</b>	<b>98,491</b>
of which Group premises	167,167	93,403	73,764	3,918		3,715	73,967
of which other buildings	16,116	10,778	5,338			313	5,025
of which other fixed assets	96,899	87,808	9,091	3,302		4,246	8,147
of which software	44,691	32,247	12,444	3,472		4,564	11,352
<b>Intangible assets, total</b>	<b>5,383</b>	<b>940</b>	<b>4,443</b>	<b>1,764</b>	<b>-</b>	<b>1,234</b>	<b>4,973</b>
of which goodwill	4,512	226	4,286	1,764		1,170	4,880
of which other intangible assets <sup>1</sup>	871	714	157			64	93
<b>Total</b>	<b>344,547</b>	<b>233,721</b>	<b>110,826</b>	<b>12,456</b>	<b>177</b>	<b>14,072</b>	<b>109,033</b>
Fire insurance value of buildings			201,219				203,490
Fire insurance value of other fixed assets			41,869				43,244

<sup>1</sup> Other intangible assets comprise only start-up costs of consolidated subsidiaries.

#### 4.5 Breakdown of other assets and liabilities

(CHF thousands)	31.12.2011	31.12.2010
<b>Other assets</b>		
Positive replacement value of derivative financial instruments	44,220	37,134
Compensation account	16,045	8,580
Indirect taxes	992	847
Various other assets	6,906	3,764
<b>Other assets, total</b>	<b>68,163</b>	<b>50,325</b>
<b>Other liabilities</b>		
Negative replacement value of derivative financial instruments	59,868	45,638
Direct/indirect taxes	8,223	8,438
Matured non-redeemed cash bonds	3,674	5,500
Various other liabilities	55,159	11,982
<b>Other liabilities, total</b>	<b>126,924</b>	<b>71,558</b>

## 4.6 Pledged assets

(CHF thousands)	31.12.2011	31.12.2010
<b>Pledged or assigned assets to secure own commitments</b> (excluding advances and repurchase agreements with securities)		
Book value of securities delivered as collateral in connection with Repo Light credit with the SNB (unused)	23,110	27,814
Book value of securities delivered as collateral to SIX Group AG (unused)	8,983	11,025
Book value of mortgages set as collateral with the Swiss Cantonal Banks Central mortgage bond issuing body	1,770,540	1,700,013
commitment with the Swiss Cantonal Banks Central mortgage bond issuing body	1,433,000	1,406,000
Book value of assets pledged to secure own commitments	1,814	1,911
<b>Advances and repurchase agreements with securities</b>		
Book value of receivables from cash deposits in securities borrowing and reverse-repurchase agreements	211,334	445,699
Book value of obligations from cash deposits in securities lending and repurchase agreements	0	0
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities transferred in connection with repurchase agreements at own disposal	0	0
<i>of which with unlimited right to resell or pledge</i>	0	0
Fair value of collateral in connection with securities lending or securities borrowed in connection with securities borrowing or received securities in connection with reverse-repurchase agreements, for which the right to resell or repledge is unlimited	211,212	445,311
<i>of which fair value of resold or repledged securities in this context</i>	0	0

## 4.7 Commitments to pension funds

The Group applies the principles laid down in the ARR 16.

Contributions are paid to the insurance company.

The employer's contributions are carried under "Personnel expenses".

BancaStato has opted for affiliation to the Group Plan LPP Swiss Life, a legally independent pension fund. The pension plan is a defined-contribution scheme and provides the basic compulsory coverage as stated in the Swiss LPP (Federal Law on Occupational Benefits), as well as complementary coverage. Axion SWISS Bank provides coverage for all its employees through the Vita Joint Foundation from "Zurich".

At the end of the accounting period the Group had no obligation towards the pension funds.

There are no contribution reserves on the part of the employers and the relationships between the Group's banks and their pension funds are based on global affiliation contracts.

The pension funds reinsure all pension risks by means of a comprehensive insurance contract.

Within the framework of these contracts no possibility of undercoverage exists and, consequently, there are no obligations in this regard on the part of the employers.

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

(CHF millions)

Mortgage securities at the SCB Central mortgage bond issuing body		Maturity											Total
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Interest rate													
0.125			50										50
1.125					73								73
1.375										43			43
1.500									50				50
1.750						83		30					113
2.000		70		30			50						150
2.250	40		50										90
2.500	20			20	190							15	245
2.625			30	9									39
2.750	24	14	50			15	50						153
2.875			30										30
3.000	10	43					30						83
3.125						19							19
3.250		108	30	9				39					186
3.500							50						50
4.000		26	17										43
4.250	16												16
<b>Total mortgage securities at the SCB Central mortgage bond issuing body</b>		<b>110</b>	<b>261</b>	<b>257</b>	<b>68</b>	<b>263</b>	<b>117</b>	<b>180</b>	<b>69</b>	<b>50</b>	<b>43</b>	<b>15</b>	<b>1'433</b>

Bond issues		Maturity											Total
		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Year of issue - non-subordinated loans	Interest rate												
2002	4.000	150											150
2007	3.000					200							200
Year of issue - subordinated loans													
2011	3.750									175			175
<b>Total bond issues</b>		<b>150</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>175</b>	<b>-</b>	<b>525</b>
<b>Grand total</b>		<b>260</b>	<b>261</b>	<b>257</b>	<b>68</b>	<b>263</b>	<b>317</b>	<b>180</b>	<b>69</b>	<b>50</b>	<b>218</b>	<b>15</b>	<b>1'958</b>

#### 4.9 Value adjustments and provisions / Reserves for general banking risks

(CHF thousands)	Balance at 31.12.2010	2011				Balance at 31.12.2011
		Usage in conformity to purpose	Recoveries, impaired interest, currency differences	Dissolution credited to income statement	New provisions charged to income statement	
Value adjustments and provisions for credit risks (counterparty and country risks)						
individual	151,596	16,344	1,010	8,504	9,995	137,753
general	18,000			800		17,200
	169,596	16,344	1,010	9,304	9,995	154,953
Value adjustments and provisions for other operational risks	4,547			400	962	5,109
Other provisions						
additional pension provision	4,922	1,049			1,481	5,354
other provisions	735	89		311	1,100	1,435
<b>Total value adjustments and provisions</b>	<b>179,800</b>	<b>17,482</b>	<b>1,010</b>	<b>10,015</b>	<b>13,538</b>	<b>166,851</b>
Reserves for general banking risks	365,386					365,386
<b>Total reserves for general banking risks</b>	<b>365,386</b>					<b>365,386</b>
<b>Total</b>	<b>545,186</b>	<b>17,482</b>	<b>1,010</b>	<b>10,015</b>	<b>13,538</b>	<b>532,237</b>

In compliance with FINMA directives, released surplus provisions for credit risks totalling CHF 0.3 million were entered under "Extraordinary income" (Refer to Notes to the Financial Statements 6.5).

#### 4.10 Statement of equity

(CHF thousands)	
<b>Own equity as at 31.12.2010</b>	
Capital paid	100,000
Reserves and retained earnings	163,263
Reserves for general banking risks	365,386
Minority shares in investee companies	1,500
Group available earnings	35,115
<b>Total equity at 31.12.2010 (before appropriation of available earnings)</b>	<b>665,264</b>
- 5% interest on endowment capital for financial year 2010	-5,000
- Additional payment to the Canton of Ticino for financial year 2010	-20,060
+ Increase in paid-in capital	10,000
+ Net income of reporting year 2011	37,773
<b>Total equity at 31.12.2011 (before appropriation of available earnings)</b>	<b>687,977</b>
of which:	
Endowment capital paid	110,000
Reserves and retained earnings	173,313
Reserves for general banking risks	365,386
Minority shares in investee companies	1,505
Balance sheet profit	37,773

#### 4.11 Maturity structure of current assets, financial investments and third-party liabilities as at 31.12.2011

(CHF thousands)	at sight	callable	maturity				without maturity	Total
			within 3 months	within 3 to 12 months	within 1 to 5 years	more than 5 years		
<b>Current assets</b>								
Liquid funds	421,752							421,752
Amounts due arising from money market papers	9,284		4	1,000				10,288
Due from banks	120,228		222,289		20,000			362,517
Due from customers	37,589	358,518	287,275	251,408	506,041	174,783		1,615,614
Mortgages	12,503	658,923	486,817	488,615	2,715,470	1,594,925		5,957,253
Securities and precious metals held for trading purposes	5,347							5,347
Financial investments	3,254		1,360	16,755	379,515	14,309	4,865	420,058
<b>Total current assets</b>	<b>609,957</b>	<b>1,017,441</b>	<b>997,745</b>	<b>757,778</b>	<b>3,621,026</b>	<b>1,784,017</b>	<b>4,865</b>	<b>8,792,829</b>
Prior year	226,050	1,341,398	1,201,653	657,504	3,231,492	1,797,299	6,745	8,462,141
<b>Third-party liabilities</b>								
Due to banks	54,705		157,187	60,000	25,000	4,000		300,892
Due to customers in savings and investment accounts	569,934	1,795,728	7,912	17,070	61,594	7,422		2,459,660
Other amounts due to customers	2,349,175	54,581	158,074	64,248	451,016	135,549		3,212,643
Cash bonds	80		6,124	14,110	24,546	1,996		46,856
Bonds and loans from the SCB Central mortgage bond issuing body			60,000	200,000	849,000	849,000		1,958,000
<b>Total third-party liabilities</b>	<b>2,973,894</b>	<b>1,850,309</b>	<b>389,297</b>	<b>355,428</b>	<b>1,411,156</b>	<b>997,967</b>	<b>-</b>	<b>7,978,051</b>
Prior year	2,644,228	1,797,765	399,525	450,912	1,438,424	957,876	-	7,688,730

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

(CHF thousands)	31.12.2011	31.12.2010
Due from companies/entities related to the Canton	19,105	18,116
Due to companies/entities related to the Canton	53,621	74,371
Due from the Group,s governing bodies	55,864	49,198

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

#### 4.13 Breakdown of assets and liabilities by domestic and foreign origin

(CHF thousands)	31.12.2011		31.12.2010	
	Domestic	Foreign	Domestic	Foreign
<b>Assets</b>				
Liquid funds	389,204	32,548	43,575	31,834
Amounts due arising from money market papers	10,192	96	8,558	121
Due from banks	97,678	264,839	184,800	355,234
Due from customers	1,504,119	111,495	1,521,119	121,493
Mortgages	5,957,253	–	5,771,841	–
Securities and precious metals held for trading purposes	38	5,309	370	3,462
Financial investments	135,145	284,913	153,295	266,439
Non-consolidated participations	5,561	8	5,720	26
Fixed assets	98,491	–	100,637	–
Intangible assets	4,973	–	4,443	–
Accrued income and prepaid expenses	22,697	221	18,859	404
Other assets	67,195	968	49,304	1,021
<b>Total assets</b>	<b>8,292,546</b>	<b>700,397</b>	<b>7,862,521</b>	<b>780,034</b>
<b>Liabilities</b>				
Due to banks	202,692	98,200	177,184	130,128
Due to customers in savings and investment accounts	2,273,650	186,010	2,217,319	155,583
Other amounts due to customers	2,481,382	731,261	2,617,482	566,772
Cash bonds	46,856	–	68,262	–
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	1,958,000	–	1,756,000	–
Accrued expenses and deferred income	33,075	65	37,086	117
Other liabilities	125,200	1,724	68,750	2,808
Value adjustments and provisions	166,789	62	179,800	–
Reserves for general banking risks	365,386	–	365,386	–
Corporate capital	110,000	–	100,000	–
Minority share in equity	1,505	–	1,500	–
Reserves and retained earnings	173,313	–	163,263	–
Group available earnings	37,773	–	35,115	–
<b>Total liabilities</b>	<b>7,975,621</b>	<b>1,017,322</b>	<b>7,787,147</b>	<b>855,408</b>

#### 4.14 Geographic breakdown of assets

(CHF thousands)	31.12.2011		31.12.2010	
		Share in %		Share in %
<b>Assets abroad</b>				
Europe	592,631	6.59	689,851	7.98
North America	50,626	0.56	53,715	0.62
Other countries	57,140	0.64	36,468	0.42
<b>Total assets abroad</b>	<b>700,397</b>	<b>7.79</b>	<b>780,034</b>	<b>9.02</b>
Switzerland	8,292,546	92.21	7,862,521	90.98
<b>Total assets</b>	<b>8,992,943</b>	<b>100.00</b>	<b>8,642,555</b>	<b>100.00</b>

#### 4.15 Breakdown of assets and liabilities by currencies

(CHF thousands)	Currency				Total
	CHF	USD	EUR	Other	
<b>Assets</b>					
Liquid funds	383,900	356	37,166	330	421,752
Amounts due arising from money market papers	10,245	27	13	3	10,288
Due from banks	60,633	37,198	183,306	81,380	362,517
Due from customers	1,516,271	21,492	55,822	22,029	1,615,614
Mortgages	5,957,253				5,957,253
Securities and precious metals held for trading purposes	305	1,125	3,702	215	5,347
Financial investments	181,255	45,169	193,490	144	420,058
Non-consolidated participations	5,569				5,569
Fixed assets	98,491				98,491
Intangible assets	4,973				4,973
Accrued income and prepaid expenses	16,070	749	6,074	25	22,918
Other assets	65,640	198	2,263	62	68,163
<b>Total assets</b>	<b>8,300,605</b>	<b>106,314</b>	<b>481,836</b>	<b>104,188</b>	<b>8,992,943</b>
Forward transactions and currency options	119,318	148,301	285,671	42,342	595,632
<b>Total asset positions</b>	<b>8,419,923</b>	<b>254,615</b>	<b>767,507</b>	<b>146,530</b>	<b>9,588,575</b>
<b>Liabilities</b>					
Due to banks	230,191	22,591	31,014	17,096	300,892
Due to customers in savings and investment accounts	2,422,429		37,231		2,459,660
Other amounts due to customers	2,415,060	172,408	520,920	104,255	3,212,643
Cash bonds	46,856				46,856
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	1,958,000				1,958,000
Accrued expenses and deferred income	33,113		14	13	33,140
Other liabilities	118,205	5,301	2,866	552	126,924
Value adjustments and provisions	164,513	112	2,225	1	166,851
Reserves for general banking risks	365,386				365,386
Corporate capital	110,000				110,000
Minority share in equity	1,505				1,505
Reserves and retained earnings	173,313				173,313
Group available earnings	37,773				37,773
<b>Total liabilities</b>	<b>8,076,344</b>	<b>200,412</b>	<b>594,270</b>	<b>121,917</b>	<b>8,992,943</b>
Forward transactions and currency options	351,534	56,744	163,415	23,551	595,244
<b>Total liability positions</b>	<b>8,427,878</b>	<b>257,156</b>	<b>757,685</b>	<b>145,468</b>	<b>9,588,187</b>
<b>Net position per currency</b>	<b>-7,955</b>	<b>-2,541</b>	<b>9,822</b>	<b>1,062</b>	<b>388</b>
Net position per currency (previous financial year)	-18,293	8,226	8,975	1,188	96

## 5. INFORMATION ON OFF-BALANCE SHEET TRANSACTIONS

### 5.1 Contingent liabilities

(CHF thousands)	31.12.2011	31.12.2010
Credit guarantees	136,259	162,624
Irrevocable commitments under documentary credits	23,265	21,289
<b>Total contingent liabilities</b>	<b>159,524</b>	<b>183,913</b>

### 5.2 Derivative financial instruments open at year end

(CHF thousands)	Trading instruments			Hedging instruments		
	Replacement value		Contract volumes	Replacement value		Contract volumes
	positive	negative		positive	negative	
<b>Interest rate instruments</b>						
IRS				40,012	56,029	1,067,000
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,012</b>	<b>56,029</b>	<b>1,067,000</b>
<b>Foreign exchange</b>						
Forward contracts	2,981	3,379	292,163			-
Swaps	1,222	433	91,122		28	199,721
OTC Options	6		12,335			
<b>Total</b>	<b>4,209</b>	<b>3,812</b>	<b>395,620</b>	<b>-</b>	<b>28</b>	<b>199,721</b>

<b>Total open derivative financial instruments</b>	<b>4,209</b>	<b>3,812</b>	<b>395,620</b>	<b>40,012</b>	<b>56,057</b>	<b>1,266,721</b>
Total prior year	7,114	7,038	351,898	30,020	38,601	1,139,335

At closing date there were no netting agreements.

### 5.3 Fiduciary transactions

(CHF thousands)	31.12.2011	31.12.2010
Fiduciary placements with third party banks	874,971	789,184
Fiduciary loans	82,182	85,897
<b>Total fiduciary transactions</b>	<b>957,153</b>	<b>875,081</b>

## 6. INFORMATION ON THE INCOME STATEMENT

### 6.1 Income from refinancing under "Result from interest activities"

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

### 6.2 Breakdown of results from trading operations

(CHF thousands)	2011	2010
Foreign exchange trading	9,935	7,007
Trading in foreign banknotes	1,801	667
Trading in precious metals	346	521
Trading in securities	262	982
<b>Total</b>	<b>12,344</b>	<b>9,177</b>

### 6.3 Breakdown of personnel expenses

(CHF thousands)	2011	2010
Salary and compensation	56,037	50,938
Contribution to pension institutions	8,358	8,216
Other social benefits	6,432	6,512
Other personnel expenses	2,979	2,736
<b>Total</b>	<b>73,806</b>	<b>68,402</b>

### 6.4 Breakdown of other operating expenses

(CHF thousands)	2011	2010
Expenses for premises	6,550	6,112
Expenses for EDP, machines, furniture, vehicles and other facilities	8,679	8,137
Other operating expenses	16,087	19,813
<b>Total</b>	<b>31,316</b>	<b>34,062</b>

### 6.5 Other information on the income statement

(CHF thousands)	2011	2010
<b>Extraordinary income</b>		
Income on disposal of fixed assets	–	12
Income from released provisions for credit risks	298	83
Income from disposal of permanent participations	967	–
Other extraordinary income	408	226
<b>Total</b>	<b>1,673</b>	<b>321</b>

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

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

### Credit Risks:

- Basis: Swiss standardised approach (SA-CH)
- Value adjustments and provisions: exposures are risk-weighted net of specific provisions
- Derivatives: current exposure method
- Credit risk mitigation: simple approach
- External credit assessment: external credit assessment was not used
- Lombard loans: simple approach
- Netting: the net exposure of loans and deposits was not used as the basis for capital adequacy calculation

### Market Risks:

- Basis: Standardised approach for market risks
- Derivatives: delta-plus approach
- General market risk on changes in market interest rates within the trading portfolio: maturity method

### Operational Risks:

- Base: Basic indicator approach (BIA)

Qualitative information required by the Ordinance on Capital Adequacy can be found in Section 3 Risk Management of the Notes to the Group Financial Statements. The information on risk and capital in the following tables is based on the above methods and reflects the rules and approaches defined in Basel II. This information may differ from that presented in the previous tables due to these specific calculation rules.

### 7.1 Eligible capital

(CHF thousands)	31.12.2011	31.12.2010
Gross core capital <sup>1</sup>	661,893	640,432
<i>of which minority interests</i>	1,505	1,500
<i>of which "innovative" instruments</i>		
– Components to be deducted from core capital <sup>2</sup>	-14,750	-17,300
<b>= Eligible core capital</b>	<b>647,143</b>	<b>623,132</b>
+ Supplementary capital and additional capital	175,000	
– Other deductions from supplementary, additional and total capital	-2,277	
<b>= Eligible capital</b>	<b>819,866</b>	<b>623,132</b>

<sup>1</sup> After appropriation of available earnings.

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

## 7.2 Required capital

(CHF thousands)	31.12.2011	31.12.2010
Credit risk	366,190	353,302
<i>of which price risk related to equity-type securities in the banking book</i>	461	2,193
Non-counterparty-related risks	29,688	31,810
Market risks	1,806	1,903
<i>of which on interest rate instruments (general and specific market risk)</i>	307	84
<i>of which on equity securities</i>	174	642
<i>of which on currencies and precious metals</i>	1,079	972
<i>of which on commodities</i>	246	205
Operational risks	22,421	21,841
<b>Required capital – gross</b>	<b>420,105</b>	<b>408,856</b>
Value adjustments and global provisions <sup>1</sup>	-2,836	-3,067
Deduction for cantonal banks <sup>2</sup>	-17,117	-33,529
<b>Required capital – net</b>	<b>400,152</b>	<b>372,260</b>
<b>Capital requirement covering ratio based on Swiss legislation<sup>3</sup></b>	204,9%	167,4%
<b>BIS Ratio</b> (including deduction for cantonal banks)	16,4%	13,4%
<b>BIS Ratio</b> (excluding deduction for cantonal banks) <sup>4</sup>	15,7%	12,3%

<sup>1</sup> Under the Swiss standardised approach for Credit Risk (SA-CH), the value adjustments and provisions recognised as liabilities are deducted from the required capital on a global basis in accordance with Art. 62 of the Capital Adequacy Ordinance (CAO).

<sup>2</sup> 4.2% deduction (2010: 8.4%) on required capital (gross) due to the Canton's guarantee.

<sup>3</sup> Eligible capital as a percentage of required capital (net).

<sup>4</sup> Eligible capital as a percentage of risk-weighted positions plus the required capital for market risks, operational risks and items arising from transactions not settled, multiplied by 4.2 for conversion into equivalent units.

### 7.3 Credit exposure by counterparty

(CHF thousands)	Central governments and central banks	Banks and securities traders	Public authorities and institutions	Companies	Private clients and small businesses	Equity securities	Exposures without counterparty	Other exposures	Total
<b>Loan commitments</b>									
<b>Balance sheet transactions</b>									
Due from banks		362,517							362,517
Due from customers	982	39,020	685,540	361,845	528,227				1,615,614
Mortgages			16,127	157,692	5,783,434				5,957,253
Financial fixed assets / Debt securities	9,285	39,124	159,467	95,214	114,422	1,829		7,012	426,353
Other assets / Positive replacement values		57,948	1,301	819	203		25,422	5,387	91,080
Value adjustments and general provisions				-641	-7,439		-39,195		-47,275
<b>Off-balance sheet transactions</b>									
Contingent liabilities	8	6,819	974	36,489	61,824				106,114
Irrevocable commitments		12,995	20,473	500	56,923				90,891
Commitments for calls on shares and other equities			19,313						19,313
Forward foreign exchange and options transactions (add - on)	6	5,156	7,360	279	38,969				51,770
<b>Total current year</b>	<b>10,281</b>	<b>523,579</b>	<b>910,555</b>	<b>652,197</b>	<b>6,576,563</b>	<b>1,829</b>	<b>-13,773</b>	<b>12,399</b>	<b>8,673,630</b>
Total prior year	20,324	700,261	902,257	616,285	6,367,366	10,637	3,169	7,008	8,627,307

## 7.4 Regulatory credit risk mitigation

(CHF thousands)	secured by recognised financial collateral	secured by guarantee and credit derivatives	secured by mortgage collateral	Total
<b>Loan commitments</b>				
Central governments		9,263		9,263
Banks				–
Public authorities and institutions			18,296	18,296
Companies	22,727	31,718	177,927	232,372
Private clients and small businesses	49,176	41,600	5,980,894	6,071,670
Equity securities				–
Other exposures				–
<b>Derivative financial instruments</b>				
Central governments				–
Banks				–
Public authorities and institutions				–
Companies				–
Private clients and small businesses				–
Equity securities				–
Other exposures				–
<b>Total current year</b>	<b>71,903</b>	<b>82,581</b>	<b>6,177,117</b>	<b>6,331,601</b>
Total prior year	69,008	105,137	5,977,807	6,151,952



## 7.5 Credit exposure by risk weighting category

(CHF thousands)										
<b>Loan commitments</b>	0%	25%	35%	50%	75%	100%	125%	150%	≥ 250%	<b>Total</b>
<b>Balance sheet transactions</b>										
Due from banks	211,334	131,183		20,000						362,517
Due from clients	1,593	41,551	102,405	660,692	171,910	625,735		11,728		1,615,614
Mortgages			4,208,861	52,011	1,078,420	563,493		54,468		5,957,253
Financial fixed assets / Debt securities	9,285	137,779		31,809		245,611	439	40	1,390	426,353
Other assets / Positive replacement values	16,549	34,586		57	8,589	25,912			5,387	91,080
Value adjustments and general provisions					-47,275					-47,275
<b>Off-balance sheet transactions</b>										
Contingent liabilities	8,313	8,742	6,887	2,422	16,295	63,393		62		106,115
Irrevocable commitments	26	31,423	21,235	2,070	17,801	18,219		118		90,891
Commitments for calls on shares and other equities						19,313				19,313
Forward foreign exchange transactions (add - on)	735	10,290		279	2,078	38,388				51,770
<b>Total current year</b>	<b>247,834</b>	<b>395,554</b>	<b>4,339,388</b>	<b>769,340</b>	<b>1,247,819</b>	<b>1,600,065</b>	<b>439</b>	<b>66,416</b>	<b>6,777</b>	<b>8,673,631</b>
Total prior year	485,718	394,911	4,198,759	738,796	1,171,441	1,577,105	729	44,371	15,478	8,627,308

## 7.6 Geographic breakdown of credit risks

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

## 7.7 Geographic breakdown of impaired loans

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

## 7.8 Credit derivatives transactions

At 31 December 2011 the Group did not have any positions on credit derivatives.

## 7.9 Interest rate risk in the balance sheet

At 31 December 2011 a sudden 100 basis point parallel shift in the yield curve would have an impact of 5.5% on the net present value of equities (value effect). At the same date, year-end, the impact of a sudden 100 basis point parallel shift in the yield curve (1 basis point floor) would cause a CHF 1.91 million impact on net interest income for the next 12 months (income effect).

# 2011

January

**February**

March

April

May

June

July

August

September

October

November

December

## Advertising Highlights



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BANCA DELLO STATO DEL CANTONE TICINO



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

## **Report of the statutory auditor on the consolidated financial statements**

As appointed auditor, we have audited the accompanying consolidated financial statements of Banca dello Stato del Cantone Ticino, Bellinzona, which comprise the balance sheet, income statement, statement of cash flows and notes, (as set out on pages 38 to 58) for the year ended 31 December 2011.

### *Board of Directors' Responsibility*

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

### *Auditor's Responsibility*

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

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

### *Opinion*

In our opinion, the consolidated financial statements for the year ended 31 December 2011 give a true and fair view of the financial position in accordance with the provisions governing the preparation of financial statements for banks, the Swiss law and the Cantonal Law on the Banca dello Stato del Cantone Ticino.

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### **Report on other legal requirements**

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

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

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

PricewaterhouseCoopers SA

A handwritten signature in blue ink, appearing to read 'Beresford Caloia', written over a light gray rectangular background.

Beresford Caloia  
Audit expert  
Auditor in charge

A handwritten signature in blue ink, appearing to read 'Glenda Brändli', written over a light gray rectangular background.

Glenda Brändli  
Audit expert

Lugano, 23 March 2012

## Advertising Highlights



**Diamo credito  
ai sogni nel cassetto!**

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Il tasso d'interesse definitivo viene assegnato in base ai dati personali.  
Una concessione di credito è proibita se comporta un sovraindebitamento della consumatrice o consumatore [LCSI art.3].

la mia banca

 **BancaStato**

BANCA DELLO STATO DEL CANTONE TICINO

# Individual Financial Statements

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<b>Balance Sheet</b> (before appropriation of available earnings)	<b>64</b>
<b>Income Statement</b>	<b>65</b>
<b>Proposed Appropriation of Available Earnings</b>	<b>66</b>
<b>Notes to the Individual Financial Statements</b>	<b>67</b>
1. Activities of the Bank	<b>67</b>
2. Accounting and Evaluation Principles	<b>67</b>
3. Risk Management	<b>67</b>
4. Information on the Balance Sheet	<b>68</b>
5. Information on Off-Balance Sheet Transactions	<b>71</b>
6. Information on the Income Statement	<b>72</b>

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# Balance Sheet (before appropriation of available earnings)

(CHF thousands)	Notes	31.12.2011	31.12.2010	Change
<b>Assets</b>				
Liquid funds		378,749	73,939	304,810
Amounts due arising from money market papers		10,288	8,679	1,609
Due from banks		323,079	477,109	-154,030
Due from customers		1,530,645	1,538,921	-8,276
Mortgages	4.2	5,957,253	5,771,841	185,412
Securities and precious metals held for trading purposes		684	3,547	-2,863
Financial investments		417,762	419,734	-1,972
Participations		62,069	62,086	-17
Fixed assets		98,127	100,113	-1,986
Intangible assets		821	-	821
Accrued income and prepaid expenses		22,613	18,402	4,211
Other assets	4.1	67,173	49,025	18,148
<b>Total assets</b>		<b>8,869,263</b>	<b>8,523,396</b>	<b>345,867</b>
Total subordinated loans		-	500	-500
Total amounts due from the Canton of Ticino		10,142	10,150	-8
Total amounts due from Group entities		1,485	16,512	-15,027
<b>Liabilities</b>				
Due to banks		340,382	365,644	-25,262
Due to customers in savings and investment accounts		2,459,660	2,372,902	86,758
Other amounts due to customers		3,054,518	3,013,874	40,644
Cash Bonds		46,856	68,262	-21,406
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	4.2	1,958,000	1,756,000	202,000
Accrued expenses and deferred income		31,710	34,165	-2,455
Other liabilities	4.1	125,944	69,640	56,304
Value adjustments and provisions	4.3	165,501	179,172	-13,671
Reserves for general banking risks	4.3, 4.5	365,386	365,386	-
Endowment capital	4.4, 4.5	110,000	100,000	10,000
General legal reserve	4.5	173,292	163,262	10,030
Net income	4.5	38,014	35,089	2,925
<b>Total liabilities</b>		<b>8,869,263</b>	<b>8,523,396</b>	<b>345,867</b>
Total subordinated liabilities		175,000	-	175,000
Total amounts due to the Canton of Ticino		94,416	80,345	14,071
Total amounts due to Group entities		58,633	134,355	-75,722
<b>Off-Balance Sheet transactions</b>				
Contingent liabilities		162,506	208,325	-45,819
Irrevocable commitments		227,061	170,093	56,968
Commitments for calls on shares and other equities		7,725	7,725	-
Outstanding derivative financial instruments (contracts volume)		1,592,678	1,425,309	167,369
Positive replacement values		43,481	36,017	7,464
Negative replacement values		59,421	44,556	14,865
Fiduciary transactions	5.1	31,101	67,320	-36,219

# Income Statement

(CHF thousands)	Notes	2011	2010	Change
<b>Income and expenses from ordinary banking operations</b>				
<b>Net interest income</b>		<b>105,058</b>	<b>104,432</b>	<b>626</b>
Interest and discount income		179,860	184,413	-4,553
Interest and dividend income from trading portfolio		6	3	3
Interest and dividend income from financial investments		13,563	11,125	2,438
Interest expenses		-88,371	-91,109	2,738
<b>Net fees and commissions income</b>		<b>26,493</b>	<b>27,937</b>	<b>-1,444</b>
Commission income from lending activities		2,127	1,899	228
Commission income from securities and investment activities		22,795	23,167	-372
Other fees and commission income		5,953	6,471	-518
Commission expenses		-4,382	-3,600	-782
<b>Net trading income</b>	6.1	<b>11,451</b>	<b>8,919</b>	<b>2,532</b>
<b>Other ordinary results</b>		<b>3,715</b>	<b>7,308</b>	<b>-3,593</b>
Income on disposal of financial investments		574	4,361	-3,787
Participation income		1,658	1,363	295
Real estate income		153	-128	281
Other ordinary income		1,494	2,094	-600
Other ordinary expenses		-164	-382	218
<b>Net revenues</b>		<b>146,717</b>	<b>148,596</b>	<b>-1,879</b>
<b>Operating expenses</b>		<b>-96,100</b>	<b>-100,084</b>	<b>3,984</b>
Personnel expenses		-67,708	-67,271	-437
Other operating expenses		-28,392	-32,813	4,421
<b>Gross profit</b>		<b>50,617</b>	<b>48,512</b>	<b>2,105</b>
Depreciation of fixed assets		-12,612	-12,464	-148
Value adjustments, provisions and losses	4.3	-764	-888	124
<b>Result before extraordinary items and taxes</b>		<b>37,241</b>	<b>35,160</b>	<b>2,081</b>
Extraordinary income	6.2	1,103	287	816
Extraordinary expenses		-	-	-
Taxes		-330	-358	28
<b>Net income</b>		<b>38,014</b>	<b>35,089</b>	<b>2,925</b>

# Proposed Appropriation of Available Earnings

(CHF thousands)	31.12.2011	31.12.2010	Change
<b>Proposed appropriation of available earnings</b>			
Net income	38,014	35,089	2,925
Retained earnings	-	-	-
<b>Balance sheet profit</b>	<b>38,014</b>	<b>35,089</b>	<b>2,925</b>
<b>Proposal of the Board of Directors</b>			
Allocation to general legal reserve	11,004	10,030	974
5% interest on endowment capital	5,000	5,000	-
Additional payment to the Canton	22,010	20,059	1,951
<b>Retained earnings brought forward</b>	<b>-</b>	<b>-</b>	<b>-</b>



# Notes to the Individual Financial Statements

## 1. ACTIVITIES OF THE BANK

### 1.1 In general

The Bank's activities are governed by the Law on Banca dello Stato del Cantone Ticino (LBSCT) dated 25 October 1988 (latest amendments effective 15 December 2009).

The Canton is responsible for all the Bank's liabilities that are not covered by its equity (Art. 4 LBSCT). Pursuant to Art. 12 LBSCT, Banca dello Stato del Cantone Ticino is a full service bank and conducts its business primarily within the Canton of Ticino.

The development of the Bank's operating activities in 2011 is described in the report drawn up by the Board of Directors.

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

### 1.2 Personnel

As at 31 December 2011, the Bank employed a total of 503 staff and management, as opposed to 494 on 31 December 2010. In terms of the number of full-time equivalents (FTE), and as determined by the parameters set at margin number 148 of the Guidelines concerning the provisions governing financial statements reporting (FINMA Circular 2008/2 "Accounting – Banks"), staffing numbers rose from 453.65 FTEs to 461.65 FTEs over the same period.

## 2. ACCOUNTING AND EVALUATION PRINCIPLES

### 2.1 General principles

The financial statements of Banca dello Stato del Cantone Ticino as at 31 December 2011 were prepared in accordance with applicable banking rules and regulations as well as the true and fair view principle, in compliance with the provisions of the Swiss Code of Obligations and the Swiss Banking legislation, in particular the guidelines of the Swiss Financial Market Supervisory Authority FINMA and the Swiss listing rules. All business transactions are recorded at the time they are closed.

### 2.2 Accounting and evaluation principles for individual financial statements

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

#### 2.2.1 Participations

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

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

### 2.3 Foreign currency translation

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

Proceeds and expenses are converted at the exchange rate applicable on the date the individual transactions are recorded. Exchange rates applied at the close of the financial year for the major currencies were as follows:

EUR 1.2169 (2010: 1.2525)

USD 0.9379 (2010: 0.9336)

### 2.4 Adjustment of the accounting principles and financial statement presentation

There were no changes in accounting principles or in the presentation of the financial statements in 2011.

## 3. RISK MANAGEMENT

For comments regarding risk control and risk management, refer to Section 3 of the Notes to the Group Financial Statements.

## 4. INFORMATION ON THE BALANCE SHEET

### 4.1 Breakdown of other assets and liabilities

(CHF thousands)	31.12.2011	31.12.2010
<b>Other assets</b>		
Positive replacement value of derivative financial instruments	43,481	36,017
Compensation account	16,045	8,580
Indirect taxes	900	786
Various other assets	6,747	3,642
<b>Other assets, total</b>	<b>67,173</b>	<b>49,025</b>
<b>Other liabilities</b>		
Negative replacement value of derivative financial instruments	59,421	44,556
Indirect taxes	8,205	8,336
Matured non-redeemed cash bonds	3,674	5,500
Various other liabilities	54,644	11,248
<b>Other liabilities, total</b>	<b>125,944</b>	<b>69,640</b>

### 4.2 Pledged assets

(CHF thousands)	31.12.2011	31.12.2010
<b>Pledged or assigned assets to secure own commitments</b> (excluding advances and repurchase agreements with securities)		
Book value of securities delivered as collateral in connection with Repo Light credit with the SNB (unused)	23,110	27,814
Book value of securities delivered as collateral to SIX Group AG (unused)	8,983	11,025
Book value of mortgages set as collateral with the Swiss Cantonal Banks Central mortgage bond issuing body	1,770,540	1,700,013
commitment with the Swiss Cantonal Banks Central mortgage bond issuing body	1,433,000	1,406,000

### 4.3 Value adjustments and provisions / Reserves for general banking risks

(CHF thousands)	Balance at 31.12.2010	2011				Balance at 31.12.2011
		Usage in conformity to purpose	Recoveries, impaired interest, currency differences	Dissolution credited to income statement	New provisions charged to income statement	
Value adjustments and provisions for credit risks (counterparty and country risks)						
individual	151,593	16,344	1,010	8,501	9,995	137,753
general	18,000			800		17,200
	169,593	16,344	1,010	9,301	9,995	154,953
Value adjustments and provisions for other operational risks	4,547			400	962	5,109
Other provisions						
additional pension provision	4,922	1,049			1,481	5,354
other provisions	110	25				85
<b>Total value adjustments and provisions</b>	<b>179,172</b>	<b>17,418</b>	<b>1,010</b>	<b>9,701</b>	<b>12,438</b>	<b>165,501</b>
Reserves for general banking risks	365,386					365,386
<b>Total reserves for general banking risks</b>	<b>365,386</b>					<b>365,386</b>
<b>Total</b>	<b>544,558</b>	<b>17,418</b>	<b>1,010</b>	<b>9,701</b>	<b>12,438</b>	<b>530,887</b>

There are no deferred taxes as the Bank is not subject to taxation on capital or on revenue.

In compliance with FINMA provisions, released excess provisions for credit risk (CHF 0.3 million) were booked under "Extraordinary income" (refer to Section 6.2 of the Notes to the Financial Statements).

### 4.4 Endowment capital

(CHF thousands)	31.12.2011	31.12.2010
Endowment capital	110,000	100,000
Interest rate applicable to endowment capital: Endowment capital has no maturity date	5%	5%

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

#### 4.5 Statement of changes in equity

(CHF thousands)	
<b>Equity at 31.12.2010</b>	
Endowment capital paid	100,000
General legal reserve	163,262
Reserves for general banking risks	365,386
Balance sheet profit	35,089
<b>Total equity at 31.12.2010 (before appropriation of available earnings)</b>	<b>663,737</b>
- 5% interest on endowment capital for financial year 2010	-5,000
- Additional payment to the Canton of Ticino for financial year 2010	-20,059
+ Increase in endowment capital	10,000
+ Net income of reporting year 2011	38,014
<b>Total equity at 31.12.2011 (before appropriation of available earnings)</b>	<b>686,692</b>
of which:	
Endowment capital paid	110,000
General legal reserve	173,292
Reserves for general banking risks	365,386
Balance sheet profit	38,014

#### 4.6 Receivables from and payables to companies/entities related to the Canton and receivables from the Bank,s governing bodies

(CHF thousands)	31.12.2011	31.12.2010
Due from companies/entities related to the Canton	19,105	18,116
Due to companies/entities related to the Canton	53,621	74,371
Due from the Bank's governing bodies	55,864	49,198

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

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

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

## 5. INFORMATION ON OFF-BALANCE SHEET TRANSACTIONS

### 5.1 Fiduciary transactions

(CHF thousands)	31.12.2011	31.12.2010
Fiduciary placements with third party banks	31,101	67,320
<b>Total fiduciary transactions</b>	<b>31,101</b>	<b>67,320</b>



## 6. INFORMATION ON THE INCOME STATEMENT

### 6.1 Breakdown of results from trading operations

(CHF thousands)	2011	2010
Foreign exchange trading	9,154	6,836
Trading in foreign banknotes	1,795	689
Trading in precious metals	304	436
Trading in securities	198	958
<b>Total</b>	<b>11,451</b>	<b>8,919</b>

### 6.2 Other information on the income statement

(CHF thousands)	2011	2010
<b>Extraordinary income</b>		
Income on disposal of fixed assets	-	12
Income from released provisions for credit risks	298	83
Income from disposal of permanent holdings	472	-
Other extraordinary income	333	192
<b>Total</b>	<b>1,103</b>	<b>287</b>

# 2011

January

February

March

April

May

June

July

August

September

October

November

December

## Advertising Highlights



**FISSO** Il conto risparmio che vi garantisce un tasso d'interesse fisso dai tre ai dieci anni. I vostri risparmi saranno al sicuro dagli sbalzi del mercato finanziario e, per il primo anno, vi offriamo il tasso doppio\*.

Pensateci.

\* Valido unicamente per la clientela individuale (persone fisiche) e per afflussi di nuovi capitali in franchi svizzeri. La promozione si applica unicamente per conti risparmio FISSO vincolati dai tre ai dieci anni (importo minimo CHF 5'000, importo massimo CHF 1 milione); il tasso d'interesse annuo effettivo è una media che ripartisce l'interesse supplementare del raddoppio del tasso del primo anno sull'intera durata del contratto. Per il resto si applicano le condizioni valide per il conto risparmio FISSO.

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BANCA DELLO STATO DEL CANTONE TICINO



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

## **Report of the statutory auditor on the financial statements**

As appointed auditor, we have audited the accompanying financial statements of Banca dello Stato del Cantone Ticino, Bellinzona, which comprise the balance sheet, income statement, statement of cash flows and notes, (as set out on pages 64 to 72) for the year ended 31 December 2011.

### *Board of Directors' Responsibility*

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

### *Auditor's Responsibility*

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

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

### *Opinion*

In our opinion, the financial statements for the year ended 31 December 2011 give a true and fair view of the financial position in accordance with the provisions governing the preparation of financial statements for banks, the Swiss law and the Cantonal Law on the Banca dello Stato del Cantone Ticino.

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### **Report on other legal requirements**

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

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

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

PricewaterhouseCoopers SA

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

Beresford Caloia  
Audit expert  
Auditor in charge

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

Glenda Brändli  
Audit expert

Lugano, 23 March 2012

# Board of Directors

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Dr. Fulvio Pelli

## **Deputy Chairman**

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Saverio Lurati

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## **Members**

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Christian Vitta

# External Auditors as defined by the Swiss Banking Law

PricewaterhouseCoopers SA

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## **Deputy**

Guido Gianetti

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(as of 1 January 2012)

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(as of 1 October 2011)  
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Fabrizio Conti-Rossini  
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**6710 Biasca**

Via Leoncavallo  
**6614 Brissago**

**6675 Cevio**

**6715 Dongio**

**6760 Faido**

Largo Libero Olgiati 81a  
**6512 Giubiasco**

Via Trevano 97  
**6904 Lugano-Molino Nuovo**

**6900 Lugano-Piazza Riforma**

Via Lavizzari 18  
**6850 Mendrisio**

Via Pietro Fontana  
**6950 Tesserete**

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c/o Head Office

## ATM

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**6500 Bellinzona**

Via Emmaus 1  
(Centro Comm. Cattori)  
**6616 Losone**

## ATM open 24 hours a day

Parco Commerciale  
**6916 Grancia**

Via San Francesco 1  
**6600 Locarno-Città vecchia**

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