



# Annual Report

# 2020



Pictures: Hotel Suisse - Faido.

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*We are proud to do our part in normal times through our regular business operations and, when times are anything but normal, through extraordinary action.*

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**Bernardino Bulla**

Chairman of the Board of Directors

# Message from the Chairman of the Board of Directors

Dear Citizens of Ticino,

In this difficult year 2020, our society as a whole as well as the economy of our Canton have had to deal with the Covid-19 emergency. During this difficult time, BancaStato was deeply committed to providing uninterrupted banking services to the people of Ticino, and it swiftly implemented the needed measures on several fronts in order to fulfil its role as a Cantonal Bank in the most effective manner.

Within this difficult context, the Institute was nevertheless able to achieve solid results. As the Chairman of the Board of Directors, I am extremely proud of the work undertaken by the Bank's employees and, as is customary, I would like to take this opportunity to briefly comment on the results achieved.

Let us begin with the Bank's operating results, i.e., the difference between income and expenses incurred. This item remained at the same excellent levels of the preceding year. This CHF 86 million result demonstrates that in 2020 the Bank was successful in resisting the coronavirus shockwave.

It should be pointed out, as was already mentioned in the past, that the operating results also include hundreds of contributions made by the Bank to various collective bodies, associations and societies that operate in Ticino at the cultural and social levels as well as to sports. Our commitment in this regard is, once again, substantial and diversified. It consists of both a small number of major sponsorships, such as the CHF 350,000 allocated to the Orchestra of Italian-speaking Switzerland (OSI) and the CHF 100,000 for TicinoTicket, as well as a myriad of other small and medium contributions. This "watering-can" policy serves the noble aim of maximising the number of concrete contributions. In 2020, the Bank distributed over CHF 2 million to more than 600 recipients, of which at least CHF 500,000 was allocated to youth sports. The beneficiaries of our sponsorships often rely on the volunteer work of their members, these contributions are thus particularly valuable.

Our commitment to the community is one of the ways we are able to demonstrate our desire to continue the fulfilment of our public mandate year after year. For more information on this topic, I invite you to read the Bank's Social and Environmental Report.

Before broaching the subject of net profit, allow me to emphasise that the 2020 balance sheet also includes so-called Covid-19 loans guaranteed by the Confederation which

were granted promptly by BancaStato at the beginning of the pandemic. This measure ensured the rapid and efficient supply of significant liquidity to businesses as a means of mitigating the impact of the initial shockwave.

Let us now look at net profit which may be the most commonly used item of the income statement to actually assess performance in a financial year. Net profit stood at CHF 50.5 million, a gratifying result which allows the Bank to allocate to its owner CHF 41.7 million, an amount close to equivalent to that paid out in 2019. This substantial sum could be ensured despite the additional CHF 31 million allocated to the reserves for general banking risks and the CHF 4.1 million financing to "Vivi il tuo Ticino", a project launched under the impulse of the Canton's Department of Finance and Economy in cooperation with Ticino's tourism agency, where BancaStato bore all costs.

Our commitment to the "Vivi il tuo Ticino" project, whose aim was to provide direct support to the restaurant and hotel industries, two sectors among the hardest hit by the health emergency, is a good example of our role as a Cantonal Bank. We are proud to do our part in normal times through our regular business operations and, when times are anything but normal, through extraordinary action.

Before concluding, I would like to focus in on the future. Although the extent of the impact the pandemic will have on the cantonal and national economies remains unclear, we expect 2021 results to be in line with those of 2020. In addition to the coronavirus, there are other challenges in the horizon, for example, technologies which are now evolving at an increasingly fast pace and are more likely to deeply change our habits.

It is difficult to foresee what the future will bring, but it is possible to do what BancaStato has already been doing, and that is to equip itself with the capability to rapidly integrate novel developments while still continuing to maintain a close relationship to Ticino and to its people. All this is being done with the objective of continuing to offer you a Bank that matches your expectations.

I thank you all for your continued trust in BancaStato.

**Bernardino Bulla**

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 provide those essential elements to better understand how Banca dello Stato del Cantone Ticino is administered, as well as who is in charge of specific executive functions, and the basic principles which govern its operations.

## Introduction

Banca dello Stato del Cantone Ticino (BancaStato), in full respect of minimal disclosure requirements laid down in Circular 2016/1 "Disclosure – banks"<sup>1</sup> of the Swiss Financial Market Supervisory Authority (FINMA), publishes information on its corporate governance and draws reference from the outline proposed by the Directive on Information Relating to Corporate Governance issued by SIX Swiss Exchange on 20 June 2019<sup>2</sup>.

For information on risk management and monitoring measures implemented by the Group, refer to Section 5.4 of the Annex to the Group Financial Statements.

All data herein are at 31 December 2020 or refer to the entire 2020 financial year, except as regards information pertaining to the new organisational chart which became effective at the beginning of 2021.

## 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>3</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>4</sup>.

## Purpose and Activities

The purpose of BancaStato, as indicated in Art. 3 of the Law on Banca dello Stato del Cantone Ticino, is to promote the economic development of the Canton and to provide the public

with opportunities for secure and remunerative investment of their savings.

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

As illustrated in its Operating Rules and Regulations, the Bank's 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 standby letters of credit, in particular in Commodity Trade Finance;
4. issuing guarantees, sureties and guarantee commitments;
5. securities trading for third parties and on own account;
6. trading in derivative financial instruments both for third parties and on own account;
7. issuing and participating in the issuance of shares, bonds and other securities, for both Swiss and foreign debtors;
8. spot or forward trading of currency and securities in foreign currency, precious metals and monetary market papers, both for third parties and on own account;
9. trading with professional banknote dealers as per Art. 2e of the FINMA Anti-Money Laundering Ordinance (ORD-FINMA; RS 955.033.0);

<sup>1</sup> <https://www.finma.ch/fr/~media/finma/dokumente/dokumentencenter/myfinma/rundschreiben/finma-rs-2016-01-20200101.pdf?la=en>

<sup>2</sup> Any amendment or addition to this Circular in 2021 will be communicated on [www.bancastato.ch](http://www.bancastato.ch), under "Media, Novità ed Eventi". The directive is available at: <https://www.ser-ag.com/dam/downloads/regulation/listing/directives/DCG-en.pdf>

<sup>3</sup> [http://www.admin.ch/ch/i/rs/c952\\_0.html](http://www.admin.ch/ch/i/rs/c952_0.html)

<sup>4</sup> <https://m3.ti.ch/CAN/Rleggi/public/index.php/raccoltaleggi/legge/num/622/index17/960.100/evidenzia/false/esplodi/false>

10. setup and distribution of investment funds in Switzerland and abroad, and the acceptance of mandates as a custodian and/or underwriter;
11. advisory, intermediation and asset management, as well as custody and administration of securities and valuables;
12. payment transaction processing in Switzerland and abroad;
13. carrying out the functions of an asset administrator;
14. providing treasury services;
15. providing custody and securities administration services, as well as safe deposit box rentals;
16. carrying out fiduciary transactions, in its own name, but on account and at the risk of customers;
17. issuing and placing of bonds, shares and other financial instruments, and participating in issues or financial operations of public or private corporations.

## Supervision

The Bank is subject to the supervision of the Swiss Financial Market Supervisory Authority (FINMA) pursuant to the provisions of the banking legislation<sup>5</sup>.

## 1. BANK STRUCTURE AND OWNERSHIP

### 1.1.1 Operational structure

### 1.1.2 Group operational structure

BancaStato is a Group. As at 31 December 2020 the Bank held 100% of the share capital of the Lugano-based Axion SWISS Bank SA (nominal capital CHF 43 million).

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

### 1.1.3 Bank operational structure

The Heads of each Division, along with the President, form the Executive Board.

As laid down in the new organisational chart introduced at the beginning of 2021, the following divisions report to the President of the Executive Board: Human Resources and Support & Communications.

The other divisions are: Finances, Private Banking and EAM, Products and Services, Retail and Corporate, and Risk.

## 1.2 Ownership

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

## 1.3 Cross-shareholdings

The Bank does not have any cross-shareholdings with other entities.

## 2. CAPITAL STRUCTURE

### 2.1 Capital

By law, the State assigns the Bank an endowment capital and the Bank is authorised to issue participation certificates<sup>6</sup>. To this date, the Bank has not made use of the latter source of capital, and its capital solely consists of the endowment capital provided by the State, that is CHF 500 million. The interest paid out on endowment capital is fixed by the Bank's Board of Directors and by the State Council. A 5% interest was paid out on endowment capital in 2020.

### 2.2 Specifications concerning capital

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

On 19 June 2017, the Grand Council approved a request for an increase of the endowment capital from CHF 240 million to CHF 500 million. This increase was granted in order to guarantee, in advance, adequate coverage in terms of capital

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

<sup>6</sup> <https://m3.ti.ch/CAN/Rleggi/public/index.php/raccolta-leggi/legge/ num/622/index17/960.100/evidenzia/false/esplodi/false>

adequacy<sup>7</sup> in view of the Bank's growing business as well as in the event of more restrictive federal laws and regulations concerning equity.

### 2.3 Changes in capital

In consideration of the authorisation granted by the Grand Council (refer to Section 2.2), the State Council (Cantonal Government), following the Bank's request, increased the endowment capital to CHF 500 million (from CHF 480 million), following Government Resolution 7013 of 23 December 2020. This increase took effect on 31 December 2020.

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

- 2012: from CHF 100 million to CHF 110 million,
- 2013: from CHF 110 million to CHF 200 million,
- 2014: from CHF 200 million to CHF 240 million,
- 2017: from CHF 240 million to CHF 300 million,
- 2018: from CHF 300 million to CHF 430 million,
- 2019: from CHF 430 million to CHF 480 million,
- 2020: from CHF 480 million to CHF 500 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 increase its participation capital by issuing participation certificates not exceeding 50% of its endowment capital. As at 31 December 2020, just as at the end of 2019, there was no participation capital.

### 2.5 Bonus certificates

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

### 2.6 Limitations on transferability and nominee registrations

As the capital of Banca dello Stato del Cantone Ticino is not

divided into shares, there is no relevant information to provide under this heading.

### 2.7 Convertible bonds and options

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

By way of supplementary information, it is hereby stated that, in 2011, the Bank issued a subordinate bond of CHF 175 million which is due to mature in 2021. Until December 2020, its nominal amount was reduced on an annual basis, and it qualified as Tier 2 Capital in conformity with the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Traders (CAO).

## 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), managers, administrators and employees of other credit institutions (with the exception of members of the Swiss National Bank governing bodies), cannot be appointed to the Board of Directors. Relatives and next of kin, spouses, registered partners or cohabiting partners, siblings or siblings-in-law, business partners and employees of the same company may not be members of the Board of Directors simultaneously.

The members of the Board of Directors fulfil the independence criteria described in FINMA Circular 2017/01<sup>8</sup>.

The members of the Board of Directors do not carry out operational functions and have not been members of the Statutory Auditors (previous or present).

Hereunder is a brief presentation of the members of the Board in office as at 31 December 2020, their function, education, professional background and principal activities.

<sup>7</sup> [https://www4.ti.ch/user\\_librerie/php/GC/allegato.php?allid=115514](https://www4.ti.ch/user_librerie/php/GC/allegato.php?allid=115514)

<sup>8</sup> As Chairman of the Board of Directors since July 2017, and having formerly served as President of the Executive Board, Bernardino Bulla has fully complied with FINMA independence rules since July 2019.  
<https://www.finma.ch/en/~media/finma/dokumente/dokumentencenter/myfinma/rundschreiben/finmars-2017-01-20200101.pdf?la=en>



## **BERNARDINO BULLA**

### **Function**

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

### **Education and professional background**

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

### **Other principal activities**

- » Member of the Board of Directors of Axion SWISS Bank SA, Lugano;
- » Chairman of the Foundation Council of "Fondazione del Centenario BancaStato", Bellinzona;
- » Member of the Board of Directors of Pizzarotti SA, Lugano.

## **RAOUL PAGLIA**

### **Function**

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

### **Education and professional background**

Master's degree from the "École des Hautes Études Commerciales" of the University of Lausanne in 1993 and Certified EFFAS Financial Analyst and Portfolio Manager – AZEK in 1999. From 2003 to 2006, he was an expert examiner in financial operations for the Swiss Federal examinations in banking (Eidgenössische Bankfachprüfung). In February 2013, he obtained a Master's Degree in Advanced

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

### **Other principal activities**

- » Member of the Board of Directors of Axion SWISS Bank SA, Lugano;
- » Chairman of the Foundation Council of Perspectiva Joint Foundation, Basel;
- » Chairman of the Board of Directors of Swissmemotec SA, Lugano;
- » Governing Director of Finadvisor SA, Lugano;
- » Chairman of Sostare Sagl, Bellinzona;
- » Chairman of the Board of Directors of Swiss Real Estate Holding AG, Baar.

## **MARCO FANTONI**

### **Function**

Member of the Board of Directors, born on 27 October 1957, Swiss. On the Board of Directors since 10 March 2009. Secretary of the Board of Directors since 26 July 2019 and member of the Chairman's Office. Chairman of the Projects Committee.

### **Education and professional background**

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

### **Other principal activities**

- » Member of the Foundation Council of the Carla and Bruno Fabbroni Foundation, Lugano;
- » Chairman of HCS Digital Solutions Sagl, Lugano;
- » Governing Director of "Residenza Belvedere SA", Lugano.

## **GIOVANNI JELMINI**

### **Function**

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

### **Education and professional background**

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

### **Other principal activities**

- » Chairman of the Board of Directors of Axion SWISS Bank SA, Lugano;
- » Member of the Board of Directors of TEAMLEGAL SA;
- » President of the Civic Philharmonic of Mendrisio, Mendrisio;
- » Member of the Board of Directors of HJImmobiliare SA, Porza;
- » Chairman of the Board of Directors of Modultech SA, Gambarogno;
- » Member of the Foundation Council of "Fondazione Cardiocentro Ticino", Lugano;
- » Chairman of the "Fondazione Portico di Salomone", Lugano;
- » Liquidator of the "Compagnia San Paolo", in liquidation, Lugano;
- » Liquidator of the "Association pour l'Université de la science", in liquidation, Lugano.

## **DANIEL JOSS**

### **Function**

Member of the Board of Directors, born on 2 June 1966, Swiss. On the Board of Directors since 1 July 2019. Member of the Projects Committee.

### **Education and professional background**

Degree in Civil Engineering from ETH Zurich in 1990. In the same year he started his own business. Member of the Order of Engineers and Architects of Canton Ticino and of the Swiss Society of Engineers and Architects. A real estate fiduciary, he is active in the construction and civil engineering sector as a specialist and designer. Promoter and developer of real estate

projects, he also manages real estate companies and rental properties. He is the owner of Daniel Joss, Engineering and Management.

### **Other principal activities**

- » Governing Director of Amarus SA, Vezia;
- » Governing Director of Anmida SA, Vezia;
- » Governing Director of Archimanagement SA, Vezia;
- » Governing Director of Brepario SA, Vezia;
- » Governing Director of Caveda SA, Vezia;
- » Chairman of the Board of Directors of Dagrass SA, Vezia;
- » Governing Director of Kutur SA, Vezia;
- » Governing Director of Luvero SA, Vezia;
- » Governing Director of Monbrac SA, Vezia;
- » Governing Director of S.I. Molinonovo SA, Vezia;
- » Governing Director of Vamaso SA, Vezia;
- » Governing Director of Zokus SA, Vezia.

## **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 Audit and Risk Committee.

### **Education and professional background**

Master of Science (MSc) in Business Economics from the University of Lausanne in 1988. Worked for a leading banking institution in both Zurich and Ticino from 1988 to 1997. From 1997 to 2002, he was Administrative Director at the University of Lugano (USI). Until 31 December 2011 he was Director of the Regional Hospital of Bellinzona and Valleys, Director of the Oncology Institute of Southern Switzerland in Bellinzona and member of the General Management of the Cantonal Hospital Organisation (EOC – Ente Ospedaliero Cantonale). Since 1 January 2012 he has been the managing general agent of the insurance company Helvetia. He also holds a qualification to act as a trustee accountant.

### **Other principal activities**

- » Chairman of the Foundation Council of "Fondazione Casa dell'Accademia di Mendrisio", Mendrisio;
- » Deputy Chairman of "Associazione l'Ancora", a centre for drug addiction recovery, Lugano;
- » Member of the Foundation Council of the "Dispensario per le malattie polmonari e la tubercolosi di Bellinzona e Valli", Bellinzona.

## LUCA SONCINI

### Function

Member of the Board of Directors, born on 18 May 1957, Swiss. On the Board of Directors since 16 October 2017. Member of the Projects Committee.

### Education and professional background

Degree in Economics from the University of Fribourg in 1981, subsequently researcher for the Economic Research Office of Canton Ticino. In 1982, he joined the ranks of the daily newspaper *Corriere del Ticino* as an editor, and later became chief editor for economic and financial news. During the 1980s, he also worked for the Italian Language Swiss Television in financial journalism. In 1987, he was employed by Banca del Gottardo and, in 1998, was appointed member of the Executive Board, Head of Private Banking. In 2007 he entered the PKB Privatbank group as a member of the Executive Board responsible for Finances and Risks. He was a member of the National Committee of the Swiss Bank Employers Association, the Executive Committee of the Ticino Bank Association, the Foundation Council of the Swiss Institute in Rome, the Board of Directors of Banca del Gottardo Italia SpA, Bergamo, the Board of Directors of Gestivalor-Gestione fondi SA, Lugano, the Board of Directors of Compagnia Finanziaria Mobiliare SIM SpA, Milan, and the Board of Directors of Banca Intermobiliare SpA, Turin.

### Other principal activities

- » Professor at the University of Lugano where he currently teaches a course titled "Banking Strategies" to students of the Master's programme in Finance, Lugano;
- » Member of the Foundation Council of the Swiss Finance Institute, Zurich;
- » Member of the Board of Directors of Enterra SA, Lugano;
- » Chairman of the Board of Directors of SPP Cost Control SA, Torricella-Taverne;
- » Chairman of the Board of Directors of TIVENIx SA, Lugano<sup>9</sup>;
- » Member of the Committee of the Research Fund EOC-USI of the Foundation for research and development (FRoS) of the University of Lugano<sup>10</sup>;
- » Independent financial consultant.

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

This information is included in Section 3.1.

### 3.2.1 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 or two and three mandates respectively. The maximum term of office is 12 years (Articles 21 and 22 of the Law on Banca dello Stato del Cantone Ticino).

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

- » Bernardino Bulla, Chairman: 1 July 2017 / 30 June 2023,
- » Raoul Paglia, Deputy Chairman: 10 July 2012 / 30 June 2021,
- » Marco Fantoni: 10 March 2009 / 30 June 2021,
- » Giovanni Jelmini: 1 December 2011 / 30 June 2022,
- » Daniel Joss: 1 July 2019 / 30 June 2022,
- » Michele Morisoli: 2 December 2008 / 30 June 2021,
- » Luca Soncini: 16 October 2017 / 30 June 2023.

### 3.3 Internal organisational structure

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

The Board of Directors reaches a quorum when at least five of its members are present in person, on the phone or online. 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,

<sup>9</sup> As of January 2021.

<sup>10</sup> As of January 2021.

and may not in those circumstances attend or take part in deliberations or vote on the subject matter. Minutes are taken at each meeting.

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

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

In 2020, the Board of Directors convened 13 times. The meetings of the Board of Directors as well as those of the Chairman's Office and its committees lasted on average between two and four hours.

### 3.4 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. 12 of the Operating Rules and Regulations are listed by category hereunder:

#### Regulatory duties

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

#### Organisational duties

- establishment of the Bank's organisational structure;
- definition of the Bank's organisational chart;
- allocation of appropriate resources within the Bank in terms of personnel, infrastructure and IT;
- appointment, suspension, revoking of functions or rank, or dismissal of the President of the Executive Board, members of the Executive Board, members of Management, and internal auditors; periodic assessment of the Chief Internal Auditors and members of the Executive Board, and planning their succession accordingly;
- compensation and adoption of disciplinary measures as regards the Executive Board, the Chief Auditor and his deputy;
- organisation of accounting, internal controlling system and financial planning;
- establishment and closing of branches and agencies;
- appointment and dismissal of External Auditors;
- granting or revoking power to sign as laid down in Art. 23 and 24 of the Operating Rules and Regulations;
- authorisation for Bank staff to assume mandates as corporate or foundation members;
- 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 and members 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;
- approval of budgets, accounts, semi-annual and annual financial reports and all other elements subject to disclosure requirements;
- approval of capital planning and liquidity planning;
- definition of the staff and remuneration policies; these must not generate incentives leading to conflicts of interest for the supervisory organs;
- approval of the section on Corporate Governance of the Annual Report;

- decision on the issuance of participation certificates as per regulations and the annual setting of the base dividend on participation capital;
- decision-making, upon notice from the Executive Board, on requests for loans, credits or advances and on operations which engage Bank funds or its pecuniary responsibility and which are not part of delegated responsibilities as laid down in the Operating Rules and Regulations;
- approval of loans to the members of the Executive Board and the Chief Internal Auditor;
- submitting, for cognizance and at the earliest meeting, the loans granted to members of the Board of Directors by the Executive Board or by its subordinate offices within the framework of their delegated responsibilities;
- decision-making on the acquisition and disposal of participations exceeding CHF 2 million, or 15% of the subsidiary's capital, 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 by 31 March of each year with the annual report, financial statements, proposal for appropriation of available earnings and Statutory Auditors' report;
- providing the Grand Council by 31 March of each year with the Auditors' report in compliance with Art. 37a of the Law on Banca dello Stato del Cantone Ticino;
- establishment of reference rates and oversight to ensure that the individual rates set by the Executive Board comply with Art. 3 of the Law on Banca dello Stato del Cantone Ticino;
- reporting to the FINMA in the event that capital or liquidity requirements are not met, or maximum limits on major risks have been exceeded;
- 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;
- oversight on compliance with banking regulatory provisions with respect to risks;

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

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

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

In compliance with Art. 25 of the Law on Banca dello Stato del Cantone Ticino, the Board of Directors may delegate part of its duties, to the exclusion of those inalienable on the analogy of Art. 716a of the Swiss Code of Obligations<sup>11</sup>, 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 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 2020 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.

<sup>11</sup> [https://www.fedlex.admin.ch/eli/cc/27/317\\_321\\_377/en](https://www.fedlex.admin.ch/eli/cc/27/317_321_377/en)

## Chairman's Office

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

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

- strategic issues,
- the Bank's organisational structure,
- in-house regulations (provided these are not within the responsibility of the Audit and Risk Committee),
- staff policy,
- the Bank's remuneration policy.

The Chairman's Office is composed of the Chairman, Bernardino Bulla, the Deputy Chairman, Raoul Paglia, and the Secretary, Marco Fantoni. In 2020, the Chairman's Office met once.

## Audit and Risk Committee

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

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

- decisions on accounting principles to be adopted for the preparation of accounts;
- approval of annual and semi-annual financial statements, as well as any other element subject to a publication requirement;
- approval of the budget;
- approval of capital and liquidity planning;
- approval of expenses and overrun expenditures for matters which fall within the authority of the Board of Directors;
- organisation of accounting, reporting and financial planning;
- discussions with the member of the Executive Board responsible for Finances and Accounting, as well as with the Statutory Auditors and the Internal Auditors on financial reporting and integrity of financial closures.

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

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

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

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

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

The Chairman of the Board of Directors may not be a member of the Audit and Risk Committee. This Committee is composed of the Chairman, Michele Morisoli, and Giovanni Jelmini and Raoul Paglia, members. In 2020 the Committee convened eight times.

### Projects Committee

The Projects Committee examines and draws up notices to the Board of Directors on projects within the Board's competencies, notably:

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

The Projects Committee is composed of the Chairman, Marco Fantoni, and Daniel Joss and Luca Soncini, members. In 2020 the Committee met five times.

### 3.5 Information and control instruments vis-à-vis the Executive Board

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

#### On a monthly basis

- balance sheet and income statements;
- information on the Bank's liquidity, equity, and major risks;
- the situation as regards risk and information on the functioning, effectiveness and results of the internal control system.

#### On a semi-annual basis

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

#### On an annual basis

- budgets, financial statements and annual reports, as well as any other element subject to disclosure requirements;
- information regarding the general state of business with respect to objectives and strategies set by the Board of Directors and the general situation at the Bank;
- the Social and Environmental Report as well as the chapter of the Annual Report on Corporate Governance;
- assessments of any amendment to regulations within the competencies of the Board of Directors;
- confirmation of adequate allocation of resources both in terms of personnel and any other type of means;
- a report on the activities and risk evaluation of Legal and Compliance, Human Resources, Risk Management, Group Internal Control and Security units;
- summary of the Head of the Risk Division on the results of various reports mentioned in the above paragraph.

As deemed necessary, other documents or data may be requested.

The fundamental principles of information flows have been set also for the Group. The Bank relies on External Auditors, in conformity with current banking legislation (refer to Section 8.1) as well as Internal Auditors. The Internal Auditors' Office is independent from the Executive Board and is directly subordinated to the Board of Directors (functional reporting). At the end of 2020, it was composed of five staff, including the Chief Internal Auditor (Mr. Gabriele Guglielmini, Chartered Accountant – Federal Accounting Diploma). The Chairman of the Audit and Risk Committee of the Board of Directors acts as the Chief Internal Auditor's direct superior and oversees his activity (administrative reporting).

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

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

The internal audit provides important bases for decision-making to evaluate and verify whether the Institute can rely on an appropriate and efficient internal control system. It conducts at least annually a comprehensive risk assessment and plans its activities for the following year. The personnel involved in internal auditing may not take part in Bank operational processes.

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 members of the Board of Directors also receive the semi-annual summary reports and the annual report. The Internal Audit reports are discussed by the Internal Auditors with the Audit and Risk Committee of the Board of Directors and, when needed, also with the Board of Directors.

Internal audits are conducted in compliance with the quality requirements of the Institute of Internal Auditing, Switzerland.

#### 4. EXECUTIVE BOARD

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

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

##### **Regulatory duties**

- 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, guidelines and appropriate orders as required for the performance of banking activities;
- implementing the provisions as laid down in the public mandate document;
- implementing the measures set out in the Staff Rules and Regulations;
- issuing a code of conduct and laying down the sanctions in case of non-compliance.

##### **Management and organisational duties**

- management of day-to-day activities;
- implementation of the Bank's organisation;
- definition, implementation and maintenance of appropriate internal processes;
- implementation and maintenance of an adequate internal control and risk management system;
- implementation of the Bank's detailed organisational chart;

- development of the Bank's strategic planning and implementation of measures envisaged in the same based on decisions of the Board of Directors;
- organisation of financial management controls;
- recruitment, compensation, appointment of rank and position, carrying out of disciplinary action, dismissals, as well as direction and supervision of Bank staff falling outside the authority of the Board of Directors;
- preparation of the documents pertaining to matters to be submitted to the Board of Directors;
- membership in trade associations;
- decisions to appear in court and initiate legal proceedings, as delegated;
- implementation and maintenance of an appropriate IT management system and apprising the Board of Directors on the Bank's business development and on its economic and financial state;
- definition of the duties and targets in each division;
- provision of an adequate technological infrastructure;
- representing the Bank in third party relationships at an operational level.

##### **Financial duties**

- preparation of budgets, semi-annual and annual financial statements;
- drawing up of the section of the Annual Report on Corporate Governance;
- approval of the Social and Environmental Report;
- approval of monthly accounts to be submitted to the Board of Directors for information;
- implementation of the decisions taken by the Board of Directors with regard to loan requests, credits and advances on operations which engage Bank funds or pecuniary responsibility, and which are not included in delegated responsibilities as outlined in the Operating Rules and Regulations;
- decision on risk-incurring and on investments and expenditure, within the limits of the relevant Organisation and Risk Management Regulations;
- decision on the issuance of bonds or other third-party asset gathering by the Bank;



- determination of individual interest rates, in accordance with the provisions of Art. 3 of the Law on Banca dello Stato del Cantone Ticino;
- preparation of capital planning and liquidity planning;
- reporting to the Board of Directors in the event capital requirements are not met or regarding major risks or liquidity;
- decision-making on the acquisition and disposal of participations not exceeding 15% of the subsidiary's capital or CHF 2 million.

### **Supervision and control duties**

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

### **Credit duties**

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

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

The activities of the Executive Board are supported by specific business units as well as by committees of the Executive Board, whose principal responsibilities are summarised below, with reference to the situation as at 1 January 2021.

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

### **Risk Committee**

The Risk Committee is responsible for ensuring adequate supervision of overall risk and, in particular, operational risks. The duties assigned to this Committee are to manage the risk profile within the framework of thresholds set by the Board of Directors, to ratify the individual operational losses below or equal to the threshold described in the Committee's regulations, and the provision of infrastructure and adequate resources for the control and supervision of risks.

Since the beginning of 2021, with respect to Executive Board members, this Committee is structured as follows: its Chair is the President of the Executive Board, its Deputy Chair is the Head of the Risk Division<sup>12</sup>, and its members are the Heads of the Financial Division, the Retail and Corporate Clients Division, the Private Banking and EAM Division, and the Products and Services Division.

### **Credit Risk Committee**

The Credit Risk Committee is responsible for managing the Bank's credit risk with the aim of optimising its control. 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.

Since the beginning of 2021, with respect to Executive Board members, this Committee is composed as follows: its Chair is the Head of the Risk Division, its Deputy Chair is the Head of the Retail and Corporate Clients Division, and its members are the President of the Executive Board and Head of the Finance Division, for matters concerning banks and country risk.

### **ALCO (Assets & Liabilities Committee)**

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

<sup>12</sup> Prior to the introduction of the new organisational chart on 1 January 2021, the Deputy Chairmanship was entrusted to the Head of Financial and Operational Services Division.

Since the beginning of 2021, with respect to Executive Board members, this Committee is composed as follows: its Chair is the Head of the Finance Division, its Deputy Chair is the President of the Executive Board<sup>13</sup>, and its members are the Heads of the Risk Division, the Retail and Corporate Clients Division, the Private Banking and EAM Division, and the Products and Services Division.

#### 4.1 Members of the Executive Board

The Executive Board comprises the President of the Executive Board and members who are Heads of Divisions. The members' term is indefinite, and they retire three years earlier than the standard age of retirement, provided that their nomination occurred at least 10 years before the standard retirement age. No member of the Executive Board was ever a member of the Bank's Board of Directors or worked in the Auditors' Office (past or present).

Following is a short introduction to the six members in office as at 31 December 2020 along with their functions on the Executive Board, their educational background, their professional record of accomplishments and their other principal activities<sup>14</sup>.

#### FABRIZIO CIESLAKIEWICZ

##### Function

Appointed President of the Executive Board on 15 March 2017, effective on 1 July 2017. 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 for corporate clients and member of the managerial staff. From the end of 1997 to the beginning of 2000 he was Head of the General Secretariat for the Liberal Radical Party of Ticino. He began his employment at BancaStato on 19 June 2000 as Deputy Manager of the Biasca Agency. On 31 December 2001, he was appointed Member of the Management and assumed the position of Regional Head and Head of the Corporate Clients Division for the Bellinzona Area. On 1 August 2008 he was appointed Member of the Executive Board and

took over the position of Head of Retail and Corporate Clients. Since 1 July 2017 he has been President of the Executive Board.

##### Other activities

- » Deputy Chairman of the Foundation Council of the "Fondazione di Previdenza Risparmio 3" of Banca dello Stato del Cantone Ticino, Bellinzona;
- » Member of the Board of Directors of the Association of Swiss Cantonal Banks, Basel;
- » Member of the Executive Committee of the Ticino Bankers' Association, Vezia;
- » Member of the Foundation Council of "Fondazione Centro Studi Villa Negroni", Vezia;
- » Member of the Foundation Council of the Carlo and Albina Cavargna Foundation, Biasca;
- » Member of the Board of Governors of the Ticino Cancer League, Bellinzona;
- » Member of the Foundation Council of the Oncological Research Institute Foundation (IOR), Bellinzona;
- » Member and Treasurer of the Foundation Council of the Ticino Cancer Research Foundation, Bellinzona.

#### DANIELE ALBISETTI

##### Function

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

##### Education and professional background

Degree in Economics with a major in Corporate Management from the University of Lausanne in 1985. He began his professional career in the internal audit division of Banca del Gottardo where he was team leader and was promoted to Bank Officer in 1988, and then to Assistant Vice-President in 1989. In 1990, he was entrusted with several projects pertaining to organisation, and risk management control within the Financial and Risk Management Department. In 1996, he was promoted to Member of the Management and in 1999 became Head of Controlling at Group level. He joined BancaStato on 1 February 2003 as Head of the Financial and Risk Management Department, taking on de facto the position of Chief Financial Officer. On 1 April 2014,

<sup>13</sup> Prior to the introduction of the new organisational chart on 1 January 2021, the Chairmanship was entrusted to the Head of Financial Markets and Private Banking Division.

<sup>14</sup> Among these, Curzio De Gottardi was appointed to the Executive Board in 2020 and took office on 1 January 2021.



From left to right, standing:

**Curzio De Gottardi**, Head of the Products and Services Division;  
**Daniele Albisetti**, Head of the Finance Division;  
**Patrick Lafranchi**, Head of the Risk Division;  
**Gabriele Zanzi**, Head of the Retail and Corporate Clients Division;

and, from left to right, sitting:

**Claudio Genasci**, Head of the Private Banking Division and EAM;  
**Fabrizio Cieslakiewicz**, President of the Executive Board.

he became a member of the Executive Board and Head of Financial Services and Operations Division which was in charge of financial management and risk supervision, as well as for providing organisational, IT and operational support to various Bank processes. Since 2020, risk control activities have been centralised in the Risk Division. At the beginning of 2021, Daniele Albisetti was entrusted with heading the newly constituted Finance Division in which the operations of the Financial market (Treasury, Trading and Asset management) as well as the Accounting units have been channelled.

#### **Other activities**

- » Member of the Board of Directors of Tele Ticino SA, Melide;
- » Member of the Board of Directors of Billie SA, Adliswil;
- » Chairman of the Executive Committee and Treasurer of the Swiss Walking Federation.

## **CURZIO DE GOTTARDI**

### **Function**

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

### **Education and professional background**

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

### **Other activities**

- » Chairman of the Professional Tripartite Commission of the Cantonal Fund for Professional Training, Breganzona.
- » Mayor of Lumino.

## **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 Cornèr Banca SA, Lugano Offices, in 1996 as Head of Investment Strategies. He joined BancaStato on 1 August 2001 as Head of the Markets and Finances Division. In 2003, the Board of Directors appointed him Member of the Executive Board for the Market and Finances Division. Since 16 April 2007 he has been Head of the Markets and Private Banking Division which was renamed Private Banking and EAM Division at the beginning of 2021.

### **Other activities<sup>15</sup>**

- » Chairman of the Foundation Council of the "Fondazione di Previdenza Risparmio 3" of Banca dello Stato del Cantone Ticino, Bellinzona.

## **PATRICK LAFRANCHI**

### **Function**

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

### **Education and professional background**

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

## **GABRIELE ZANZI**

### **Function**

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

### **Education and professional background**

Degree in Economics from the University of Zurich in 1989. The next year he began his professional career at the Ticino Chamber of Commerce. In 1995 he joined UBS Ticino, assuming various positions with responsibility for Corporate clients. In 1998 he was employed by Credit Suisse, undertaking increasingly important functions. He was appointed Head of Corporate Clients in 2012 and Regional Head for Ticino in 2016. Since 1 December 2017, he has been the Head of Retail and Corporate Clients Division at BancaStato.

### **Other activities**

- » Member of the Executive Committee of "Associazione Industrie Ticinesi AITI", Lugano;
- » Member of the Board of Directors of Hockey Club Lugano SA, Lugano;
- » Member of the Foundation Committee of the "Fondazione per il perfezionamento commerciale", Lugano;
- » Chairman of the Foundation Committee of the Children of Africa Foundation, Lugano.

<sup>15</sup> In 2020, Claudio Genasci resigned from his position as member of the Investment Committee of the Residentia real estate following BancaStato's withdrawal as a promoter of the fund.

## 5. REMUNERAZIONI, PARTECIPAZIONI E PRESTITI

### 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 Internal Auditor and his Deputy fall within the responsibility of the Board of Directors. Present compensations of the Members of the Board of Directors are established on the basis of a Resolution of the State Council dated 7 December 2016, effective 1 January 2017.

The Board of Directors approves the Staff Rules and Regulations. 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 on the basis of the same parameters as used for calculating the compensation to all Members of the Management. Guaranteed coverage exceeds minimum legal requirements. Moreover, they benefit from the family allowances granted to all staff.

The following figures include fixed retribution, variable retribution and a lump sum figure for entertainment expenses. In 2020, total compensation for members of the Bank's bodies was as follows: CHF 519,682 for the Board of Directors and CHF 3,523,800 for the five members of the Executive Board<sup>16</sup>. The highest compensation within the Board of Directors was CHF 106,384 and the highest compensation within the Executive Board was CHF 906,199<sup>17</sup>.

Among the Bank's providers there are entities connected to the members of the Board of Directors and the Executive Board.

The members of the Board of Directors and the members of the Executive Board benefit from mortgage loans and other banking services under the same conditions as the Bank staff. At the end of 2020, loans to Bank governing bodies totalled CHF 21.5 million and amounts due CHF 8.1 million (see also the corresponding table of the Annex to the Financial Statements).

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

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

## 6. SHAREHOLDERS' PARTICIPATION RIGHTS

### Relations with Ownership

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

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

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

By 30 April, the State Council transmits the documentation to the Grand Council for approval of the annual financial statements, the proposed appropriation of available earnings and the sign off of the Bank's governing bodies. In conformity with Art. 34 of the Law on Banca dello Stato del Cantone Ticino, the Grand Council exercises a supervisory duty as regards the fulfilment of the public mandate by way of the Public Mandate Control Commission. This Commission is made up of one member per parliamentary group each of whom is

<sup>16</sup> The sixth member of the Executive Board, Curzio De Gottardi, took office at the beginning of 2021.

<sup>17</sup> The Corporate Governance guidelines introduce more specific recommendations for the presentation of compensations within the Board of Directors and the Executive Board. We believe that the description contained in this Annual Report reflects the requirements for exhaustiveness and transparency.

appointed by the Grand Council for a period corresponding to one legislative session. In compliance with the provisions of Art. 35 of the Law on Banca dello Stato del Cantone Ticino, the Public Mandate Control Commission verifies the correct fulfilment of the public mandate and draws up a special report to the attention of the Management and Finance Commission on the achievement of the public mandate.

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

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

As of 31 December 2020, the Commission included: Tiziano Galeazzi (Chairman as of September 2020), Fabrizio Garbani Nerini (Deputy Chairman as of September 2020), Omar Balli, Samantha Bourgoïn, Giacomo Garzoli and Marco Passalia (replacing Maurizio Agustoni as at November 2020).

## **7. CONTROL AND DEFENCE MEASURES**

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

## **8. AUDITORS**

### **8.1 Duration of the mandate and term of office of the Lead Auditor**

The appointment of the Auditors falls under the authority of the Board of Directors (Art. 37 of the Law on Banca dello Stato del Cantone Ticino). In 2005, the Board of Directors entrusted the External Auditor mandate to PricewaterhouseCoopers SA in accordance with the Banking Law. For the 2020 financial year, Mr. Beresford Caloia, partner at PricewaterhouseCoopers SA, assumed the function of Lead Auditor for the first time. This mandate is annual.

PricewaterhouseCoopers SA also audits Axion SWISS Bank SA.

### **8.2 Auditing honorarium**

For the auditing honorarium of PricewaterhouseCoopers SA, ordinary audit of BancaStato and other audits, please refer to Table 5.12.26 of the Annex to the Group Financial Statements as well as to Table 5.8.18 of the Annex to the Individual Financial Statements.

### **8.3 Additional honorariums**

For information pertaining to this point, please refer Table 5.12.26 of the Annex to the Group Financial Statements as well as to Table 5.8.18 of the Annex to the Individual Financial Statements.

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

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

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

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

## **9. INFORMATION POLICY**

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

The responsibility for the management of the Bank's communication policy is entrusted to the Support and Communications Organisational Unit. 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. The annual financial report is presented during the first quarter at a press conference held at BancaStato's Head Office. The annual report is sent to the FINMA, the State Council, the Grand Council, the Public Mandate Control Commission, the Swiss National Bank, all Cantonal Banks, the Association of Swiss Cantonal Banks, as well as to correspondent banks, and Swiss and foreign clients upon request. Annual reports, in Italian and in English, can be accessed via the BancaStato website at [www.bancastato.ch](http://www.bancastato.ch)<sup>18</sup> and are available at any BancaStato counter.

For the 2020 financial year, the Bank published once again its Social and Environmental Report<sup>19</sup>. BancaStato can be accessed by the public via their website [www.bancastato.ch](http://www.bancastato.ch) which facilitates access to information on products, services and news from the Bank. The Bank is present in various daily newspapers, broadcasts and publications which deal with financial issues with interviews, presentations and financial articles<sup>20</sup>. These articles also appear on the website and, whenever possible, on the Bank's other communication channels in order to provide information on the diversified world of the Institution. BancaStato also posts its institutional news on social media.

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

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

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

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

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

# Ticino's Economy in 2020 and Outlook for 2021

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## The international overview

In 2020, all world economies bore the burden of the negative impact related to the fast and unexpected spread of the COVID-19 pandemic. The extent of the impact on each economy depended on the effectiveness and duration of the health measures and the economic limitations introduced by each country in order to contain the virus. Among the measures implemented, the temporary suspension of some or all non-essential businesses hit the economy hardest. China, the first country which was affected by the pandemic, as well as being its place of origin, showed its ability to control the spread of the virus, albeit with extremely strict limitations of individual freedom, but with a shorter closing down period of economic activities than other nations. As a result, China was the only major economy with a positive GDP growth in 2020 (+2.1%), thanks as well to the high foreign demand for healthcare products and personal protective equipment. Estimates concerning world GDP pointed to a -4.4% contraction during the same period. The most notable negative impact for the economy was recorded in Europe, where the overall GDP is set to shrink by -7.5% in 2020. Economies which depend to a larger extent on tourism and services suffered the greatest impact. The contraction of the economy in 2020 is expected to reach -9.1% in France and Italy, and -5.4% in Germany. An even more severe downturn is contemplated in the United Kingdom, anticipated at -11%, which was also a result of the adverse effect related to Brexit. In the US, the negative turn of the economy is expected to be less severe, not exceeding -3.5%, and the same goes for Japan whose GDP is expected to contract by -5.3%. In this context, economic and monetary measures implemented by States and central banks were accommodating and geared towards supporting the economic structure. The central banks of the major countries increased or renewed the ordinary and extraordinary expansive policies which they had already enacted in previous years, confirming in several cases negative reference rates and increasing or renewing their national debt purchases. The State budgets all focused on expansive tax policies and increases in expenditures through major deficit (in Europe: -10.2% of GDP). These measures will certainly continue

to be enforced in 2021, depending on the many uncertainties regarding the vaccination capabilities of the various countries as well as the emergence of new and more aggressive variants of the virus which call for further limitations in economic activities in some countries. With this in mind, any forecast for 2021 entails a high degree of uncertainty. The world economy is expected to grow by +5.2% in 2021, driven by the positive evolution of the Chinese economy whose GDP growth reached +8.2%. The US market is also expected to show robust growth, with GDP estimated at +4.1%, while European economies will only see a return to pre-crisis GDPs in 2022. In 2021, the GDP growth for France and Italy is poised to reach +5.9% and +5.4%, respectively, while the estimate for Germany lies at +4%. Overall, the European economy is expected to record a GDP growth of +4.6%. In this scenario, the performance of the job market in Europe is a source of concern, particularly with regard to its role in stimulating internal demand. While unemployment in the United States is expected to stand at 6% in 2021, compared to 8.1% in 2020, in Europe, all major economies will experience a substantial increase in their jobless rates. In 2021, unemployment in France and Italy will reach 9.6% and 11.1% respectively with increases of 120 basis points, while an overall unemployment rate of 9% is expected throughout Europe, compared to 7.7% in the preceding year. In this context, no major increase in overall inflation is forecast worldwide in 2021, and inflation is not expected to exceed +2.7%, with much lower rates in European countries (+1.1%). Another important element for the economy in the coming year is the result of the American presidential election in which Donald Trump was defeated and the Democrat Joe Biden declared the new President. There were also some moments of tension caused by the violent occupation of the American Senate by supporters of the outgoing President. These tensions seem to have abated in the course of the following weeks. It is therefore anticipated that the United States of America will assume a more active and cooperative role internationally during 2021, as well as stepping up investments in sectors linked to the green economy.



## **The national overview**

The Swiss economy showed a very high degree of resilience. The management of the pandemic was more balanced compared to other countries which have imposed prolonged and more aggressive lockdowns. The national GDP fell sharply in the first quarter of 2020, after the first national lockdown, but recovered just as sharply in the following quarters. According to SECO, the GDP is expected to shrink by -3.8% in 2020, compared to the previous year. This is a very small percentage compared to the European area. This negative change is primarily due to the fall of internal consumption (-4.4% on an annual basis) and to investments in construction (-1.5%), and plant and machinery (-6%). Thanks to a higher reduction in imports (-9.9%) compared to exports (-6.6%), the commercial balance played a particularly important role by bringing about a substantial positive contribution to the GDP change (in excess of +300 percentage points). This underscores, among other things, the excellent position of Swiss companies in the global value production chain. With respect to the job market, the situation deteriorated in Switzerland as well. Employment fell by -0.4% compared to the previous year, while the SECO unemployment rate rose to 3.1%. Consumer prices were reduced again compared to the previous year, by 0.7%. In Switzerland, as in the rest of Europe, monetary policies continued to be expansive, with reference rates below 0, and relatively substantial interventions on the foreign exchange markets by the SNB to control the appreciation of the national currency. For 2021, SECO expects a GDP growth of +3.8%, driven in particular by a vigorous upturn in household consumption, anticipated at +5.3%, and by a more modest increase in investments in plant and machinery (+3%). Import and export volumes are also expected to rise to levels similar to those before the crisis. The employment market in Switzerland is also anticipated to perform better than that of the European area. Employment is expected to increase by +0.3%, while the SECO unemployment rate is not expected to exceed 3.4%.

## **The overview for Canton Ticino**

According to BAK Basel estimates, Canton Ticino's real GDP fell by -3.8%, worse than the change foreseen in their estimate for the national GDP. This worsened performance was confirmed by monthly data collected by the Panelcode platform. During the third quarter of 2020, the economic recovery was less intense with respect to other areas in Switzerland, whereas the second quarter fell in line with, or exceeded, the national average. This negative trend applied in particular to the commerce and industry sectors which faced a substantial slowdown in international demand. A more positive development was observed for the sectors of tourism and accommodation as compared to the national performance, thanks to a particularly profitable summer season. This was due to limitations imposed on international travel which fuelled the internal market. Also positive was the performance of the financial sector at both the cantonal and national levels. The job market, however, fared less well than the rest of Switzerland. According to latest available data, occupation in Ticino fell by -1.3%, a percentage inferior to the national average, in the third quarter of 2020, while the SECO unemployment rate stood at 3.6% in 2020, a 0.5 percentage point above the national average. The ILO unemployment rate remains for the time being at 4.9%, a percentage that is not particularly high compared to historical levels. An analysis of the overall number of companies and bankruptcies showed that, at this stage, the support policies implemented by the Confederation and the Canton have reached their goal. In 2020, the rate of bankruptcies was close to a historical low of 0.25% compared to 2019, down in most sectors. The number of active companies in Ticino evolved positively, chiefly thanks to the growth in businesses related to the service industry. For 2021, BAK Basel forecasts indicate a growth in real cantonal GDP equal to +3.4%, below that estimated at the national level.

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

## **Banca dello Stato del Cantone Ticino and the Economy of Switzerland and Ticino in 2020**

In 2020, Switzerland's economic growth suffered a major slump due to the coronavirus outbreak. The swift reaction on the part of federal, cantonal and communal authorities, coupled with the response of the banking sector, made it possible to partly absorb this severe disruption. Nevertheless, local businesses paid a very high price in spite of their proven adaptability and their spirit of sacrifice. In this environment, the Swiss National Bank (SNB) continued to maintain an expansive monetary policy which defined a market characterised by meagre commercial margins for credit institutions. Banks whose core business is geared towards local markets are facing obvious difficulties in applying negative rates to their clients, and predominantly to small individual accounts.

In Ticino, the real estate sector continued on its growth trend, driven by historically low interest rates as well as yields attracting substantial funds from institutional investors. There are specific signs of saturation, such as the rate of empty housing that is progressing more rapidly in Ticino than in the rest of Switzerland.

In 2020, BancaStato recorded a solid performance despite all difficulties brought about by the coronavirus outbreak.

## **Comment on the Evolution of Major Balance Sheet and Off-balance sheet Items<sup>21</sup>**

Although BancaStato provides the full range of services typically offered by full service banks, it continued to maintain its focus on mortgage lending in 2020, exceeding the threshold of CHF 10 billion for the first time. The CHF 470 million increase in mortgage volumes (+4.8%) recorded in 2020 reconfirms the gratifying results of preceding years.

As interest rates remain at a historic low, the loan portfolio continues to be almost entirely structured along the lines of fixed-rate mortgages. In this regard, it must be stated that BancaStato continues to maintain a cautious lending policy. As a result, the quality of its lending portfolio has further improved. An analysis

of the stratification of mortgage loans at year-end shows that 93.8% are first mortgages and 72.2% are for housing. Mortgage loans for amounts under CHF 0.5 million are just below 70%, which confirms that the Bank continues to be a valuable resource for those Ticinese people wishing to buy their own home.

As a result of the stimulus measures introduced by the Swiss Confederation in response to the pandemic-induced crisis, amounts due from customers saw a substantial increase (+CHF 147.4 million or 8.7%) and stood at CHF 1.85 billion. Loans to public corporations showed only minor growth (+CHF 1.2 million or 0.2%) in the reporting year, and stood at CHF 671.5 million on 31 December 2020 despite the fact that the present negative rate situation has motivated some institutional investors (primarily pension funds) to enter this market at extremely competitive conditions. In Ticino, BancaStato continues to maintain a dominant position in this market segment. Private and corporate loans increased from CHF 1.03 billion at the end of 2019 to CHF 1.18 billion at 31 December 2020 (+CHF 146.2 million or 14.2%). The disbursement of COVID-19 and COVID-19 Plus loans for a total amount of CHF 210.4 million (CHF 133.5 million or 63% of which was utilised as at 31 December 2020), and an increase in loans to individuals and businesses for CHF 12.7 are tangible signs of BancaStato's contribution to the economy of the Canton in a particularly difficult year.

As regards funding, payables resulting from client deposits showed a renewed and substantial progression in 2020, up by CHF 786 million (+8.8%), bringing this balance sheet item from CHF 8.9 billion at the end of 2019 to just under CHF 9.7 billion at 31 December 2020. This is yet more proof of the solid trust the people of Ticino have in their Cantonal Bank and the role of "safe heaven" attributed to BancaStato by clients across the board. In this regard, clients' savings products (which totalled CHF 4.7 billion, up by CHF 268 million over 2019) were almost on par with transaction and investment accounts (which stood at approximately CHF 5 billion as at 31 December 2020, showing a substantial CHF 518 million increase over the year).

<sup>21</sup> The data refer to BancaStato's Individual financial statements. A distinction is made between Individual and Group statements only in the case of significant variances.

In order to fulfil its requirements for medium- to long-term funding, as well as to ensure sound management of exposure to interest rate risk, the Bank operated on the capital market<sup>22</sup> to finance its growing lending operations, and increased, by CHF 50 million, the mortgage bond issued in 2019 which is set to mature in July 2029. Moreover, as it had done in previous years, the Bank turned to issues of the Cantonal Banks' mortgage refinancing institute in order to replace maturing loans. This source provided additional medium- to long-term capital at particularly low cost. Total funding from the capital market stood just below CHF 3 billion at the end of 2020, a 2.4% decline with respect to the previous year.

As a result of the above-mentioned figures, the Bank's balance sheet total grew by CHF 1,445 million or 10.1%, from just under CHF 14.4 billion at the end of 2019 to over CHF 15.8 billion at 31 December 2020. Over the 2010-2020 decade, total assets saw an 86% progression.

With respect to off-balance sheet operations, contingent liabilities were up by CHF 31.3 million and stood at CHF 156.9 million. In this context, it should be noted that guarantees provided by the Bank increased to CHF 133.9 million from CHF 105.4 million year-on-year. In addition, commitments arising from documentary letters of credit partly connected to Commodity & Trade Finance, recorded a slight increase, up from CHF 20.2 million to CHF 23 million. Irrevocable commitments saw a substantial CHF 150.3 million growth, mainly attributable to unused portions of approved credit limits of which approximately CHF 76.9 million for COVID-19 and COVID-19 Plus loans which were, respectively, fully guaranteed and 85% secured by the Swiss Federal Government.

### **Evolution of Assets under Management**

Assets under management at the BancaStato Group exhibited yet another major progression during 2020 (+6.9%), up from CHF 17.2 billion at the end of 2019 to CHF 18.4 billion as at 31 December 2020.

The volume of assets under management at BancaStato increased by CHF 898 million (+7.2%), levelling off at CHF 13.3 billion. In 2020, the inflow in net new money, CHF 944 million, was once again particularly gratifying. Asset values, however, showed a negative performance of CHF 46 million as a result of stock and forex market trends. By the end of 2020, assets under custody totalled CHF 425 million, remaining approximately at the same level as at the end of 2019.

A similar trend, albeit less marked, was observed at Axion SWISS Bank SA, where assets under management progressed from CHF 4.8 billion at the end of 2019 to CHF 5.1 billion as at 31 December 2020 (+6.1%). This gratifying influx of net new money (CHF 341 million) is set against a negative performance of close to CHF 51 million due to financial market effects on client assets. This resulted in an aggregate increase in assets under management slightly above CHF 290 million in 2020.

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

Despite the difficult and unforeseeable situation brought about by the coronavirus, BancaStato was able to record substantial results in 2020, thus reconfirming its position as a valuable source of income for the Canton's treasury. The CHF 86 million operating result for 2020 showed a slight CHF 0.6 million (+0.7%) progression over the excellent performance recorded in the previous year. For 2020, the Board of Directors reconfirmed the allocation of CHF 31 million to reserves for general banking risks (an amount equivalent to that of 2019, but in steady progression over the CHF 22 million in 2015). In this regard, the objective is to consolidate the Bank's capital base and its solid financial foundation. Despite this substantial allocation and a financial contribution of CHF 4.1 million to the cantonal "Vivi il tuo Ticino" campaign, net income declined by only CHF 1.5 million (-2.9%), down from CHF 52 million in 2019 to CHF 50.5 million in 2020.

<sup>22</sup> The 0.05% CHF 100 million bond issue of Banca dello Stato del Cantone Ticino 2019-2029 was floated in July 2019 with the support of Credit Suisse, the Basel Cantonal Bank and the Zurich Cantonal Bank, while the CHF 50 million increase was effected in February 2020 through the manager bank Credit Suisse.

Thanks to its operational model and its market position, as well as to the considerable organisational efforts expended to guarantee the continuity of the Bank's operations while abiding by cantonal and federal measures aimed at countering the pandemic, BancaStato has succeeded in guaranteeing a payment to the Canton comparable to that of the preceding year: CHF 41.67 million in 2020 against CHF 41.85 million in 2019 (-0.4%).

In spite of the indirect effects of the pandemic crisis on the valuations of securities held by the Bank in its own portfolio, net revenues for 2020 stood at CHF 201.9 million, an amount which in aggregate is equivalent to that of 2019 (-0.1%)

The gross result from interest activities – traditionally the principal revenue item for BancaStato – resumed its upward trend (+CHF 5.6 million or 3.9%) and stood at CHF 151.3 million in 2020, thus inverting the slow performance recorded in 2019. This was supported on the one hand by an increase in balance sheet mortgage volumes in recent years as well as related commercial margins and, on the other, by opportunities being offered in the current market environment for lower-cost financing. Ongoing negative market rates have reduced margins on client deposits to a minimum. In this context, BancaStato has nevertheless been able to achieve gratifying results by maintaining its cautious policy with respect to the management of its balance sheet structure as well as by turning to its own issues and those of the Cantonal Banks' mortgage refinancing institute in order to adequately refinance existing outstanding loans. In 2020, the net result from interest operations increased by CHF 2.3 million (+1.6%) and stood at CHF 148.3 million, net of CHF 3 million value adjustments for risk of losses from credit operations.

The results from commission business and services confirmed the positive trend shown in the previous year, growing by CHF 1.9 million (+6.4) from CHF 29.5 million in 2019 to CHF 31.4 million in 2020. This increase was attributable to the totality of services provided by the Bank to its clients including asset management and operational services (+CHF 1.2 million or 5.1%), credit operations (+CHF 0.5 million or 12.9%) and other services (+CHF 0.4 million or 4.2%). Commissions paid by the Bank to third parties (commission expenses) have increased, albeit less markedly (+CHF 0.1 million or 2.1%).

The result from trading business and fair value option was adversely affected by the impact of the first wave of the pandemic on financial markets, recording a loss of approximately CHF 1.5 million in securities trading in 2020 compared to gains of about CHF 0.9 million in 2019. This was offset by more positive results achieved in precious metals trading (CHF 2 million in 2020, regressing from CHF 2.5

million in 2019) and in forex trading (CHF 12.7 million, up from CHF 11.4 million in 2019), the latter being principally owed to client operations (CHF 10.8 million in 2020). As an aggregate, results from trading operations and fair value option regressed from CHF 14.8 million in 2019 to CHF 13.1 million in 2020 (-11%).

Other results from ordinary activities declined by CHF 2.8 million (-23.6%), from CHF 11.9 million in 2019 to CHF 9.1 million in 2020. This contraction is principally due to losses on securities held by the Bank in its own investment portfolio. Realised losses are booked under Result from the disposal of financial investments and account for the CHF 1.3 million decline compared to 2019, while non-realised losses, a sub-item of Other result from ordinary activity, accounted for a decrease of approximately CHF 1 million compared to the previous year's result. Other items under this heading showed minor negative changes which were also partly attributable to the effects of the pandemic such as the partial exemption from rent payment during the lockdown granted to businesses operating in Bank real estate.

In 2020, following a substantial contraction of CHF 109.6 million, down to CHF 105.6 million in 2019 (-3.7% compared to 2018), operating expenses grew by CHF 1.4 million (+1.4%) and stood at CHF 107.1 million. Personnel expenses remained almost unchanged at CHF 69.4 million (-0.2%) in spite of the 2020 increase in social benefits (+CHF 0.8 million in family allowances and pensions for widows/widowers), which were offset by a decline in payroll expenditure. General and administrative expenses increased by CHF 1.6 million totalling CHF 37.7 million, including significant changes in legal, implementation and consultancy expenses (+CHF 0.6 million), office space expenses (+CHF 0.4 million), and expenses for information and communication technology (+CHF 0.8 million). The latter includes expenses needed to ensure the safety of banking operations during the pandemic (implementing safety measures in bank premises and spaces reserved for clients, distribution of safety health supplies, etc.) as well as the enhancement of remote working IT infrastructure.

Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets decreased from CHF 9.6 million in 2019 to CHF 8.5 million in 2020, with an 11.2% decline in amortisation expenses (CHF 1.1 million) largely owed to the completion of the two-year depreciation of informatics developments in 2019.

In 2020, the item Changes to provisions and other value adjustments, and losses<sup>23</sup> saw a substantial contraction (-76,8%) compared to the previous year, during which an extraordinary requirement of CHF 1.4 million was recorded to

<sup>23</sup> Since 2015, in accordance with FINMA Circular 2015/01 Accounting – banks, this item has shown only operating losses relative to operational events. It no longer records provisions and losses from lending activities.



regularise liabilities towards the Italian Tax Agency, and stood at CHF 0.4 million.

In spite of the challenging environment in which the Bank has had to operate as a result of the coronavirus outbreak, operating results in 2020 were just shy of CHF 86 million, exceeding by CHF 0.6 million the previous year's record performance (+0.7%).

The items Extraordinary income (CHF 2.2 million) and Extraordinary expenses (CHF 6.2 million) include, primarily, BancaStato's substantial contribution (CHF 4.1 million) to the "Vivi il tuo Ticino" project which was promoted under the impetus of the Department of Finance and Economy of Ticino in cooperation with Ticino Tourism in order to aid the local tourism and accommodation sectors which were among those most severely affected by the health emergency. In 2019, the item Extraordinary expenses included a CHF 2 million contribution that the Board of Directors had decided to allocate to BancaStato's Fondazione del Centenario which supports Ticinese start-ups through TiVenture SA.

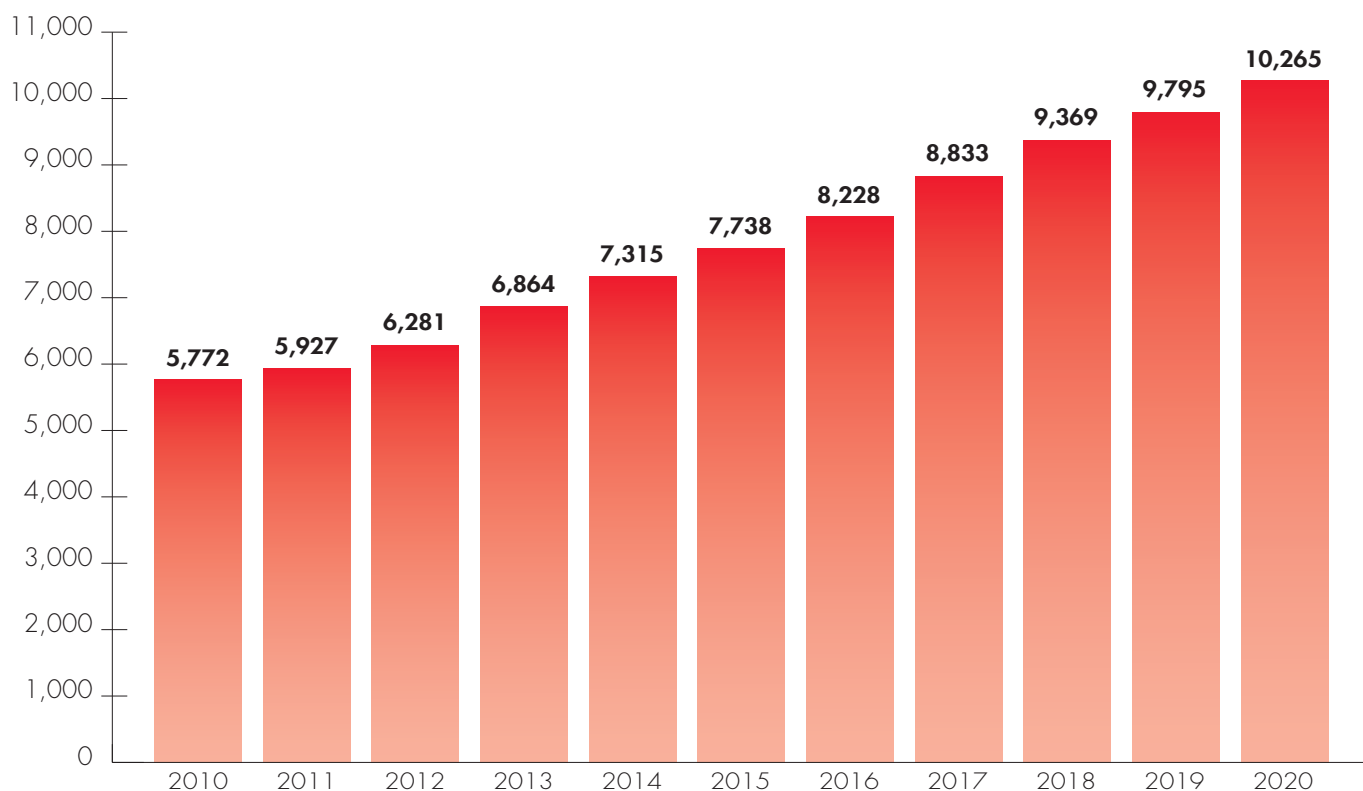
In 2020, and in consideration of the excellent results achieved by the Bank, the Board of Directors decided to allocate CHF 31 million (the same amount as in the preceding year) to the Reserves for general banking risks in order to further bolster the Bank's capital and financial base.

Net income declined from CHF 52 million in 2019 to CHF 50.5 million in 2020, but nevertheless made it possible to guarantee the payment to the Bank's owner of CHF 41.67 million, 0.4% below the CHF 41.85 million paid in 2019.

For the public body, this payment is a valuable source of income which has increased substantially over the past decade (+54.3% compared to the CHF 27 million paid in 2011). In the same ten-year period, BancaStato paid out over CHF 341.45 million to the Canton. Considering that the endowment capital was progressively increased from CHF 300 million at the end of 2017 to CHF 500 million at the end of 2020, it can be said that, over the past decade, the Institute provided a substantial income with respect to the Canton's initial investment.

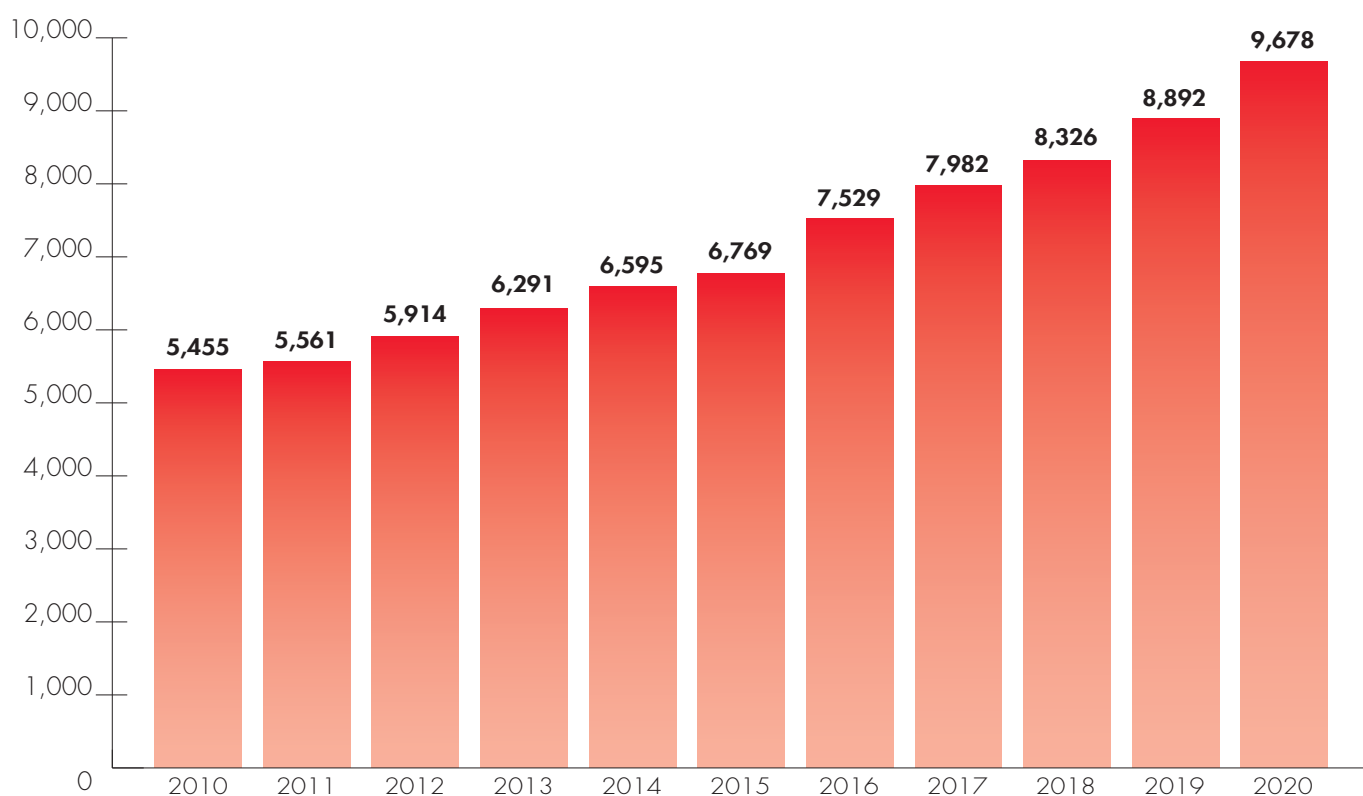
## EVOLUTION OF MORTGAGE LENDING

(CHF millions)



## EVOLUTION OF TOTAL AMOUNTS DUE TO CUSTOMERS

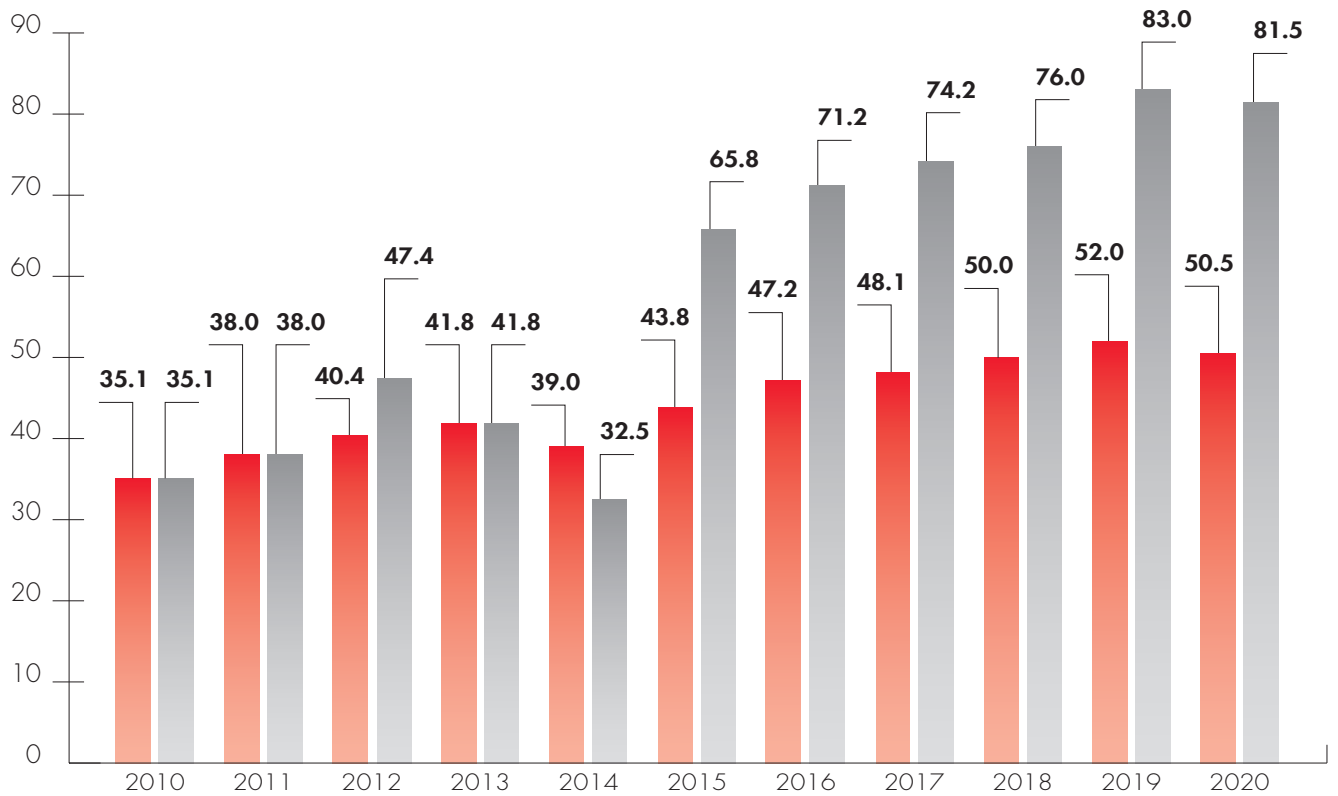
(CHF millions)



## EVOLUTION OF NET INCOME

(CHF millions)

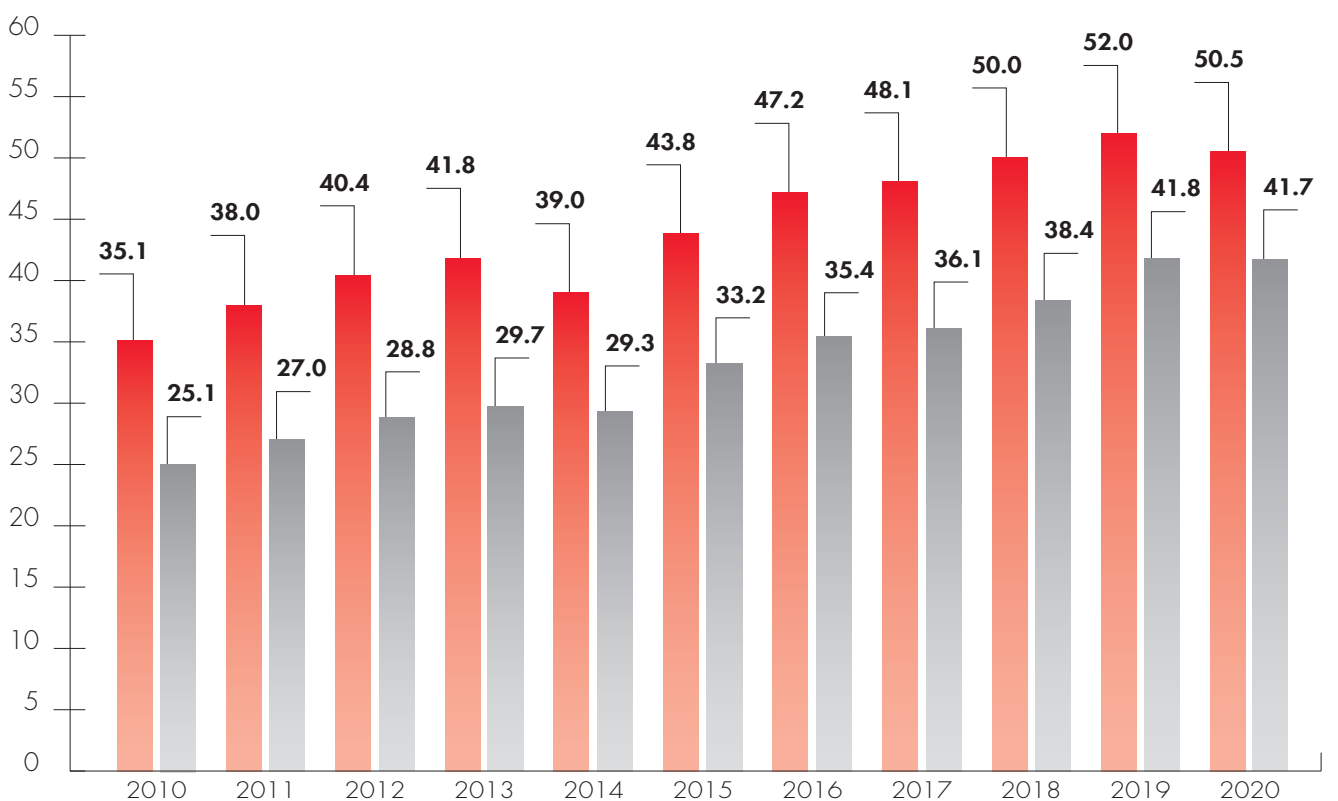
Net income Net income before the allocation to reserves for general banking risks



## EVOLUTION OF THE PAYMENT TO THE CANTON

(CHF millions)

Net income Payment to the Canton



The results of Axion SWISS Bank SA<sup>24</sup>, saw a contraction in net income (-CHF 3.8 million or -10.6%, down from CHF 36.1 million in 2019 to CHF 32.3 million in 2020) as well as operating expenses (-CHF 1 million or -4%, down from CHF 25.3 million in 2019 to CHF 24.3 million in 2020).

Among the 2020 revenue items, Axion's net result from interest operations was affected by the adverse operational environment in which the expansive policies of the SNB and other central banks led to negative interest rates on the Swiss franc and other major currencies, including assets deposited with the same central banks. This market contingency, coupled with substantial amounts deposited, and inflow of new money on current accounts owned by core clients on which it is difficult for the Bank to apply negative interest rates, account for the sizeable decline in 2020 results from interest operations (-CHF 7.8 million or -59.8%) down from CHF 13 million in 2019 to CHF 5.2 million in 2020.

Results from commission business and services, the principal source of revenue for a private-banking-oriented bank, experienced a more than gratifying evolution growing by over 15% (+CHF 2.9 million) to CHF 22.2 million. In this context, commissions on client securities transactions (CHF 12.4 million, +27.9% in 2020) and income from asset management (CHF 8.7 million, +14.2% in 2020) are the major revenue items.

Results from trading operations and the fair value option also saw a sizeable increase, up from CHF 3.7 million in 2019 to CHF 4.8 million in 2020 (+29.2%), principally in client currency and precious metals trading.

As for operating expenses, personnel expenses were reduced by CHF 0.37 million (-2.1%) down to CHF 17.3 million. General and administrative expenses decreased by CHF 0.66 million (-8.6%) and stood at CHF 7 million.

The item Changes in value adjustments on participations and depreciation, and amortisation of tangible fixed assets and intangible assets (CHF 4 million in 2020, down by CHF 0.3 million compared to 2019), mainly comprises the depreciation of goodwill following the acquisition of a portion of client assets of the Société Générale Private Banking SA (Lugano) in 2016. In 2020, the item Changes in provisions, other value adjustments, and losses saw a partial release of provisions (CHF 0.12 million) as a result of the prudent evaluation of legal

risk effected in previous years.

Compared to the excellent performance recorded in 2019, operating results contracted by CHF 1.2 million (-23.3%) and net income by CHF 1 million (-24.6%), and stood at CHF 4.1 million and CHF 3.2 million respectively. This permitted the distribution of CHF 2.95 million to the Parent Bank, CHF 0.9 million below the amount distributed in 2019.

From a consolidated perspective, the Group's profit regressed from CHF 52.9 million in 2019 to CHF 50.5 million in 2020, down 4.6%.

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

BancaStato's profitability in terms of Return on Equity (ROE)<sup>25</sup> stood at 6.5%, slightly below its previous year level of 7.1% as a result of the Bank's increased capitalisation. In this regard, it should be mentioned that in 2010 this profitability indicator stood at 5.5%, with own equity representing less than half its 2020 amount. The Return on Risk Adjusted Capital (RORAC) also decreased from 14.8% in 2019 to 13.8% in 2020.

As regards efficiency indicators (Cost / Income I and II), defined as the ratio of operating expenses (respectively excluding and including depreciation and provisions for other operational risks) to net income, the Bank further consolidated the progressive positive trend it has demonstrated since 2010. Cost / Income I (which does not consider depreciation and provisions for other business risks incurred during the year) evolved from 52.2% in 2019 to 53% in 2020 against a 67.3% indicator in 2010, while Cost / Income II (which considers all costs, depreciation and provisions during the year) further improved from 57.8% in 2019 to 57.4% in 2020 (2010: 76.4%). The strategic measures implemented by the Bank over the past decade has bolstered its profitability. The Institute's operating result grew by more than 130% over the past 10 years from CHF 37.2 million in 2011 to CHF 86 million in 2020.

As at 31 December 2020, the Institute employed 411 staff (372.7 FTEs with trainees calculated at 50%) compared to 408 at the end of 2019 (370.75 FTEs).

Over the past 10-year period, the Bank's capital adequacy, determined by the ratio of required capital to available funds<sup>26</sup>, showed changes resulting from stricter requirements on the part

<sup>24</sup> For further information on the results of Axion SWISS Bank SA, refer to its Annual Report.

<sup>25</sup> The reference used to calculate ROE is net revenues before allocation to the reserve for general banking risks, while the reference capital comprises average core capital of the reporting year (net of any increase in endowment capital at year-end and of the year's allocation to reserves for general banking risks).

<sup>26</sup> Calculated on the basis of Basel III rules set by the Bank for International Settlements.



of the supervisory authority set against repeated increases in endowment capital granted by the Canton, and allocations to reserves decided by the Institute in light of the increasingly excellent financial results achieved. From a capital requirement covering ratio of 155.7%, with CHF 365.6 million required capital against CHF 569.3 million eligible capital (12.5% ratio of total regulatory capital) at the end of 2010, the Bank's present capital adequacy is 200.2% with required capital standing at CHF 611.7 million, and available funds at CHF 1,224.9 million (16% ratio of total regulatory capital).

The reader should be reminded that for BancaStato (which for its size and risk profile is included in Category IV of medium-sized banks) the minimum regulatory requirement is 140%, equivalent to a 11.2% total required capital ratio plus a countercyclical buffer requirement.

In this timeframe, the banking supervisory authority, FINMA, introduced and raised a number of requirements particularly with regard to the countercyclical buffer which was introduced by the Federal Council in 2013 as a means of restraining an overheated real estate market. This buffer was increased the following year and was lifted at the end of March 2020 as part of a series of financial relief measures undertaken to counter the crisis brought about by the coronavirus outbreak. The table hereunder shows the evolution of principal adequacy indicators (on both consolidated and individual basis) as at the end of 2020 compared to the previous year, without the countercyclical buffer (which for the moment is not required):

BIS adequacy indicators	Individual Basis		Group Basis	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Core Tier 1 (CET1) <sup>27</sup>	16.0%	16.3%	16.7%	17.0%
Tier 1 (T1) <sup>28</sup>	16.0%	16.3%	16.7%	17.0%
Total regulatory capital <sup>29</sup>	16.0%	16.8%	16.7%	17.5%

## Outlook for 2021

The Bank does not anticipate any radical change in the SNB's monetary policy, and the present interest rate conditions are not expected to experience any major change in 2021.

Persisting negative rates on the market will increasingly affect margins on client deposits and, as a consequence, the result from interest operations.

The real estate market has so far proven resilient to the health crisis. In consideration of the probable stability in present interest rates, no specific adverse effects are expected in 2021.

With regard to the commercial lending business, much will depend on the evolution of the present health emergency and on its impact on the economy. Within this current environment, any forecast is particularly difficult. Nevertheless, it can be expected that specific, already defined, sectors will be weakened by the ongoing and lengthy period of restrictions. Overall, barring a resurgence of the epidemic, the Board of Directors expects results to be in line with those of 2020.

<sup>27</sup> Common Equity Core Tier 1 – CET1.

<sup>28</sup> Additional Tier 1 – T1.

<sup>29</sup> Capital adequacy indicator.



# Group Financial Statements

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# 1. Consolidated Balance Sheet

(CHF thousands)	Annex	31.12.2020	31.12.2019	Change
<b>Assets</b>				
Liquid assets		3,054,436	2,306,556	747,880
Amounts due from banks		354,439	215,990	138,449
Amounts due from customers	5.10.2	2,170,596	1,983,876	186,720
Mortgage loans	5.10.2	10,264,672	9,795,074	469,598
Trading portfolio assets	5.10.3	22,080	24,095	-2,015
Positive replacement values of derivative financial instruments	5.10.4	19,174	8,568	10,606
Financial investments	5.10.5	386,351	389,946	-3,595
Accrued income and prepaid expenses		11,511	10,730	781
Non-consolidated participations	5.10.6 and 5.10.7	6,546	6,308	238
Tangible fixed assets	5.10.8	78,502	77,235	1,267
Intangible assets	5.10.9	455	3,489	-3,034
Other assets	5.10.10	117,171	39,325	77,846
<b>Total assets</b>		<b>16,485,933</b>	<b>14,861,192</b>	<b>1,624,741</b>
Total subordinated claims		9,161	10,208	-1,047
<i>of which subject to mandatory conversion and/or debt waiver</i>		8,652	10,208	-1,556
<b>Liabilities</b>				
Amounts due to banks		813,117	286,607	526,510
Liabilities from securities financing transactions	5.10.1	250,000	230,000	20,000
Amounts due in respect of customer deposits		11,028,957	9,892,244	1,136,713
Negative replacement values of derivative financial instruments	5.10.4	29,861	41,987	-12,126
Cash bonds		-	450	-450
Bond issues and Central Mortgage Bond Institution loans	5.10.11 and 5.10.13	2,963,000	3,035,000	-72,000
Accrued expenses and deferred income		41,570	43,360	-1,790
Other liabilities	5.10.10	8,859	37,393	-28,534
Provisions	5.10.14	8,603	11,790	-3,187
Reserves for general banking risks	4 and 5.10.14	526,000	495,000	31,000
Endowment capital	4	500,000	480,000	20,000
Statutory retained earnings reserve	4	265,512	254,483	11,029
Group profit	4	50,454	52,878	-2,424
<b>Total liabilities</b>		<b>16,485,933</b>	<b>14,861,192</b>	<b>1,624,741</b>
Total subordinated liabilities		175,273	175,273	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		-	-	-
<b>Off-balance sheet transactions</b>				
Contingent liabilities	5.10.2 and 5.11.21	165,309	135,237	30,072
Irrevocable commitments	5.10.2	422,234	266,128	156,106
Obligations to pay up and make further contributions	5.10.2	14,180	14,180	-

## 2. Consolidated Income Statement

(CHF thousands)	Annex	2020	2019	Change
<b>Income and expenses arising from ordinary banking operations</b>				
<b>Result from interest operations</b>				
Interest and discount income		181,799	191,155	-9,356
Interest and dividend income from financial investments		2,638	3,072	-434
Interest expense		-27,917	-35,515	7,598
<b>Gross result from interest operations</b>		<b>156,520</b>	<b>158,712</b>	<b>-2,192</b>
Changes in value adjustments for default risks and losses from interest operations		-3,007	324	-3,331
<b>Net result from interest operations</b>		<b>153,513</b>	<b>159,036</b>	<b>-5,523</b>
<b>Result from commission business and services</b>				
Commission income from securities trading and investment activities		51,919	47,252	4,667
Commission income from lending activities		4,172	3,748	424
Commission income from other services		10,738	10,507	231
Commission expenses		-12,425	-11,818	-607
<b>Result from trading activities and fair value option</b>	5.12.23	<b>17,910</b>	<b>18,456</b>	<b>-546</b>
<b>Other results from ordinary activities</b>				
Result from the disposal of financial investments		891	2,121	-1,230
Income from participations		508	930	-422
<i>of which from participations valued using the equity method</i>		-	-	-
<i>of which from non-consolidated participations</i>		508	930	-422
Result from real estate		-167	113	-280
Other ordinary income		1,657	2,837	-1,180
Other ordinary expenses		-76	-217	141
<b>Net revenues</b>		<b>228,640</b>	<b>232,965</b>	<b>-4,325</b>
<b>Operating expenses</b>				
Personnel expenses	5.12.25	-86,719	-87,212	493
General and administrative expenses	5.12.26	-42,972	-42,020	-952
<b>Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets</b>	5.10.6, 5.10.8 and 5.10.9	<b>-11,923</b>	<b>-13,689</b>	<b>1,766</b>
<b>Changes to provisions and other value adjustments, and losses</b>		<b>-248</b>	<b>-2,751</b>	<b>2,503</b>
<b>Operating result</b>		<b>86,778</b>	<b>87,293</b>	<b>-515</b>
<b>Extraordinary income</b>	5.12.27.02	<b>2,211</b>	<b>92</b>	<b>2,119</b>
<b>Extraordinary expenses</b>	5.12.27.02	<b>-6,200</b>	<b>-2,000</b>	<b>-4,200</b>
<b>Changes in reserves for general banking risks</b>	5.12.27.04	<b>-31,000</b>	<b>-31,000</b>	<b>-</b>
<b>Taxes</b>	5.12.28	<b>-1,335</b>	<b>-1,507</b>	<b>172</b>
<b>Group profit</b>		<b>50,454</b>	<b>52,878</b>	<b>-2,424</b>

### 3. Cash Flow Statement

(CHF thousands)	2020		2019	
	Cash inflow	Cash outflow	Cash inflow	Cash outflow
<b>Cash flow from operating activities (internal financing)</b>	<b>16,012</b>	<b>-</b>	<b>83,132</b>	<b>-</b>
Group result	50,454	-	52,878	-
Change in reserves for general banking risks	31,000	-	31,000	-
Valuation adjustments on participations and depreciation of fixed assets and intangible assets	11,923	-	13,689	-
Provisions	-	3,187	1,113	-
Accrued income and prepaid expenses	-	781	2,264	-
Accrued expenses and deferred income	-	1,790	2,087	-
Other assets and liabilities	-	29,758	18,464	-
Interest on the endowment capital of the previous year	-	21,500	-	15,000
Additional payment to the Canton for the previous year	-	20,349	-	23,363
<b>Cash flow from endowment capital transactions</b>	<b>20,000</b>	<b>-</b>	<b>50,000</b>	<b>-</b>
Endowment capital	20,000	-	50,000	-
<b>Cash flow from transactions in respect of changes in participations, fixed assets and intangible assets</b>	<b>-</b>	<b>10,394</b>	<b>-</b>	<b>9,277</b>
Non-consolidated participations	-	250	5	84
Real estate	-	1,744	-	1,219
Other tangible fixed assets	55	8,455	-	7,979
<b>Cash flow from banking operations</b>	<b>722,262</b>	<b>-</b>	<b>159,797</b>	<b>-</b>
<b>Medium and long-term business (&gt; 1 year)</b>	<b>-</b>	<b>552,238</b>	<b>-</b>	<b>211,062</b>
Amounts due to banks	-	29,641	969	-
Amounts due in respect of customer deposits	-	34,869	-	7,688
Cash bonds	-	450	-	286
Bond issues and Central Mortgage Bond Institution loans	61,000	183,000	63,000	84,000
Bond issues	50,000	-	250,000	-
Amounts due from banks	969	-	-	969
Amounts due from customers	49,756	-	27,790	-
Mortgage loans	-	469,598	-	425,969
Financial investments	3,595	-	-	33,909
<b>Short-term business</b>	<b>1,274,500</b>	<b>-</b>	<b>370,859</b>	<b>-</b>
Amounts due to banks	556,151	-	-	354,009
Liabilities from securities financing transactions	20,000	-	58,710	-
Negative replacement values of derivative financial instruments	-	12,126	4,653	-
Amounts due in respect of customer deposits	1,171,582	-	482,791	-
Trading portfolio assets	2,015	-	3,525	-
Positive replacement values of derivative financial instruments	-	10,606	1,324	-
Amounts due from banks	-	139,418	62,963	-
Amounts due from customers	-	236,476	-	49,370
Other assets and liabilities <sup>1</sup>	-	76,622	160,272	-
<b>Liquidity</b>	<b>-</b>	<b>747,880</b>	<b>-</b>	<b>283,652</b>
Change in liquid assets	-	747,880	-	283,652
<b>Total</b>	<b>758,274</b>	<b>758,274</b>	<b>292,929</b>	<b>292,929</b>

<sup>1</sup> The figure for 2019 has been reclassified to ensure comparability with the 2020 financial statement presentation.

## 4. Statement of Changes in Equity

(CHF thousands)	Paid out endowment capital	Statutory retained earnings reserve	Reserves for general banking risks	Result of the period	<b>Total</b>
<b>Equity at 1.1.2020</b>	480,000	254,483	495,000	52,878	1,282,361
<b>Appropriation of retained earnings 2019</b>					
<i>Assignment to statutory retained earnings reserve</i>	-	+11,029	-	-11,029	-
<i>5% interest on the endowment capital</i>	-	-	-	-21,500	-21,500
<i>Additional payment to the Canton</i>	-	-	-	-20,349	-20,349
Endowment capital increase	+20,000	-	-	-	20,000
Changes in the reserves for general banking risks	-	-	+31,000	-	31,000
Group profit	-	-	-	+50,454	50,454
<b>Total equity at 31.12.2020</b>	<b>500,000</b>	<b>265,512</b>	<b>526,000</b>	<b>50,454</b>	<b>1,341,966</b>

## 5. Annex

### 5.1 ACTIVITIES OF THE GROUP AND STAFF

#### 5.1.1 Group Activities

Banca dello Stato del Cantone Ticino (BancaStato), based in Bellinzona, is an autonomous banking institution under public law whose primary aim is to favour the development of the economy in Ticino.

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

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

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

##### 5.1.1.1 Balance sheet transactions

Interest-earning transactions are largely executed with customers and they represent the Group's primary source of revenue.

Loans to customers are generally secured by mortgages, and most lending is used to finance housing properties. Lombard loans are secured against deposited assets while commercial loans are granted against collateral or are unsecured.

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

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

##### 5.1.1.2 Trading activities

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

Currency trading operations on foreign currencies on the Bank's own account are limited to a small number of currencies for

which a liquid market exists.

##### 5.1.1.3 Commission business and services

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

#### 5.1.2 Group personnel

As at 31 December 2020, the Group had a total of 477 employees on payroll, i.e. 438.2 full-time equivalents (FTEs) with apprentices calculated at 50%, compared to 476 employees at the end of 2019 (438.1 FTEs).

#### 5.1.3 Outsourcing

The Group outsources a number of its business services as defined by the FINMA Circular 2018/3 "Outsourcing – Banks and insurers". This includes payment transaction services, securities administration, the printing and sending out of banking documents and the management of IT systems (central informatics and workstations) which are performed by the service provider Avaloq Sourcing (Switzerland & Liechtenstein) SA, Bioggio.

The expenses related to payment transactions, securities administration and back office stock exchange/currency/treasury, are posted under the item "Commission expenses". In 2020, this item totalled CHF 3,298,000 (CHF 3,166,000 in 2019). Moreover, the Bank makes use of the "Sherpany" application which is administered by a third party. It manages the documentation related to specific committees which may comprise sensitive information.

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

Within the Group, Axion outsources a number of services to BancaStato.

### 5.2 ACCOUNTING AND VALUATION PRINCIPLES

#### 5.2.1 General principles

The accounting principles referred to by the Group and its various entities comply with the provisions of the Swiss Code of Obligations (CO), the Swiss Federal Law on Banks and Savings Banks (Banking Act), the Ordinance on Banks and Savings Banks (Banking Ordinance) and the guidelines issued



by the Swiss Financial Market Supervisory Authority (FINMA), in particular the FINMA Accounting Ordinance and the FINMA Circular 2020/1 "Accounting - Banks".

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

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

### 5.2.2 General valuation principles

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

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

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

Receivables and payables are offset only in the following cases:

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

Expenses and revenues are offset only in the following cases:

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

### 5.2.3 Financial instruments

#### 5.2.3.1 Liquid assets

Liquid assets are recognised at their nominal value.

#### 5.2.3.2 Amounts due to and from securities financing transactions

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

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

These are entered at their nominal value.

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

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

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

#### 5.2.3.4 Trading activities

Trading activities are securities and precious metals managed actively in order to take advantage of market price fluctuations or held in view of an arbitrage gain. Trading activities are valued and booked in the balance sheet at fair value. Fair value is the price set by an efficient and liquid market. When such price is unavailable, it is fixed based on the lowest value. Gains and losses, as well as adjustments to the above-mentioned values and income from interest and dividends,

are booked under "Result from trading activities and fair value option".

### **5.2.3.5 Positive and negative replacement values of derivative financial instruments**

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

#### **Trading operations**

Derivative financial instruments include futures and forward contracts concluded on behalf of clients and on own account. These instruments are marked to market. Realised result from trading operations and non-realised result from valuation of trading operations are booked under the item "Result from trading operations and fair value option". As a rule, replacement values on client account are recognised in the balance sheet if the contract entails a risk of loss for the Group up to its maturity.

#### **Hedging operations**

For the management of its balance sheet, the Group makes use of derivative financial instruments in order to hedge interest rate risk and currency risk. Hedging operations have the same valuation as the hedged operation. The result from hedging transactions is booked under the same item of the income statement as the result from the underlying transaction. To the extent that any value adjustment for the underlying was booked, the result of the valuation of hedging instruments is recognised in the compensation account. The net balance of the compensation account is shown under "Other assets" or "Other liabilities". For further information, refer to Section 5.7 "Business Policy Regarding the Use of Derivative Financial Instruments and Hedge Accounting".

#### **Netting**

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

### **5.2.3.6 Financial investments**

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

Debt securities and structured products acquired in view of subsequent sale before maturity (securities which are not in

the trading portfolio) are valued at the lower of their cost or market value. The balance of price changes is included in "Other ordinary expenses" (if the market value is lower than the purchase value) or in "Other ordinary income" (for revaluations up to the acquisition cost). Gains and losses are booked in the income statement under "Result from the disposal of financial investments".

Equity securities, shares in investment funds and precious metals are valued at the lower of their cost or market value.

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

### **5.2.3.7 Non-consolidated participations**

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

Non-consolidated participations are recorded at acquisition value less economically necessary depreciation, unless the preconditions for a valuation based on the equity method are given. Each individual participation is valued separately. On a yearly basis, the Group determines whether participations have been depreciated, in which case impairment is booked under "Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets".

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

The participation share in the capital of the Central Mortgage Bond Issuing Body of the Swiss Cantonal Banks has been partially paid-up. The commitment to pay up the outstanding amount is posted in off-balance sheet under the item "Obligations to pay up and make further contributions". To ensure prompt availability of liquidity in the event of a crisis, the shareholding banks have agreed on a limit for the amount contributed. This amount is not shown in off-balance sheet under "Irrevocable commitments" in order to avoid duplication.

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

These commitments are recognised in the balance sheet at nominal value.

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

### 5.2.3.9 Bond issues and central mortgage institution loans

These commitments are recognised in the balance sheet at nominal value.

### 5.2.4 Tangible fixed assets

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

Tangible fixed assets are valued at purchase price less economically necessary depreciation.

Depreciation rates are calculated on a straight-line basis from the time the items are first utilised.

Depreciation rates are calculated on the following durations:

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

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

### 5.2.5 Intangible fixed assets

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

### 5.2.6 Provisions

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

### 5.2.7 Reserves for general banking risks

In compliance with the FINMA Accounting Ordinance and the FINMA Circular 2020/1 Accounting – Banks, the reserves for general banking risks are prudently created reserves set aside to cover latent risks related to banking activities. As laid down in Art.21c of the Swiss Federal Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Traders (CAO), such reserves are considered as equity. Only the reserves for general banking risks of the parent company BancaStato are not subject to taxation. Any addition or release is booked in the income statement under "Changes in reserves for general banking risks".

### 5.2.8 Off-balance sheet

Off-balance sheet operations are reported at their nominal value. Individual provisions are made under "Provisions" for any risk of loss.

### 5.2.9 Foreign currency translation

The Group accounts are in Swiss francs.

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

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

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

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

EUR/CHF 1.0821 (2019: 1.0868)  
USD/CHF 0.8848 (2019: 0.9686)

### 5.2.10 Interest and discount income

Interest-earning transactions comprise currency swaps; the result is booked under "Interest and discount income".

### 5.2.11 Treatment of the refinancing of trading positions

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

### 5.2.12 Consolidation principles

#### 5.2.12.1 Consolidation perimeter

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

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

#### 5.2.12.2 Consolidation method

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

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

Transactions between the various entities within the Group annul each other out.

#### 5.2.12.3 Consolidation period

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

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

As of 1 January 2020, the new guidelines of the Swiss Financial Market Supervisory Authority (Accounting Ordinance, FINMA-AO and the new Circular 2020/1 Accounting – Banks) came into effect.

For the 2020 financial year, the transitional provisions laid out in Art. 98 FINMA-AO on value adjustments for default risk were applied.

There were no changes in the accounting principles or in the presentation of accounts in 2020.

### 5.4 RISK MANAGEMENT

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

Risk management is an utmost priority for the Group. Its goal is to identify, measure, limit 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 as well as in the Rules and Regulations of the single legal entities, and is reviewed annually. The Group's Rules and Regulations define the parameters the single legal entities must abide by.

The key elements of risk management are:

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

The Board of Directors exercises the ultimate responsibility, supervision and control, and is therefore the supreme organ for managing risk. It defines the key elements of risk management. The Executive Board is responsible for implementing the Board

of Directors' policies. In particular, it is the Executive Board's duty to ensure that a suitable risk management process is in place and that an effective risk monitoring system is activated. This includes the implementation of an organisation for its supervision at the consolidated level, and as regards outsourced activities.

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

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

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

In its meeting of 27 April 2020, the Audit and Risk Committee of the Board of Directors of the Parent Bank and, subsequently, the Board of Directors of the Parent Bank in its meeting of 30 April 2020, assessed the Group's risk profile.

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

#### **5.4.1 Credit risk**

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

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

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

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

amounts granted and risk incurred.

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

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

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

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

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

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

Maximum loan values are set for each type of collateral on the basis of common banking standards. The maximum amount for a mortgage loan is established based on the debtor's ability to pay and on the value of the real estate being mortgaged. The valuation principles applied to collateral are described in Section 5.6 "Valuation of collateral". For Lombard loans, the assigned limit is determined on the basis of a foreseeable value of pledged assets which are revalued at market value on a daily basis.

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

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

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

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

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

## 5.4.2 Market risk

### 5.4.2.1 Interest rate risk

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

As regards the ALM activity, the Group's risk policy, as approved by the Board of Directors, defines the modes of operation, the tolerance and limitations, and regulates risk monitoring. The rate risk related to balance and off-balance sheet operations is managed and monitored centrally by the ALCO within assigned operational limits. At Axion these competencies lie with its Risk Committee. Limits are set in terms of changes in current equities for a 1% sudden parallel shift in market rates (value effect) and a movement in interest margin in the following 12 months still with the same market parameter variations (income effect). On the basis of the chosen methodology, monitoring refers to the present value of equity and to the variation of net interest income in the 12 months following measurement. A software feature enables the Risk Management Unit to regularly provide the ALCO and Axion's Risk Committee with information on risk exposure, simulations of the interest margin, as well as to perform stress tests, i.e. analyses based on predetermined potentially negative scenarios.

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

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

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

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

#### 5.4.2.2 Currency risk

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

#### 5.4.2.3 Trading activities

The Group's exposure to market risks arising from trading operations is limited and mostly in relation to client requirements. In this respect, prudent limits of maximum exposure have been established based on the asset value at risk (position and loss limits). The Group does not engage in market making activities. The limits for trading positions are verified daily by independent units.

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

#### 5.4.3 Liquidity risk

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

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

The emergency liquidity plan is a key aspect of crisis

management. It includes intervention measures to counter any liquidity crisis, considering liquidity indicators and ratios, and outlining emergency procedures.

#### 5.4.4 Operational risk

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

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

Risk management, including operational risk, is effected through an internal control system comprising all control structures and processes which, at all levels, are fundamental to achieve the correct functioning of the Banks and the achievement of their business policy objectives. In implementing its internal control system, the Group has defined three control levels. The first level, the so-called first line of defence, comprises the monitoring activities performed primarily by operational units tasked with generating profit and which are obliged to ensure an adequate control system within the scope of their activities. The second level or second line of defence, is formed by units which are independent of operational units. The third level comprises the oversight of the Internal Auditors.

In the second line of defence, the Legal and Compliance Department is responsible for verifying the adherence to applicable regulatory provisions, as well as due diligence duties. It also ensures that the internal regulations are continually being adapted to new legal and regulatory provisions.

The Risk Management Department is in charge of designing and setting up appropriate risk-monitoring systems, verifying risks incurred, and defining and implementing processes for the management of security risk as well as setting up and regularly updating a corporate continuity plan. The Group Internal Control Department coordinates priority internal control systems and monitors risks connected to providers of outsourced services.

The Group records and analyses all information on occurrences of operational malfunction which result in a financial impact (gain and loss) and classifies these data on the basis of

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

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

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

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

#### **5.4.5 Required capital and other risk indicators**

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

### **5.5 METHODS USED FOR IDENTIFYING DEFAULT RISKS AND DETERMINING THE NEED FOR VALUE ADJUSTMENTS**

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

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

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

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

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

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

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

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

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

### **5.6 VALUATION OF COLLATERAL**

#### **5.6.1 Mortgage-based loans**

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

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

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



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

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

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

### **5.6.2 Securities-based loans**

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

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

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

Derivative financial instruments are used for trading and hedging purposes.

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

Derivative financial instruments are principally used in risk

management to hedge interest rate and currency risks.

In general, recognition in the income statement of the result of a hedging transaction follows the same principles applied to the secured underlying. As a consequence, results from hedging operations with derivative financial instruments within the framework of the structural management of the balance sheet are booked on a pro rata basis (accrual method). Hedging is considered effective when it is active from its inception and for the entire duration, when there exists an economic relationship between the hedged operation and the hedging transaction, and when the changes in value (hedged and hedging transactions) have an inverse correlation with respect to the hedged risk.

An independent risk-management unit monitors hedging operations in order to identify any surplus hedging. This will be booked in the income statement under "Result from trading operations and the fair value option".

The use of interest rate swaps (IRS) in the structural management of the balance sheet serves to hedge interest rate variations.

Primarily plain vanilla swaps, both payer and receiver, may be used. In general, receiver swaps are used to hedge specific individual fixed rate items in liabilities and are therefore considered micro hedges. On the other hand, fixed rate portfolio items under assets are hedged through payer swaps and are therefore considered macro hedges.

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

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



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

#### **5.8 EXPLANATIONS OF MATERIAL EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

No significant event occurred after the closing of the balance sheet date that had a significant impact on the Group's capital, financial position or income at 31 December 2020.

#### **5.9 REASONS WHICH HAVE LED TO EARLY RESIGNATION OF THE AUDITORS**

PricewaterhouseCoopers SA, Lugano were designated as External Auditors for the Group, and are still in office.



## 5.10 INFORMATION ON THE BALANCE SHEET

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

(CHF thousands)	31.12.2020	31.12.2019
<b>Securities lending, securities borrowing and repurchase agreements</b>		
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions <sup>1</sup>	-	-
Book value of obligations from cash collateral received in connection with securities lending and repurchase agreements <sup>1</sup>	250,000	230,000
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	243,431	222,722
<i>of which with unrestricted right to resell or repledge</i>	243,431	222,722
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	-	-
<i>of which repledged</i>	-	-
<i>of which resold</i>	-	-

<sup>1</sup> Before any netting agreement.

### 5.10.2 Presentation of collateral for loans / receivables and off-balance sheet transactions, as well as impaired loans / receivables at 31.12.2020

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
<b>Loans (before netting with value adjustments)</b>				
Amounts due from customers	152,733	702,130	672,906	1,527,769 <sup>3</sup>
Amounts due from public corporations	614	151	670,718 <sup>1</sup>	671,483
Mortgage loans	10,275,119 <sup>1</sup>	-	3,264	10,278,383
<i>Residential property</i>	7,481,227	-	625	7,481,852
<i>Office and business premises</i>	1,595,902	-	1,745	1,597,647
<i>Commercial and industrial premises</i>	615,054	-	894	615,948
<i>Other</i>	582,936	-	-	582,936
<b>Total loans (before netting with value adjustments)</b>	<b>10,428,466</b>	<b>702,281</b>	<b>1,346,888</b>	<b>12,477,635</b>
Previous year	9,983,250	536,452	1,300,770	11,820,472
<b>Total loans (after netting with value adjustments)</b>	<b>10,417,856</b>	<b>693,856</b>	<b>1,323,556</b>	<b>12,435,268</b>
Previous year	9,968,965	528,842	1,281,143	11,778,950
<b>Off-balance sheet</b>				
Contingent liabilities	6,210	52,936	106,163	165,309
Irrevocable commitments	14,787	96,809	310,638 <sup>2</sup>	422,234
Obligations to pay up shares and make further contributions	-	-	14,180	14,180
<b>Total off-balance sheet</b>	<b>20,997</b>	<b>149,745</b>	<b>430,981</b>	<b>601,723</b>
Previous year	22,111	54,730	338,704	415,545

(CHF thousands)	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
<b>Impaired loans</b>				
<b>Current year</b>	<b>139,280</b>	<b>96,913</b>	<b>42,367</b>	<b>42,367</b>
Previous year	131,343	89,821	41,522	41,522

### 5.10.3 Breakdown of trading portfolios and other financial instruments at fair value (assets and liabilities)

(CHF thousands)	31.12.2020	31.12.2019
<b>Trading portfolio assets</b>		
Debt securities, money market securities	3,113	3,460
<i>of which listed</i>	3,113	3,460
Equity-type securities	146	-
Shares in investment funds	3,400	6,256
Precious metals and commodities	13,072	11,837
Structured products	2,349	2,542
<b>Total trading portfolio assets</b>	<b>22,080</b>	<b>24,095</b>
<i>of which determined using a valuation model</i>	-	-
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	-	-

<sup>1</sup> Including loans to entities related to public institutions for CHF 104.2 million (2019: CHF 108.7 million).

<sup>2</sup> Including CHF 40 million (2019: CHF 39 million) as a required share for deposit guarantee purposes and estimated goodwill for the asset deal concluded with EFG Bank AG (expected in April 2021).

<sup>3</sup> In 2020, the Bank granted CHF 133.5 million in COVID-19 and COVID-19 Plus loans which are almost entirely secured by a guarantee provided by the Swiss Confederation.

#### 5.10.4 Presentation of derivative financial instruments (assets and liabilities)

(CHF thousands)	Trading instruments			Hedging instruments		
	Replacement values		Contract volume	Replacement values		Contract volume
	positive	negative		positive	negative	
<b>Interest rate instruments</b>						
Swaps	-	-	-	4,002	19,637	460,000
Options (OTC)	-	-	-	-	-	-
<b>Total interest rate instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,002</b>	<b>19,637</b>	<b>460,000</b>
<b>Foreign currencies / precious metals</b>						
Forward contracts	1,362	1,959	244,490	4	-	7,575
Combined currency and interest rate Swaps	3,777	2,963	488,359	9,572	4,845	2,887,573
Options (OTC)	457	457	146,962	-	-	-
<b>Total foreign currencies / precious metals</b>	<b>5,596</b>	<b>5,379</b>	<b>879,811</b>	<b>9,576</b>	<b>4,845</b>	<b>2,895,148</b>
<b>Total derivative financial instruments</b>	<b>5,596</b>	<b>5,379</b>	<b>879,811</b>	<b>13,578</b>	<b>24,482</b>	<b>3,355,148</b>
<i>of which determined using a valuation model</i>	<i>5,596</i>	<i>5,379</i>	<i>-</i>	<i>13,578</i>	<i>24,482</i>	<i>-</i>
Total previous year	3,271	3,098	662,420	5,297	38,889	2,587,121
<i>of which determined using a valuation model</i>	<i>3,271</i>	<i>3,098</i>	<i>-</i>	<i>5,297</i>	<i>38,889</i>	<i>-</i>

#### Recapitulation

(CHF thousands)	Positive replacement values (cumulative)	Negative replacement values (cumulative)	Contract volume
Trading instruments	5,596	5,379	879,811
Hedging instruments	13,578	24,482	3,355,148
<b>Total before netting agreements</b>	<b>19,174</b>	<b>29,861</b>	<b>4,234,959</b>
Total previous year	8,568	41,987	3,249,541
<b>Total after netting agreements</b>	<b>19,174</b>	<b>29,861</b>	<b>4,234,959</b>
Total previous year	8,568	41,987	3,249,541

#### Breakdown by counterparty

(CHF thousands)	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	-	17,574	1,600

### 5.10.5 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Debt securities	339,072	363,999	349,215	372,277
<i>of which intended to be held to maturity</i>	334,862	339,635	344,912	347,550
<i>of which not intended to be held to maturity (available for sale)</i>	4,210	24,365	4,303	24,727
Shares in investment funds	27,492	15,652	28,902	16,116
Equity-type securities	10,634	4,171	11,919	5,138
<i>of which qualified participations (at least 10% of capital or votes)</i>	-	-	-	-
Precious metals	94	203	94	203
Real estate	9,059	5,921	9,059	5,921
<b>Total financial investments</b>	<b>386,351</b>	<b>389,946</b>	<b>399,189</b>	<b>399,655</b>
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	284,169	250,619	293,622	257,950

### Breakdown of counterparties by rating

(CHF thousands)	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Book value of debt securities	301,074	22,755	2,523	1,378	-	11,342

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

### 5.10.6 Presentation of non-consolidated participations

(CHF thousands)	Acquisition cost	Accumulated value adjustments and/or changes in book value (equity method)	Book value 31.12.2019	2020				Book value 31.12.2020	Market value
				Additions	Disposals	Value adjustments	Changes in book value of participations valued using the equity method / depreciation reversals		
Other participations									
listed	-	-	-	-	-	-	-	-	
unlisted	14,986	8,678	6,308	250	-	12	6,546	-	
<b>Total non-consolidated participations</b>	<b>14,986</b>	<b>8,678</b>	<b>6,308</b>	<b>250</b>	<b>-</b>	<b>12</b>	<b>6,546</b>	<b>-</b>	

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

#### Companies are recognised on the basis of the full consolidation method

Company name	Head office	Business activity	Company capital (CHF thousands)	Share of		Held	
				capital in %	votes in %	direct	indirect
Axion SWISS Bank SA	Lugano	Banking	43,000	100,0%	100,0%	100,0%	-

#### Other significant permanent non-consolidated participations

Company name	Head office	Business activity	Company capital (CHF thousands)	Share of		Held	
				capital in %	votes in %	direct	indirect
Autosilo Piazza del Sole SA	Bellinzona	Car park	2,000	10,00%	10,00%	10,00%	-
Bille AG	Adliswil	Software development	118	7,04%	7,04%	7,04%	-
Centro Sci Nordico Campra SA	Blenio	Real estate company	2,000	5,00%	5,00%	5,00%	-
Teleticino SA	Melide	Radio and television productions	4,950	23,01%	17,24%	17,24%	-

The Group holds other permanent participations with a non-significant share of capital.

### 5.10.8 Presentation of tangible fixed assets

(CHF thousands)	Acquisition cost	Accumulated depreciation	Book value 31.12.2019	2020					Book value 31.12.2020
				Reclassifications	Additions	Disposals	Depreciation	Reversals	
Bank buildings	182,035	129,857	52,178	-	1,744	-	3,566	-	50,356
Other real estate	26,861	14,460	12,401	-	-	-	519	-	11,882
Acquired software	92,199	88,067	4,132	-	4,513	-	2,729	-	5,916
Other tangible fixed assets	115,957	107,433	8,524	-	3,942	55	2,063	-	10,348
<b>Total tangible fixed assets</b>	<b>417,052</b>	<b>339,817</b>	<b>77,235</b>	<b>-</b>	<b>10,199</b>	<b>55</b>	<b>8,877</b>	<b>-</b>	<b>78,502</b>

### 5.10.9 Presentation of intangible assets

(CHF thousands)	Cost value	Accumulated amortisation	Book value 31.12.2019	2020					Book value 31.12.2020
				Reclassifications	Additions	Disposals	Amortisation	Reversals	
Goodwill	35,781	32,292	3,489	-	-	-	3,034	-	455
<b>Total intangible assets</b>	<b>35,781</b>	<b>32,292</b>	<b>3,489</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,034</b>	<b>-</b>	<b>455</b>

### 5.10.10 Breakdown of other assets and other liabilities

(CHF thousands)	31.12.2020	31.12.2019
<b>Other assets</b>		
Compensation account	14,282	9,660
Indirect taxes	637	713
Other different assets	102,252 <sup>1</sup>	28,952 <sup>2</sup>
<b>Total other assets</b>	<b>117,171</b>	<b>39,325</b>
<b>Other liabilities</b>		
Direct/indirect taxes	3,314	3,379
Unredeemed cash bonds	1,031	1,215
Compensation account	625	316
Other different liabilities	3,889	32,483 <sup>3</sup>
<b>Total other liabilities</b>	<b>8,859</b>	<b>37,393</b>

<sup>1</sup> of which a balance of CHF 100.7 million resulting from in-house banking operations.

<sup>2</sup> of which CHF 24 million from in-house banking operations.

<sup>3</sup> of which CHF 23.4 million additional payment to the Canton for 2018, and distributed in 2020.

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

(CHF thousands)	31.12.2020		31.12.2019	
	Book value	Effective commitments	Book value	Effective commitments
<b>Pledged / assigned assets</b> (excluding securities financing transactions)				
Book value of mortgages set as collateral for mortgage bonds of the Mortgage Bond Issuing Body of the Swiss Cantonal Banks	2,508,092	1,838,000	2,511,706	1,960,000
Book value of securities delivered as collateral to SIX Group AG	1,413	-	1,414	-
Book value of securities delivered as collateral in connection with Repo Light credit with SNB	21,527	-	21,418	-
Book value of Covid-19 loans assigned to the SNB	122,900	122,900	-	-
Book value of assets pledged to secure own commitments	20,569	16,189	47,283	41,795
<b>Total pledged / assigned assets</b>	<b>2,674,501</b>	<b>1,977,089</b>	<b>2,581,821</b>	<b>2,001,795</b>
<b>Assets under reservation of ownership</b> Assets under reservation of ownership	-	-	-	-

### 5.10.12 Disclosure on the economic situation of pension schemes

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

The Group has no own pension scheme.

#### 5.10.12.2 Disclosures on the economic situation of own pension schemes

##### a) Employer contribution reserves (ECR)

There were no employer contribution reserves as at 31.12.2020.

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

	Over / underfunding at the end of 2020	Economic interest of the Bank		Change in economic interest and/or commitment versus previous year	Contributions paid for 2020	Pension expenses in personnel expenses	
		31.12.2020	31.12.2019			31.12.2020	31.12.2019
<b>Group</b> Pension plans without over- / underfunding	-	-	-	-	10,035	9,748	9,182

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

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

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 underfunding exists and, consequently, there are no obligations in this regard on the part of the employers.



### 5.10.13 Presentation of bonds outstanding, mortgage bonds from central issuing institutions and mandatory convertible bonds

#### 5.10.13.1 Presentation of bonds outstanding, mortgage bonds from central issuing institutions and mandatory convertible bonds

(CHF thousands)				
Interest rate	Type of bond	Issue year	Due date	Net amount
3.750%	Subordinated without PONV clause <sup>1</sup>	2011	15.12.2021	175,000
0.000%	Non-subordinated <sup>2</sup>	2016	04.03.2022	50,000
0.500%	Non-subordinated <sup>2</sup>	2015	24.06.2024	150,000
0.300%	Non-subordinated <sup>2</sup>	2017	15.06.2027	200,000
0.375%	Non-subordinated <sup>2</sup>	2018	08.02.2028	250,000
0.450%	Non-subordinated <sup>2</sup>	2019	26.02.2029	150,000
0.450%	Non-subordinated <sup>2</sup>	2019	10.07.2029	100,000
0.050%	Non-subordinated <sup>2</sup>	2020	10.07.2029	50,000
<b>Total bonds</b>				<b>1,125,000</b>
Mortgage bonds from central issuing institutions <sup>3</sup>				1,838,000
<b>Total outstanding bonds and mortgage bonds from central mortgage bond institutions and mandatory convertible bonds</b>				<b>2,963,000</b>

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

(CHF thousands)							
	Within one year	> 1 - ≤ 2 years	> 2 - ≤ 3 years	> 3 - ≤ 4 years	> 4 - ≤ 5 years	> 5 years	Total
Bonds	175,000	50,000	-	150,000	-	750,000	1,125,000
Mortgage bonds from central issuing institutions	120,000	121,000	158,000	239,000	59,000	1,141,000	1,838,000
<b>Total</b>	<b>295,000</b>	<b>171,000</b>	<b>158,000</b>	<b>389,000</b>	<b>59,000</b>	<b>1,891,000</b>	<b>2,963,000</b>

<sup>1</sup> Early repayment only under certain conditions

<sup>2</sup> No early repayment

<sup>3</sup> Average interest rate 0.789%

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

(CHF thousands)	Status 31.12.2019	2020				Status 31.12.2020
		Use in conformity with designated purpose	Currency differences	New creations charged to income	Releases to income	
<b>Provisions</b>						
Provisions for expected losses <sup>1</sup>	82	-	-	4	-	86
Provisions for other business risks	1,906	-989	-	225	-302	840
Additional pension provision	8,205	-3,238	-	806	-100	5,673
Provisions for deferred taxes	900	-	-	-	-	900
Other provisions	697	-	-	407	-	1,104
<b>Total provisions</b>	<b>11,790</b>	<b>-4,227</b>	<b>-</b>	<b>1,442</b>	<b>-402</b>	<b>8,603</b>
<b>Reserves for general banking risks</b>	<b>495,000</b>	<b>-</b>	<b>-</b>	<b>31,000</b>	<b>-</b>	<b>526,000</b>
<b>Value adjustments for default and country risks</b>	<b>41,571</b>	<b>-1,639</b>	<b>-605</b>	<b>7,218</b>	<b>-4,178</b>	<b>42,367</b>
of which value adjustments for default risks in respect of impaired loans	41,571	-1,639	-605	7,218	-4,178	42,367
of which value adjustments for latent risks	-	-	-	-	-	-

#### 5.10.15 Disclosure of amounts due from / to related parties

(CHF thousands)	31.12.2020		31.12.2019	
	Amounts due from	Amounts due to	Amounts due from	Amounts due to
Holders of qualified participations	24,928	114,978	22,429	112,662
Group companies	-	-	-	-
Linked companies	137,710	160,333	136,379	212,594
Members of governing bodies	21,518	8,089	21,188	8,295

The above figures also include any off-balance sheet operation that may have been effected.

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

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

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

<sup>1</sup> On off-balance sheet commitments

### 5.10.16 Presentation of the maturity structure of financial instruments

(CHF thousands)	At sight	Cancellable	Due				No maturity	Total
			within 3 months	within 3 to 12 months	within 1 to 5 years	after 5 years		
<b>Assets / Financial instruments</b>								
Liquid assets	3,054,436	-	-	-	-	-	-	3,054,436
Amounts due from banks	339,439	-	15,000	-	-	-	-	354,439
Amounts due from customers	1,883	443,618	508,209	282,678	662,312	271,896	-	2,170,596
Mortgage loans	1,255	129,992	746,660	2,066,990	4,031,101	3,288,674	-	10,264,672
Trading portfolio assets	22,080	-	-	-	-	-	-	22,080
Positive replacement values of derivative financial instruments	19,174	-	-	-	-	-	-	19,174
Financial investments	27,756	5,999	21,792	28,792	94,587	198,366	9,059	386,351
<b>Total</b>	<b>3,466,023</b>	<b>579,609</b>	<b>1,291,661</b>	<b>2,378,460</b>	<b>4,788,000</b>	<b>3,758,936</b>	<b>9,059</b>	<b>16,271,748</b>
Previous year	2,598,623	586,652	1,175,121	1,374,767	4,930,056	4,052,965	5,921	14,724,105
<b>Debt capital / Financial instruments</b>								
Amounts due to banks	304,361	123,105	371,494	14,157	-	-	-	813,117
Liabilities from securities financing transactions	-	-	250,000	-	-	-	-	250,000
Amounts due in respect of customer deposits	5,790,471	4,468,603	414,893	6,171	264,432	84,387	-	11,028,957
Negative replacement values of derivative financial instruments	29,861	-	-	-	-	-	-	29,861
Bond issues and Central Mortgage Bond Institution loans	-	-	23,000	272,000	777,000	1,891,000	-	2,963,000
<b>Total</b>	<b>6,124,693</b>	<b>4,591,708</b>	<b>1,059,387</b>	<b>292,328</b>	<b>1,041,432</b>	<b>1,975,387</b>	<b>-</b>	<b>15,084,935</b>
Previous year	5,180,377	4,043,062	864,391	210,167	1,239,492	1,948,799	-	13,486,288

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

(CHF thousands)	31.12.2020		31.12.2019	
	Switzerland	Foreign	Switzerland	Foreign
<b>Assets</b>				
Liquid assets	3,054,436	-	2,306,472	84
Amounts due from banks	175,153	179,286	156,749	59,241
Amounts due from customers	1,833,711	336,885	1,678,316	305,560
Mortgage loans	10,264,672	-	9,795,074	-
Trading portfolio assets	17,744	4,336	15,772	8,323
Positive replacement values of derivative financial instruments	16,713	2,461	6,728	1,840
Financial investments	294,898	91,453	254,563	135,383
Accrued income and prepaid expenses	10,910	601	9,891	839
Non-consolidated participations	6,433	113	6,195	113
Tangible fixed assets	78,502	-	77,235	-
Intangible assets	455	-	3,489	-
Other assets	117,171	-	39,325	-
<b>Total assets</b>	<b>15,870,798</b>	<b>615,135</b>	<b>14,349,809</b>	<b>511,383</b>
<b>Liabilities</b>				
Amounts due to banks	409,117	404,000	154,946	131,661
Liabilities from securities financing transactions	250,000	-	120,000	110,000
Amounts due in respect of customer deposits	7,992,886	3,036,071	7,355,692	2,536,552
Negative replacement values of derivative financial instruments	25,001	4,860	36,144	5,843
Cash bonds	-	-	450	-
Bond issues and Central Mortgage Bond Institution loans	2,963,000	-	3,035,000	-
Accrued expenses and deferred income	41,479	91	43,207	153
Other liabilities	8,698	161	37,232	161
Provisions	8,603	-	11,790	-
Reserves for general banking risks	526,000	-	495,000	-
Endowment capital	500,000	-	480,000	-
Statutory retained earnings reserve	265,512	-	254,483	-
Group profit	50,454	-	52,878	-
<b>Total liabilities</b>	<b>13,040,750</b>	<b>3,445,183</b>	<b>12,076,822</b>	<b>2,784,370</b>

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

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

(CHF thousands)	31.12.2020		31.12.2019	
	Absolute	Share as %	Absolute	Share as %
<b>Assets held abroad</b>				
<b>Europe</b>	<b>376,849</b>	<b>2,29</b>	<b>356,941</b>	<b>2,40</b>
Belgium	8,011		-	
Cyprus	5,416		2	
Croatia	1,322		3,072	
France	17,243		26,311	
Germany	16,711		11,041	
Guernsey	12,245		22,793	
Italy	149,465		127,113	
Jersey	44,240		-	
Liechtenstein	8,809		15,468	
Luxembourg	44,329		42,032	
Malta	5,604		6,345	
Monaco	11,736		6,383	
Norway	13,693		14,786	
Netherlands	543		5,932	
United Kingdom	16,275		57,111	
Romania	11,138		4,435	
Other countries	10,069		14,117	
<b>North America</b>	<b>181,189</b>	<b>1,10</b>	<b>70,773</b>	<b>0,48</b>
Canada	11,475		12,134	
United States	169,714		58,639	
<b>Asia</b>	<b>41,830</b>	<b>0,25</b>	<b>59,349</b>	<b>0,40</b>
United Arab Emirates	9,114		9,662	
Kazakhstan	27,276		37,067	
Singapore	2		4,862	
Other countries	5,438		7,758	
<b>Caribbean</b>	<b>13,752</b>	<b>0,08</b>	<b>18,046</b>	<b>0,12</b>
Panama	10,917		14,446	
Other countries	2,835		3,600	
<b>South America</b>	<b>1,350</b>	<b>0,01</b>	<b>2,100</b>	<b>0,01</b>
Mexico	75		75	
Other countries	1,275		2,025	
<b>Oceania</b>	<b>62</b>	<b>-</b>	<b>4,029</b>	<b>0,03</b>
<b>Africa</b>	<b>103</b>	<b>-</b>	<b>145</b>	<b>-</b>
<b>Total assets abroad</b>	<b>615,135</b>	<b>3,73</b>	<b>511,383</b>	<b>3,44</b>
Switzerland	15,870,798	96,27	14,349,809	96,56
<b>Total assets</b>	<b>16,485,933</b>	<b>100,00</b>	<b>14,861,192</b>	<b>100,00</b>



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

Bank's own country rating (CHF thousands)	Standard & Poor's Rating	31.12.2020		31.12.2019	
		Net foreign exposure	Share as %	Net foreign exposure	Share as %
1 Excellent and high quality	AAA to AA-	377,649	61,4%	294,099	57,5%
2 Greater quality than average	A+ to A-	8,561	1,4%	9,748	1,9%
3 Medium quality	BBB+ to BBB-	206,520	33,6%	187,632	36,7%
4 Default risk	BB+ to BB	2	0,0%	102	0,0%
5 Default risk material	BB-	611	0,1%	511	0,1%
6 Speculative, high default risk	B+ to B-	4,387	0,7%	5,387	1,1%
7 Poor quality, very high risk	CCC+ to D	-	0,0%	-	0,0%
Unrated	-	17,405	2,8%	13,904	2,7%
<b>Total</b>		<b>615,135</b>	<b>100,0%</b>	<b>511,383</b>	<b>100,0%</b>

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

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

(CHF thousands)	Currencies				Total
	CHF	EUR	USD	Other	
<b>Assets</b>					
Liquid assets	2,982,636	67,741	2,810	1,249	3,054,436
Amounts due from banks	33,084	24,932	168,276	128,147	354,439
Amounts due from customers	1,605,553	342,637	212,320	10,086	2,170,596
Mortgage loans	10,264,672	-	-	-	10,264,672
Trading portfolio assets	5,357	2,232	1,419	13,072	22,080
Positive replacement values of derivative financial instruments	18,767	256	151	-	19,174
Financial investments	332,480	37,522	16,256	93	386,351
Accrued income and prepaid expenses	10,707	673	126	5	11,511
Non-consolidated participations	6,433	113	-	-	6,546
Tangible fixed assets	78,502	-	-	-	78,502
Intangible assets	455	-	-	-	455
Other assets	117,150	4	17	-	117,171
<b>Total assets shown in balance sheet</b>	<b>15,455,796</b>	<b>476,110</b>	<b>401,375</b>	<b>152,652</b>	<b>16,485,933</b>
Delivery entitlements from spot exchange, forward forex and forex options transactions <sup>1</sup>	116,550	2,394,104	1,094,550	169,860	3,775,064
<b>Total assets</b>	<b>15,572,346</b>	<b>2,870,214</b>	<b>1,495,925</b>	<b>322,512</b>	<b>20,260,997</b>
<b>Liabilities</b>					
Amounts due to banks	442,469	218,688	148,706	3,254	813,117
Liabilities from securities financing transactions	250,000	-	-	-	250,000
Amounts due in respect of customer deposits	7,485,545	2,271,297	983,400	288,715	11,028,957
Negative replacement values of derivative financial instruments	29,454	256	151	-	29,861
Bond issues and central mortgage institution loans	2,963,000	-	-	-	2,963,000
Accrued expenses and deferred income	41,508	-	62	-	41,570
Other liabilities	8,543	276	40	-	8,859
Provisions	8,603	-	-	-	8,603
Reserves for general banking risks	526,000	-	-	-	526,000
Endowment capital	500,000	-	-	-	500,000
Statutory retained earnings reserve	265,512	-	-	-	265,512
Group's profit	50,454	-	-	-	50,454
<b>Total liabilities in balance sheet</b>	<b>12,571,088</b>	<b>2,490,517</b>	<b>1,132,359</b>	<b>291,969</b>	<b>16,485,933</b>
Delivery obligations from spot exchange, forward forex and forex options transactions <sup>1</sup>	2,995,123	379,855	363,403	29,936	3,768,317
<b>Total liabilities</b>	<b>15,566,211</b>	<b>2,870,372</b>	<b>1,495,762</b>	<b>321,905</b>	<b>20,254,250</b>
<b>Net position per currency</b>	<b>6,135</b>	<b>-158</b>	<b>163</b>	<b>607</b>	<b>6,747</b>
Net position per currency in the previous year	-23,228	2,838	-688	577	-20,501

<sup>1</sup> Options have been delta-weighted.



## 5.11 INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

### 5.11.21 Breakdown of contingent liabilities and contingent assets

(CHF thousands)	31.12.2020	31.12.2019
<b>Contingent liabilities</b>		
Guarantees to secure credits and similar	108,765	83,719
Performance guarantees and similar	33,510	31,347
Irrevocable commitments arising from documentary letters of credit	23,034	20,171
<b>Total contingent liabilities</b>	<b>165,309</b>	<b>135,237</b>

### 5.11.22 Breakdown of fiduciary transactions

(CHF thousands)	31.12.2020	31.12.2019
Fiduciary investments with third-party banks	206,561	465,035
Fiduciary loans	4,468	5,860
<b>Total fiduciary transactions</b>	<b>211,029</b>	<b>470,895</b>



## 5.12 INFORMATION ON THE INCOME STATEMENT

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

#### Breakdown of result from trading activities by business line

(CHF thousands)	2020	2019
Trading activities with private clients	8,133	6,993
Trading activities with corporate clients	7,302	7,103
Trading activities on own account	2,475	4,360
<b>Total result from trading activities</b>	<b>17,910</b>	<b>18,456</b>

#### Result from trading activities and fair value option

(CHF thousands)	2020	2019
Equity-type securities (including investment funds)	-1,410	1,014
Foreign currencies and banknote trading	17,356	14,992
Commodities / precious metals	1,964	2,450
<b>Total result from trading activities</b>	<b>17,910</b>	<b>18,456</b>

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

Refinancing income in the item "Result from interest operations"		
Interest and dividend income from trading portfolio is offset with costs of refinancing of that portfolio.		
(CHF thousands)	2020	2019
<b>Negative interest</b>		
Negative interest on assets (decrease in interest and discount income)	1,777	5,888
Negative interest on liabilities (decrease in interest expenses)	5,647	3,065

### 5.12.25 Breakdown of personnel expenses

(CHF thousands)	2020	2019
Salaries	66,426	67,755
<i>of which expenses relating to share-based compensation and alternative forms of variable compensation</i>	-	-
Social insurance benefits	17,682	16,566
Other personnel expenses	2,611	2,891
<b>Total personnel expenses</b>	<b>86,719</b>	<b>87,212</b>

### 5.12.26 Breakdown of general and administrative expenses

(CHF thousands)	2020	2019
Office space expenses	5,976	5,567
Expenses for information and communications technology	24,342	23,131
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	448	458
Fees of audit firm	497	583
<i>of which for financial and regulatory audits</i>	497	538
<i>of which for other services</i>	-	45
Other operating expenses	11,709	12,281
<i>of which compensation for any State guarantee</i>	-	-
<b>Total general and administrative expenses</b>	<b>42,972</b>	<b>42,020</b>

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

<p><b>5.12.27.1 Material losses</b> No material losses were incurred during the financial year.</p>
<p><b>5.12.27.2 Extraordinary income and extraordinary expenses</b> At the end of June 2020, the Group committed CHF 6.2 million to the "Vivi il tuo Ticino" campaign in support of the restaurant and accommodation sectors. This was booked under "Extraordinary expenses". The part of this commitment for which no request was received (CHF 2.1 million) was recorded under "Extraordinary income".</p>
<p><b>5.12.27.3 Hidden reserves</b> The Group does not hold any hidden reserve as it discloses its financial statements on the basis of the true and fair view principle.</p>
<p><b>5.12.27.4 Reserves for general banking risks</b> CHF 31 million were deducted from "Changes in reserves for general banking risks" to create reserves for general banking risks.</p>
<p><b>5.12.27.5 Value adjustments and provisions no longer required</b> There is no relevant information to provide under this heading.</p>
<p><b>5.12.27.6 Revaluations of participations and tangible fixed assets</b> There were no revaluations of participations or tangible fixed assets during the reporting year.</p>

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

(CHF thousands)	31.12.2020	31.12.2019
Current taxes	1,165	1,377
Other taxes	170	130
Provisions for deferred taxes	-	-
<b>Total taxes</b>	<b>1,335</b>	<b>1,507</b>
<b>Average tax rate weighted on the basis of the operating result<sup>1</sup></b>	<b>1,3%</b>	<b>1,6%</b>

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

## Report of the auditor

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

### Report on the audit of the consolidated financial statements

#### Opinion

We have audited the consolidated financial statements of Banca dello Stato del Cantone Ticino and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2020, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and annex for the year then ended, including a summary of significant accounting policies (pages 36-66).

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the accounting rules for banks and comply with Swiss law and the Law on Banca dello Stato del Cantone Ticino.

#### Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Our audit approach

##### Overview



Overall group materiality: CHF 4'338'000

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

Our audit work covers 100% of the operating result of the Group.

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

- Impairment of amounts due from customers and mortgage loans

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### Materiality

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

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

<b>Overall group materiality</b>	CHF 4'338'000
<b>How we determined it</b>	5% of the operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items).
<b>Rationale for the materiality benchmark applied</b>	We chose the operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items) because it is the benchmark against which the performance of a banking group is most commonly measured and it is the generally accepted benchmark in the financial industry.

We agreed with the Audit Committee of the Board of Directors that we would report to them misstatements above CHF 216'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

### Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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



## Impairment of amounts due from customers and mortgage loans

Key Audit Matters	How our audit addressed the key audit matter
<p>As shown in note 5.10.2 of the annual report 2020, the Group grants loans and advances to customers and mortgage loans (75% of total assets or CHF 12'435 million). We consider the valuation of amounts due from customers and mortgage loans that show signs of potential default of debtor and need impairment of the loan to be a key audit matter on the basis of the magnitude of the related balance sheet positions. Moreover, the determination of the amount of any impairment is based on the customer's capacity to repay the amount due and/or the liquidation value of the collateral, both of which may be influenced by subjective factors and involve management's judgement.</p> <p>The Group has a control system in place that allows to identify and to analyse the risk of default, to take precautionary measures and to calculate the necessary impairment charges.</p> <p>The accounting and valuation principles for amounts due from customers and mortgage loans and the methods used to identify default risks and to determine the need for impairment are described in the notes to the consolidated financial statements (notes 5.2.3.3, 5.4.1 and 5.5).</p>	<p>We checked and tested the key controls relating to amounts due from customers and mortgage loans:</p> <ul style="list-style-type: none"><li>controls aimed to identify signs of potential default in order to determine the scope of non-performing and/or impaired loans;</li><li>controls relating to the calculation of value adjustment including the determination of the market value of the collaterals.</li></ul> <p>We concluded that we are able to rely on key controls tested.</p> <p>In addition, we tested on a sample basis that:</p> <ul style="list-style-type: none"><li>the risk category given to the selected credit was adequate;</li><li>the market value of the collateral was determined or updated in accordance with market practice;</li><li>the impairments were calculated and recorded in accordance with the accounting principles;</li></ul> <p>and assessed thereby management's assumptions.</p> <p>The methods and assumptions used to determine impairments are appropriate and in accordance with our expectations.</p>

## Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

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



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

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

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

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

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

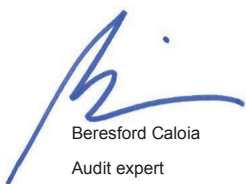


### Report on other legal and regulatory requirements

In accordance with 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 recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA



Beresford Caloia  
Audit expert  
Auditor in charge



Lorenzo Morelli  
Audit expert

Lugano, 26 March 2021







# Individual Financial Statements

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# 1. Balance Sheet

(CHF thousands)	Annex	31.12.2020	31.12.2019	Change
<b>Assets</b>				
Liquid assets		2,685,635	2,080,798	604,837
Amounts due from banks		349,697	210,184	139,513
Amounts due from customers	5.6.2	1,849,250	1,701,803	147,447
Mortgage loans	5.6.2	10,264,672	9,795,074	469,598
Trading portfolio assets	5.6.3	18,413	20,113	-1,700
Positive replacement values of derivative financial instruments	5.6.4	21,620	11,228	10,392
Financial investments	5.6.5	360,386	365,012	-4,626
Accrued income and prepaid expenses		11,666	10,538	1,128
Participations		70,406	70,169	237
Tangible fixed assets		77,362	76,456	906
Other assets	5.6.6	116,791	39,186	77,605
<b>Total assets</b>		<b>15,825,898</b>	<b>14,380,561</b>	<b>1,445,337</b>
Total subordinated claims		29,164	30,718	-1,554
<i>of which subject to mandatory conversion and/or debt waiver</i>		29,164	30,718	-1,554
<b>Liabilities</b>				
Amounts due to banks		1,505,740	808,594	697,146
Liabilities from securities financing transactions	5.6.1	250,000	230,000	20,000
Amounts due in respect of customer deposits		9,677,884	8,891,952	785,932
Negative replacement values of derivative financial instruments	5.6.4	30,837	42,170	-11,333
Cash bonds		-	450	-450
Bond issues and Central Mortgage Bond Institution loans	5.6.7	2,963,000	3,035,000	-72,000
Accrued expenses and deferred income		34,362	35,789	-1,427
Other liabilities	5.6.6	7,430	36,300	-28,870
Provisions	5.6.9	6,211	9,528	-3,317
Reserves for general banking risks	4 and 5.6.9	526,000	495,000	31,000
Endowment capital	4 and 5.6.10	500,000	480,000	20,000
Statutory retained earnings reserve	4	273,929	263,755	10,174
Profit (result for the period)	4	50,505	52,023	-1,518
<b>Total liabilities</b>		<b>15,825,898</b>	<b>14,380,561</b>	<b>1,445,337</b>
Total subordinated liabilities		175,273	175,273	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		-	-	-
<b>Off-balance sheet transactions</b>				
Contingent liabilities	5.6.2	156,907	125,580	31,327
Irrevocable commitments	5.6.2	401,017	250,760	150,257
Obligations to pay up and make further contributions	5.6.2	14,180	14,180	-

## 2. Income Statement

(CHF thousands)	Annex	2020	2019	Change
<b>Income and expenses arising from ordinary banking operations</b>				
<b>Result from interest operations</b>				
Interest and discount income		173,221	177,958	-4,737
Interest and dividend income from financial investments		2,344	2,661	-317
Interest expense		-24,311	-35,000	10,689
<b>Gross result from interest operations</b>		<b>151,254</b>	<b>145,619</b>	<b>5,635</b>
Changes in value adjustments for default risk and losses from interest operations		-2,981	372	-3,353
<b>Net result from interest operations</b>		<b>148,273</b>	<b>145,991</b>	<b>2,282</b>
<b>Result from commission business and services</b>				
Commission income from securities trading and investment activities		25,367	24,142	1,225
Commission income from lending activities		4,037	3,577	460
Commission income from other services		8,783	8,430	353
Commission expenses		-6,797	-6,660	-137
<b>Result from trading activities and fair value option</b>	5.8.15	<b>13,145</b>	<b>14,767</b>	<b>-1,622</b>
<b>Other results from ordinary activities</b>				
Result from the disposal of financial investments		868	2,121	-1,253
Income from participations		4,362	4,527	-165
Result from real estate		433	713	-280
Other ordinary income		3,526	4,789	-1,263
Other ordinary expenses		-76	-217	141
<b>Net revenues</b>		<b>201,921</b>	<b>202,180</b>	<b>-259</b>
<b>Operating expenses</b>				
Personnel expenses	5.8.17	-69,410	-69,569	159
Other operating expenses	5.8.18	-37,650	-36,042	-1,608
<b>Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets</b>		<b>-8,526</b>	<b>-9,603</b>	<b>1,077</b>
<b>Changes to provisions and other value adjustments, and losses</b>		<b>-366</b>	<b>-1,578</b>	<b>1,212</b>
<b>Operating result</b>		<b>85,969</b>	<b>85,388</b>	<b>581</b>
<b>Extraordinary income</b>	5.8.19.02	<b>2,210</b>	<b>92</b>	<b>2,118</b>
<b>Extraordinary expenses</b>	5.8.19.02	<b>-6,200</b>	<b>-2,000</b>	<b>-4,200</b>
<b>Changes in reserves for general banking risks</b>	5.8.19.04	<b>-31,000</b>	<b>-31,000</b>	<b>-</b>
<b>Taxes</b>	5.8.20	<b>-474</b>	<b>-457</b>	<b>-17</b>
<b>Profit (result for the period)</b>		<b>50,505</b>	<b>52,023</b>	<b>-1,518</b>

### 3. Proposed Appropriation of Available Earnings

(CHF thousands)	2020	2019	Change
<b>Appropriation of available earnings</b>			
Profit (result of the period)	50,505	52,023	-1,518
Profit carried forward	-	-	-
<b>Balance sheet profit</b>	<b>50,505</b>	<b>52,023</b>	<b>-1,518</b>
<b>Proposal of the Board of Directors</b>			
Assignment to the statutory retained earnings reserve	8,835	10,174	-1,339
Payment to the Canton	41,670	41,849	-179
<i>of which 5% interest on the endowment capital</i>	24,000	21,500	2,500
<i>of which additional payment to the Canton</i>	17,670	20,349	-2,679
<b>Amount carried forward</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 4. Statement of Changes in Endowment Capital

(CHF thousands)	Endowment capital	Statutory retained earnings reserve	Reserves for general banking risks	Result of the period	<b>Total</b>
<b>Endowment capital at 1.1.2020</b>	480,000	263,755	495,000	52,023	1,290,778
<b>Appropriation of retained earnings 2019</b>					
<i>Assignment to statutory retained earnings reserve</i>	-	+10,174	-	-10,174	-
<i>5% interest on the endowment capital</i>	-	-	-	-21,500	-21,500
<i>Additional payment to the Canton</i>	-	-	-	-20,349	-20,349
Endowment capital increase	+20,000	-	-	-	20,000
Allocation to reserves for general banking risks	-	-	+31,000	-	31,000
Profit (result for the period)	-	-	-	+50,505	50,505
<b>Total endowment capital at 31.12.2020</b>	<b>500,000</b>	<b>273,929</b>	<b>526,000</b>	<b>50,505</b>	<b>1,350,434</b>

## 5. Annex

### 5.1 ACTIVITIES OF THE BANK AND STAFF

#### 5.1.1 Activities of the Bank

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

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

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

Axion's core business focus is on portfolio management for private and institutional clients, and it operates on primary international markets.

#### 5.1.2 Personnel

As at 31 December 2020, the Bank had a total of 411 employees on payroll (372.70 FTEs) with apprentices calculated at 50%, compared to 408 staff at the end of 2019 (370.75 FTEs).

### 5.2 ACCOUNTING AND VALUATION PRINCIPLES

#### 5.2.1 General principles

The financial statements of BancaStato as at 31 December 2020 were prepared in accordance with applicable legal and regulatory provisions as well as the true and fair view principle, in compliance with the provisions of the Swiss Code of Obligations and the Swiss Banking legislation, in particular the guidelines of the Swiss Financial Market Supervisory Authority FINMA, the Swiss listing rules and the directives of SIX Group AG.

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

#### 5.2.2 Accounting and valuation principles

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

#### 5.2.3 Participations

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

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

The participation share in the capital of the Central Mortgage Bond Issuing Body of the Swiss Cantonal Banks has been partially paid-up. The commitment to pay up the outstanding amount is posted in off-balance sheet under the item "Obligations to pay up shares and make further contributions". To ensure prompt availability of liquidity in the event of a crisis, the shareholding banks have agreed on a limit for the amount contributed. This amount is not shown in off-balance sheet under "Irrevocable commitments" in order to avoid duplication.

### 5.3 FOREIGN CURRENCY TRANSLATION

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

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

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

EUR 1.0821 (2019: 1.0868)

USD 0.8848 (2019: 0.9686)

### 5.4 CHANGES IN FINANCIAL STATEMENTS AND PRESENTATION OF ACCOUNTS

As of 1 January 2020, the new guidelines of the Swiss Financial Market Supervisory Authority (Accounting Ordinance, FINMA-AO and the new Circular 2020/1 Accounting – Banks) came into effect.

There were no changes in the accounting principles or in the presentation of accounts in 2020.

For the 2020 financial year, the transitional provisions laid out in Art. 98 FINMA-AO on value adjustments for default risk were applied.

## 5.5 OTHER INFORMATION

For information on "Risk management", "Methods used for identifying default risks and determining the need for value adjustments", "Valuation of collateral", "Business policy regarding the use of derivative financial instruments and hedge accounting", "Explanations of material events occurring after the balance sheet date" and "Reasons which have led to early resignation of the auditors", refer to the Annex to the Group Financial Statements as these points are also applicable to BancaStato's Individual Financial Statements.

The information regarding capital adequacy and liquidity required by the FINMA Circular 2016/1 "Disclosure – banks" is published on BancaStato's website ([www.bancastato.ch](http://www.bancastato.ch)).

## 5.6 INFORMATION ON THE BALANCE SHEET

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

(CHF thousands)	31.12.2020	31.12.2019
<b>Securities lending, securities borrowing and repurchase agreements</b>		
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions <sup>1</sup>	-	-
Book value of obligations from cash collateral received in connection with securities lending and repurchase agreements <sup>1</sup>	250'000	230'000
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements.	243'431	222'722
<i>of which with unrestricted right to resell or repledge</i>	243'431	222'722
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge.	-	-
<i>of which repledged securities</i>	-	-
<i>of which resold securities</i>	-	-

<sup>1</sup> Before any netting agreement.

## 5.6.2 Presentation of collateral for loans / receivables and off-balance sheet transactions, as well as impaired loans/receivables at 31.12.2020

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
<b>Loans (before netting with value adjustments)</b>				
Amounts due from customers	152,733	395,758	657,843	1,206,334 <sup>3</sup>
Amounts due from public corporations	614	151	670,718 <sup>1</sup>	671,483
Mortgage loans	10,275,119 <sup>1</sup>	-	3,264	10,278,383
<i>Residential property</i>	7,481,226	-	625	7,481,851
<i>Office and business premises</i>	1,595,902	-	1,745	1,597,647
<i>Commercial and industrial premises</i>	615,054	-	894	615,948
<i>Other</i>	582,937	-	-	582,937
<b>Total loans (before netting with value adjustments)</b>	<b>10,428,466</b>	<b>395,909</b>	<b>1,331,825</b>	<b>12,156,200</b>
Previous year	9,983,250	257,110	1,297,977	11,538,337
<b>Total loans (after netting with value adjustments)</b>	<b>10,417,856</b>	<b>387,573</b>	<b>1,308,493</b>	<b>12,113,922</b>
Previous year	9,968,965	249,562	1,278,350	11,496,877
<b>Off-balance sheet</b>				
Contingent liabilities	6,210	37,809	112,888	156,907
Irrevocable commitments	14,787	77,327	308,903 <sup>2</sup>	401,017
Obligations to pay up shares and make further contributions	-	-	14,180	14,180
<b>Total off-balance sheet</b>	<b>20,997</b>	<b>115,136</b>	<b>435,971</b>	<b>572,104</b>
Previous year	22,111	24,281	344,128	390,520

(CHF thousands)	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
<b>Impaired loans</b>				
<b>Current year</b>	<b>138,621</b>	<b>96,343</b>	<b>42,278</b>	<b>42,278</b>
Previous year	127,806	86,346	41,460	41,460

<sup>1</sup> Including loans to entities related to public institutions for CHF 104.2 million (2019: CHF 108.7 million).

<sup>2</sup> Including CHF 38.5 million (2019: CHF 37.5 million) as a required share for deposit guarantee purposes and estimated goodwill for the asset deal concluded with EFG Bank AG (expected in April 2021).

<sup>3</sup> In 2020, the Bank granted CHF 133.5 million in COVID-19 and COVID-19 Plus loans which are almost entirely secured by a guarantee provided by the Swiss Confederation.



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

(CHF thousands)	31.12.2020	31.12.2019
<b>Trading portfolio assets</b>		
Equity-type securities	146	-
Shares in investment funds	2,846	5,734
Precious metals and commodities	13,072	11,837
Structured products	2,349	2,542
<b>Total trading portfolio assets</b>	<b>18,413</b>	<b>20,113</b>
<i>of which determined using a valuation model</i>	-	-
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	-	-

### 5.6.4 Presentation of derivative financial instruments (assets and liabilities)

(CHF thousands)	Trading instruments			Hedging instruments		
	Replacement values		Contract volume	Replacement values		Contract volume
	positive	negative		positive	negative	
<b>Interest rate instruments</b>						
Swaps	-	-	-	4,002	19,637	460,000
<b>Total interest rate instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,002</b>	<b>19,637</b>	<b>460,000</b>
<b>Foreign currencies / precious metals</b>						
Forward contracts	1,316	2,003	244,489	4	-	7,575
Swaps (interest rate/currency)	3,727	2,913	488,359	12,114	5,827	3,674,927
Options (OTC)	457	457	146,962	-	-	-
<b>Total foreign currencies / precious metals</b>	<b>5,500</b>	<b>5,373</b>	<b>879,810</b>	<b>12,118</b>	<b>5,827</b>	<b>3,682,502</b>
<b>Total derivative financial instruments</b>	<b>5,500</b>	<b>5,373</b>	<b>879,810</b>	<b>16,120</b>	<b>25,464</b>	<b>4,142,502</b>
<i>of which determined using a valuation model</i>	<i>5,500</i>	<i>5,373</i>	<i>-</i>	<i>16,120</i>	<i>25,464</i>	<i>-</i>
Total previous year	3,260	3,111	662,415	7,968	39,059	2,986,423
<i>of which determined using a valuation model</i>	<i>3,260</i>	<i>3,111</i>	<i>-</i>	<i>7,968</i>	<i>39,059</i>	<i>-</i>

#### Recapitulation

(CHF thousands)	Positive replacement values (cumulative)	Negative replacement values (cumulative)	Contract volume
Trading instruments	5,500	5,373	879,810
Hedging instruments	16,120	25,464	4,142,502
<b>Total before netting agreements</b>	<b>21,620</b>	<b>30,837</b>	<b>5,022,312</b>
Total previous year	11,228	42,170	3,648,838
<b>Total after netting agreements</b>	<b>21,620</b>	<b>30,837</b>	<b>5,022,312</b>
Total previous year	11,228	42,170	3,648,838

#### Breakdown by counterparty

(CHF thousands)	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	-	20,817	803

## 5.6.5 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Debt securities	322,617	343,475	332,490	351,635
<i>of which intended to be held to maturity</i>	318,407	319,110	328,186	326,908
<i>of which not intended to be held to maturity (available for sale)</i>	4,210	24,365	4,303	24,727
Shares in investment funds	17,982	11,242	18,804	11,612
Equity-type securities	10,634	4,171	11,919	5,138
<i>of which qualified participations (at least 10% of voting capital)</i>	-	-	-	-
Precious metals	94	203	94	203
Real estate	9,059	5,921	9,059	5,921
<b>Total financial investments</b>	<b>360,386</b>	<b>365,012</b>	<b>372,366</b>	<b>374,509</b>
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	284,169	250,619	293,622	257,950

## Breakdown of counterparties by rating

(CHF thousands)	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Book value of debt securities	292'502	18'254	-	999	-	10'862

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

## 5.6.6 Breakdown of other assets and other liabilities

(CHF thousands)	31.12.2020	31.12.2019
<b>Other assets</b>		
Compensation account	14,282	9,660
Indirect taxes	635	698
Various other assets	101,874 <sup>1</sup>	28,828 <sup>2</sup>
<b>Total other assets</b>	<b>116,791</b>	<b>39,186</b>
<b>Other liabilities</b>		
Direct / indirect taxes	2,541	2,672
Unredeemed cash bonds	1,031	1,215
Various other liabilities	3,858	32,413 <sup>3</sup>
<b>Total other liabilities</b>	<b>7,430</b>	<b>36,300</b>

<sup>1</sup> of which a balance of CHF 100.7 million for in-house banking transactions.

<sup>2</sup> of which a balance of CHF 24 million from in-house banking transactions.

<sup>3</sup> of which CHF 23.4 million additional undistributed payment to the Canton for 2018 paid out in 2020.

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

(CHF thousands)	31.12.2020		31.12.2019	
	Book value	Effective commitments	Book value	Effective commitments
<b>Pledged / assigned assets</b> (excluding securities financing transactions)				
Book value of mortgages set as collateral for mortgage bonds of the Mortgage Bond Issuing Body of the Swiss Cantonal Banks	2,508,092	1,838,000	2,511,706	1,960,000
Book value of securities delivered as collateral to SIX Group AG	1,413	-	1,414	-
Book value of securities delivered as collateral in connection with Repo Light credit with SNB	21,527	-	21,418	-
Book value of the Covid-19 loans assigned to the SNB.	122,900	122,900	-	-
Book value of assets pledged to secure own commitments	10,806	10,806	37,484	37,484
<b>Total pledged / assigned assets</b>	<b>2,664,738</b>	<b>1,971,706</b>	<b>2,572,022</b>	<b>1,997,484</b>
<b>Assets under reservation of ownership</b> Assets under reservation of ownership	-	-	-	-

## 5.6.8 Disclosure on the economic situation of pension schemes

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

The Bank has no own pension scheme.

### 5.6.8.2 Disclosures on the economic situation of own pension schemes

#### a) Employer contribution reserves (ECR)

The Bank had no ECR as at 31.12.2020

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

	Over- / underfunding at the end of 2020	Economic interest of the Bank		Change in economic interest (benefit and/or commitment) versus previous year	Contributions paid for 2020	Pension expenses in personnel expenses	
		31.12.2020	31.12.2019			31.12.2020	31.12.2019
Pension plans without overfunding / underfunding	-	-	-	-	8,751	8,333	7,837

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

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

At the end of the accounting period the Bank had no obligation towards the pension fund. There are no contribution reserves on the part of the employer and the relationship between the Bank and its pension fund is based on a global affiliation contract.

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

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

(CHF thousands)	Status 31.12.2019	2020				Status 31.12.2020
		Use in conformity with designated purpose	Currency conversion differences	New creations charged to income	Releases to income	
<b>Provisions</b>						
Provisions for expected losses <sup>1</sup>	82	-	-	4	-	86
Provisions for other business risks	1,241	-887	-	100	-2	452
Additional pension provision	8,205	-3,238	-	806	-100	5,673
<b>Total provisions</b>	<b>9,528</b>	<b>-4,125</b>	<b>-</b>	<b>910</b>	<b>-102</b>	<b>6,211</b>
<b>Reserves for general banking risks</b>	<b>495,000</b>	<b>-</b>	<b>-</b>	<b>31,000</b>	<b>-</b>	<b>526,000</b>
<b>Value adjustments for default and country risks</b>	<b>41,509</b>	<b>-1,635</b>	<b>-604</b>	<b>7,108</b>	<b>-4,100</b>	<b>42,278</b>
of which value adjustments for default risks in respect of impaired loans	41,509	-1,635	-604	7,108	-4,100	42,278

### 5.6.10 Presentation of the Bank's endowment capital

(CHF thousands)	31.12.2020			31.12.2019		
	Total par value	Quantity	Capital eligible for dividend	Total par value	Quantity	Capital eligible for dividend
<b>Endowment capital</b>						
Endowment capital	500,000	500,000	500,000	480,000	480,000	480,000
of which paid up	500,000	500,000	500,000	480,000	480,000	480,000
<b>Total endowment capital</b>	<b>500,000</b>	<b>500,000</b>	<b>500,000</b>	<b>480,000</b>	<b>480,000</b>	<b>480,000</b>

On 19 June 2017, the Grand Council (Cantonal Parliament) approved a request for an increase of the endowment capital from CHF 240 million to CHF 500 million. This increase was granted with the transformation into endowment capital of perpetual subordinated loans for a total of CHF 140 million and the authorisation to increase the capital by an additional CHF 120 million.

The State Council has authorised four subsequent increases in endowment capital, and the funds allocated have been fully disbursed.

Date of the decision by the Grand Council	Endowment capital paid out date	Conversion into perpetual loans	Increase in endowment capital	Overall increase in endowment capital
6 December 2017	31 December 2017	60,000	-	60,000
22 August 2018	31 December 2018	80,000	50,000	130,000
27 November 2019	31 December 2019	-	50,000	50,000
23 December 2020	31 December 2020	-	20,000	20,000
<b>Total increase in endowment capital</b>		<b>140,000</b>	<b>120,000</b>	<b>260,000</b>

The Bank did not issue any participation rights.

### 5.6.11 Disclosure of amounts due from / to related parties

(CHF thousands)	31.12.2020		31.12.2019	
	Due from	Due to	Due from	Due to
Holders of qualified participations	24,928	114,978	22,429	112,662
Group companies	33,027	706,340	27,192	532,704
Linked companies	137,710	160,333	136,649	212,594
Transactions with members of governing bodies	21,518	8,052	21,169	7,888

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

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

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

Loans to members of governing bodies primarily consist of mortgage loans and are concluded at market conditions and on the basis of standard lending parameters.

<sup>1</sup> On off-balance sheet commitments.

## 5.6.12 Disclosure of holders of significant participations

(CHF thousands)	31.12.2020		31.12.2019	
	Nominal	% of equity	Nominal	% of equity
Canton Ticino With voting rights	500,000	100	480,000	100

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

Bank's own country rating (CHF thousands)	Standard & Poor's Rating	31.12.2020		31.12.2019	
		Net foreign exposure	Share as %	Net foreign exposure	Share as %
1 Excellent and high quality	AAA to AA-	255,159	80,4%	191,864	77,2%
2 Greater quality than average	A+ to A-	1,968	0,6%	896	0,4%
3 Medium quality	BBB+ to BBB-	53,480	16,8%	47,469	19,1%
4 Default risk	BB+ to BB	1	0,0%	101	0,0%
5 Default risk material	BB-	104	0,0%	3	0,0%
6 Speculative, high default risk	B+ to B-	3	0,0%	677	0,3%
7 Poor quality, very high risk	CCC+ to D	-	0,0%	-	0,0%
Unrated	-	7,004	2,2%	7,447	3,0%
<b>Total</b>		<b>317,719</b>	<b>100,0%</b>	<b>248,457</b>	<b>100,0%</b>

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

## 5.7 INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

### 5.7.14 Breakdown of fiduciary transactions

(CHF thousands)	31.12.2020	31.12.2019
Fiduciary investments with third-party banks	13,195	77,473
<b>Total fiduciary transactions</b>	<b>13,195</b>	<b>77,473</b>

## 5.8 INFORMATION ON THE INCOME STATEMENT

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

#### Breakdown of result from trading activities by business line

(CHF thousands)	2020	2019
Trading activities with private clients	5,843	5,159
Trading activities with corporate clients	4,916	5,322
Trading activities on own account	2,386	4,286
<b>Total result from trading activities</b>	<b>13,145</b>	<b>14,767</b>

#### Result from trading activities and fair value option

(CHF thousands)	2020	2019
Equity-type securities (including investment funds)	-1,500	940
Foreign currencies and banknote trading	12,681	11,377
Commodities / precious metals	1,964	2,450
<b>Total result from trading activities</b>	<b>13,145</b>	<b>14,767</b>

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

<b>Refinancing income in the item "Result from interest operations"</b>		
Income and dividend income from trading portfolio is offset with costs of refinancing of that portfolio.		
(CHF thousands)	<b>2020</b>	<b>2019</b>
<b>Negative interest</b>		
Negative interest on assets (decrease in interest and discount income)	283	845
Negative interest on liabilities (decrease in interest expenses)	8,977	3,299

### 5.8.17 Breakdown of personnel expenses

(CHF thousands)	<b>2020</b>	<b>2019</b>
Salaries	52,536	53,328
<i>of which expenses relating to share-based compensation and alternative forms of variable compensation</i>	-	-
Social insurance benefits	14,850	14,071
Other personnel expenses	2,024	2,170
<b>Total personnel expenses</b>	<b>69,410</b>	<b>69,569</b>

### 5.8.18 Breakdown of general and administrative expenses

(CHF thousands)	<b>2020</b>	<b>2019</b>
Office space expenses	5,302	4,918
Expenses for information and communications technology	20,232	19,386
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	431	437
Fees of audit firm	328	398
<i>of which for financial and regulatory audits</i>	328	353
<i>of which for other services</i>	-	45
Other operating expenses	11,357	10,903
<i>of which compensation for any State guarantee</i>	-	-
<b>Total general and administrative expenses</b>	<b>37,650</b>	<b>36,042</b>

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

<b>5.8.19.1 Material losses</b> No material losses were incurred during the financial year.
<b>5.8.19.2 Extraordinary income and extraordinary expenses</b> At the end of June 2020, the Group committed CHF 6.2 million to the "Vivi il tuo Ticino" campaign in support of the restaurant and accommodation sectors. This was booked under "Extraordinary expenses". The part of this commitment for which no request was received (CHF 2.1 million) was recorded under "Extraordinary income".
<b>5.8.19.3 Hidden reserves</b> The Bank does not hold any hidden reserve as it discloses its individual financial statements on the basis of the true and fair view principle.
<b>5.8.19.4 Reserves for general banking risks</b> CHF 31 million were deducted from "Changes in reserves for general banking risks" and allocated to reserves for general banking risks.
<b>5.8.19.5 Value adjustments and provisions no longer required</b> There is nothing to report under this heading.
<b>5.8.19.6 Gains or losses from participations and tangible fixed assets</b> There were neither gains nor losses from participations and tangible fixed assets during this financial year.

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

(CHF thousands)	<b>2020</b>	<b>2019</b>
Real estate tax	304	327
Other taxes	170	130
<b>Total taxes</b>	<b>474</b>	<b>457</b>

The Bank is subject to communal taxation for intercommunal apportionment in accordance with Art. 279 ff of the TL. The Bank is exempt from federal taxation as it is a Cantonal establishment (Art. 56b of the Federal Act on Direct Federal Taxation) and from cantonal taxation (legislative decree of 19.5.1952).

## Report of the auditor

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

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Banca dello Stato del Cantone Ticino, which comprise the balance sheet as at 31 December 2020, income statement, statement of changes in endowment capital and annex for the year then ended, including a summary of significant accounting policies (pages 74-86).

In our opinion, the financial statements give a true and fair view of the financial position as at 31 December 2020, the financial performance and the cash flows for the year then ended in accordance with the accounting rules for banks and comply with Swiss law and the Law on Banca dello Stato del Cantone Ticino.

#### Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Our audit approach

##### Overview

Overall materiality: CHF 4'298'000



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

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

- Impairment of amounts due from customers and mortgage loans.

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### Materiality

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

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

<b>Overall materiality</b>	CHF 4'298'000
<b>How we determined it</b>	5% of the operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items).
<b>Rationale for the materiality benchmark applied</b>	We chose the operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items) because it is the benchmark against which the performance of a bank is most commonly measured and it is the generally accepted benchmark in the financial industry.

We agreed with the Audit Committee of the Board of Directors that we would report to them misstatements above CHF 214'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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





## Impairment of amounts due from customers and mortgage loans

### Key audit matter

As shown in the note 5.6.2 of the annual report 2020, the Bank grants loans and advances to customers and mortgage loans (77% of total assets or CHF 12'114 million). We consider the valuation of amounts due from customers and mortgage loans that show signs of potential default of debtor and need impairment of the loan to be a key audit matter on the basis of the magnitude of the related balance sheet positions. Moreover, the determination of the amount of any impairment is based on the customer's capacity to repay the amount due and/or the liquidation value of the collateral, both of which may be influenced by subjective factors and involve management's judgement.

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

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

### How our audit addressed the key audit matter

We checked and tested the key controls relating to amounts due from customers and mortgage loans:

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

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

In addition, we tested on a sample basis that:

- the risk category given to the selected credit was adequate;
- the market value of the collateral was determined or updated in accordance with market practice;
- the impairments were calculated and recorded in accordance with the accounting principles; and assessed thereby management's assumptions.

The methods and assumptions used to determine impairments are appropriate and in accordance with our expectations.

## Responsibilities of the Board of Directors for the financial statements

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

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

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

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



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

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

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

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

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

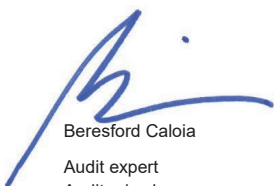


## Report on other legal and regulatory requirements

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

PricewaterhouseCoopers SA



Beresford Caloia  
Audit expert  
Auditor in charge



Lorenzo Morelli  
Audit expert

Lugano, 26 March 2021



## Board of Directors at 31.12.2020

### **Chairman**

Bernardino Bulla <sup>1</sup>

### **Deputy Chairman**

Raoul Paglia <sup>1,2</sup>

### **Secretary**

Marco Fantoni <sup>1</sup>

### **Members**

Avv. Giovanni Jelmini <sup>1,2</sup>

Daniel Joss <sup>1</sup>

Michele Morisoli <sup>1,2</sup>

Luca Soncini <sup>1</sup>

## Public Mandate Control Commission at 31.12.2020

### **Chairman**

Tiziano Galeazzi

### **Deputy Chairman**

Fabrizio Garbani Nerini

### **Members**

Omar Balli

Samantha Bourgoïn

Giacomo Garzoli

Marco Passalia

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<sup>1</sup> Independent members as specified in FINMA Circular 2017/01

<sup>2</sup> Members of the Audit and Risk Committee

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

PricewaterhouseCoopers SA

# Internal Auditors

## **Head of Internal Audit**

Gabriele Guglielmini

## **Deputy**

Guido Gianetti

## Executive Board at 31.12.2020

### President of the Executive Board

Fabrizio Cieslakiewicz

### Members of the Executive Board

Daniele Albisetti  
 Curzio De Gottardi  
 (since 01.01.2021)  
 Claudio Genasci  
 Patrick Lafranchi  
 Gabriele Zanzi

## Members of the Management at 31.12.2020

### BELLINZONA

#### Senior Vice-Presidents

Luca Bordonzotti  
 Clio Indemini  
 Gabrio Lavizzari  
 Stefano Marra  
 Roberto Nuschak  
 Giulio Ruggeri  
 (until 31.01.2020)  
 Matteo Saladino  
 Pietro Soldini  
 Lorenzo Squellati  
 Norman Stampanoni  
 Fabrizio Stöckli  
 Carlo Tomasini  
 Mirko Zoppi

#### First Vice-Presidents

Mauro Bazzotti  
 Lucamaria Beeler  
 (until 29.02.2020)  
 Maurizio Derada  
 Giacomo Frei  
 Massimiliano Morelli  
 Massimo Penzavalli

#### Vice-Presidents

Enrico Bertozzi  
 Omar Cadola  
 Dario Caramanica  
 Medardo Caretti  
 Adolfo Genzoli  
 Luca Ghiringhelli  
 Manuel Giambonini  
 Dante Manara  
 Daniele Manzoni  
 Raffaele Marti  
 Roberto Meyer  
 Marco Molteni  
 Cesare Pedrocchi  
 Patrick Pestelacci  
 Francesco Pisano  
 Fiorenzo Poretti  
 Aris Rogic  
 Giorgio Sala  
 Michele Schandroch  
 Ferruccio Unternährer

### LUGANO

#### Senior Vice-Presidents

Luigi Longoni  
 Carlo Ruggia

#### First Vice-Presidents

Filippo Dotti  
 Sura Fini Di Pietro  
 Alberto Pedrazzi  
 Luca Todesco

#### Vice-Presidents

Roberto Barbera  
 Gianluca Colpo  
 Gabriele Mantegazzi  
 Alessandro Massetti  
 Isabella Pastore Pacia  
 Roberto Vassalli  
 Jvan Zatta

### LOCARNO

#### Senior Vice-Presidents

Marco Meschiari

#### First Vice-Presidents

Fabrizio Conti Rossini  
 Claudio Gnesa

#### Vice-Presidents

Verena Gaggetta  
 Stephan Mair  
 Maurizio Ostinelli  
 Marco Pellanda  
 Franco Storni

### CHIASSO

#### Senior Vice-Presidents

Claudio Cereghetti  
 Mario Grassi

#### First Vice-Presidents

Gilberto Pittaluga  
 Marco Soragni

#### Vice-Presidents

Maurizio Brenta  
 Lorenzo Imperiali

### INTERNAL AUDITORS

#### Equivalent to Senior Vice-President

Gabriele Guglielmini

#### Equivalent to First Vice-President

-

#### Equivalent to Vice-Presidents

Guido Gianetti  
 Christian Steffen

## Head Office

Viale H. Guisan 5  
Casella Postale  
**6501 Bellinzona**

## Branches

Corso S. Gottardo 4  
**6830 Chiasso**

Via Naviglio Vecchio 4  
**6600 Locarno**

Via Pioda 7  
**6900 Lugano**

# Agencies

Via Contrada San Marco 41

**6982 Agno**

**6780 Airolo**

Viale Papio 5

**6612 Ascona**

Via Pini 2

**6710 Biasca**

Via Leoncavallo

**6614 Brissago**

Via Pretorio 3

**6675 Cevio**

**6715 Dongio**

Piazza S. Francini 5

**6760 Faido**

Largo Libero Olgiati 81a

**6512 Giubiasco**

Via San Gottardo 77

**6596 Gordola**

Via Trevano 97

**6904 Lugano-Molino Nuovo**

**6900 Lugano-Piazza Riforma**

Via Cantonale 38

**6928 Manno**

Via Lavizzari 18

**6850 Mendrisio**

Via Pietro Fontana

**6950 Tesserete**

## ONLINE AGENCY

Agenzia **VICINA**

Tel 091 803 33 33

agenziavicina@bancastato.ch

c/o Sede Centrale

## ATM ONLY

San Giovanni Hospital

**6500 Bellinzona**

Piazza Collegiata 12

**6500 Bellinzona**

FFS Train Station

**6500 Bellinzona**

Via San Francesco 1

**6600 Locarno-Città Vecchia**

Mercato Cattori

**6616 Losone**

Civico Hospital

**6900 Lugano**

Beata Vergine Hospital

**6850 Mendrisio**

Via Cantonale 19

**6805 Mezzovico**

Via alle Brere 5

**6598 Tenero**

linea **DIRETTA**

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