



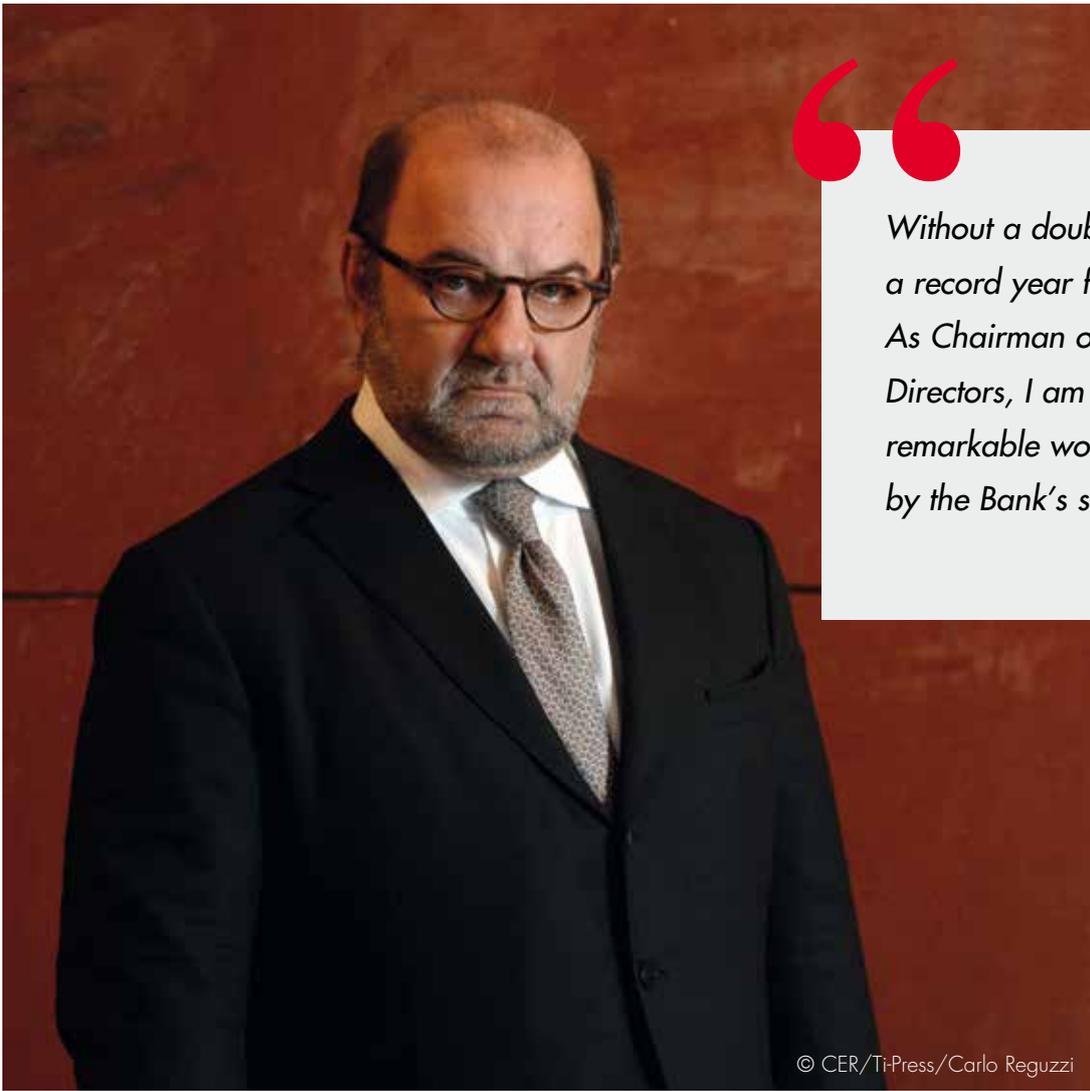
Annual Report 2019



Pictures: Cima Norma, Dangio.

Table of Contents

Message from the Chairman of the Board of Directors	5
Corporate Governance	6
Ticino's Economy in 2019 and Outlook for 2020	24
Report of the Board of Directors of Banca dello Stato del Cantone Ticino	26
Group Financial Statements	35
Auditors' Report	67
Individual Financial Statements	73
Auditors' Report	87
Board of Directors	92
Public Mandate Control Commission	92
Statutory Auditors as defined by the Swiss Federal Law on Banks and Savings Banks	93
Internal Auditors	93
Executive Board	94
Members of the Management	94
Head Office and Branches	95
Agencies	96



Without a doubt, 2019 was a record year for BancaStato. As Chairman of the Board of Directors, I am proud of the remarkable work performed by the Bank's staff.

© CER/TiPress/Carlo Reguzzi

Bernardino Bulla

Chairman of the Board of Directors

Message from the Chairman of the Board of Directors

Dear Citizens of Ticino,

Without a doubt, 2019 was a record year for BancaStato. As Chairman of the Board of Directors, I am proud of the remarkable work performed by the Bank's staff.

As is customary, I would like to take this opportunity to comment on, and briefly contextualise, the results achieved.

Let us begin with the Bank's operating results, that is the difference between income and expenses incurred, which exceeded CHF 87 million – a sizeable performance. In the preceding financial report, I made a clarification which also applies to this reporting year. The expenses borne by BancaStato include hundreds of contributions made by the Bank to various collective bodies, associations and societies that are active in Ticino and which support its culture, sports and welfare. Our commitment in this regard is 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 numerous other medium and small contributions. This "watering-can" policy makes it possible for the Bank to maximise the number of beneficiaries. In 2019, we distributed over CHF 2 million to more than 600 recipients, of which at least CHF 500,000 went to youth sports. The beneficiaries of our sponsorships play an important role in our society. Thanks to them, our Canton is able to benefit from a host of valuable opportunities for social gatherings and cultural promotion.

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

In 2019, net profit (which might be the most commonly used item of the income statement to actually assess performance in a financial year) was recorded at an amount just below CHF 53 million. Not only is this a historical record, but it would

have been even greater without the CHF 31 million allocated to the reserves for general banking risks as well as an additional CHF 2 million granted to the Fondazione del Centenario. The major allocation of CHF 31 million serves the same purpose as the substantial allocations effected in the preceding years, specifically to increase the Bank's capital adequacy. This is in order to ensure the Bank's ability to maintain the solid financial foundation necessary to confidently face any foreseeable or unexpected challenges that the future might bring. As for the Fondazione del Centenario, its ultimate goal is to promote Ticinese innovative start-ups through TiVenture which has already brought about numerous and interesting achievements.

The reporting year was also satisfying for Axion SWISS Bank SA as it managed to record excellent results in spite of the particularly difficult conditions with respect to asset management. I am very pleased with this accomplishment. The considerable efforts undertaken to refine synergies within the Group are increasingly met with success.

Although the extent of the impact of the Coronavirus health emergency on the national and the Ticinese economies, and therefore on BancaStato, is still unclear, we expect 2020 results to be in line with those of recent years.

Notwithstanding, and looking ahead to the future, there is no lack of uncertainty. Over the past 15 years, markets have undergone a paradigm shift and a change in profile. Technologies, along with evolving client habits, have undergone revolutionising changes. What this reality will be like in another 15 years is obviously impossible to know in advance. However, 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 proximity to Ticino and its people. All this is being done with one single objective: to continue 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"¹ of the Swiss Financial Market Supervisory Authority (FINMA) voluntarily publishes information on its corporate governance and draws reference from the outline proposed by the Directive on Information Relating to Corporate Governance issued by SIX Swiss Exchange on 20 June 2019².

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 2019 or refer to the entire 2019 financial year, except as regards information pertaining to the new organisational chart which became effective at the beginning of 2020.

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 Banks³.

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 Bellinzona⁴.

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.

As stated in 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;

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

² Any amendment or addition to this Circular in 2020 will be communicated on www.bancastato.ch, under "Novità ed Eventi". The directive is available at: https://www.six-exchange-regulation.com/dam/downloads/regulation/admission-manual/directives/O6_16-DCG-FIDLEG_en.pdf

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

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

9. trading with professional banknote dealers as per Art. 2e of the FINMA Anti-Money Laundering Ordinance (ORD-FINMA; RS 955.033.0);
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 legislation⁵.

1.1. BANK STRUCTURE AND OWNERSHIP

1.1.1 Operational structure

1.1.2 Group operational structure

BancaStato is a Group. As at 31 December 2019 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.

The following divisions report to the President of the Executive Board: Human Resources and Strategic Planning & Communications.

The other divisions are: Markets and Private Banking, Retail and Corporate Clients, Risk and, lastly, Financial and Operational Services.

1.2 Ownership

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

1.3 Cross-shareholdings

The Bank does not have any cross-shareholdings.

2. CAPITAL STRUCTURE

2.1 Capital

By law, the State assigns the Bank an endowment capital and the Bank is authorised to issue participation certificates⁶. To this date, the Bank has not made use of the latter source of capital, and its capital solely consists of the endowment capital provided by the State, that is CHF 480 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 2019.

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 adequacy⁷ in view of the Bank's growing business as well as in the event of more restrictive federal laws and regulations concerning equity.

⁵ <https://www.finma.ch/it/finma-public/istituti-persone-e-prodotti-autorizzati/>

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

⁷ https://www4.ti.ch/user_librerie/php/GC/allegato.php?allid=115514

As mentioned in Section 2.3, the Institute may further rely on a residual payment of CHF 20 million.

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 480 million (from CHF 430 million), following Government Resolution 5933 of 27 November 2019. This increase took effect on 31 December 2019.

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.

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 2019, just as at the end of 2018, 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 due to mature in 2021. This bond qualifies 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), directors, administrators and employees of other credit institutions (with the exception of members of the Swiss National Bank governing bodies), cannot be appointed to the Board of Directors. Relatives and next of kin, spouses, registered partners or cohabiting partners, siblings or siblings-in-law, business partners and employees of the same company may not be members of the Board of Directors simultaneously.

The members of the Board of Directors fulfil the independence criteria described in FINMA Circular 2017/01⁸.

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 2019⁹, their function, education, professional background and principal activities.

⁸ As Chairman of the Board of Directors since July 2017, and having formerly served as President of the Executive Board, Bernardino Bulla has fully complied with FINMA independence rules since July 2019.

<https://www.finma.ch/fr/~media/finma/dokumente/dokumentcenter/myfinma/rundschreiben/finma-rs-2017-01-20200101.pdf?la=en>.

⁹ The composition of the Board of Directors underwent changes in 2019: Carlo Danzi's mandate ended at the end of June.

At the time Mr. Danzi was secretary. For details concerning his function and educational and professional background and activities, refer to the 2018 Annual Report.

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

- » Chairman 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;
- » Member of the Board of Directors of Lugano Airport SA, Lugano;
- » Deputy Chairman of the Foundation Council of Perspectiva Joint Foundation, Basel;
- » Chairman of the Board of Directors of Swissmemotec SA, Lugano.

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 Board of Directors of the Carla and Bruno Fabbroni Foundation, Lugano;
- » Chairman of HCS Digital Solutions Sagl, 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. 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

- » Deputy Chairman of the Board of Directors of Axion SWISS Bank SA, Lugano and member of its Audit Committee;
- » Member of the Foundation Council of "Fondazione Cardiocentro Ticino";
- » President of the Civic Philharmonic of Mendrisio.

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.

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. Vice-president of the Liberal-Radical Party of Ticino since 2012.

Other principal activities

- » Chairman of "Fondazione Casa dell'Accademia", Mendrisio;
- » Deputy Chairman of "Associazione l'Ancora", a centre for drug addiction recovery, Lugano.

LUCA SONCINI

Function

Member of the Board of Directors, born on 18 May 1957, Swiss. On the Board of Directors since 11 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 daily newspaper *Corriere del Ticino* as 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;
- » Independent financial consultant;
- » Member of the Foundation Council of the Swiss Finance Institute;
- » Member of the Board of Directors of Enterra SA, Lugano;
- » Chairman of the Board of Directors of SPP Cost Control SA, Torricella-Taverne.

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 2020,
- » Raoul Paglia, Deputy Chairman: 10 July 2012 / 30 June 2021,
- » Marco Fantoni: 10 March 2009 / 9 March 2021,
- » Giovanni Jelmini: 1 December 2011 / 30 June 2022,
- » Daniel Joss: 1 July 2019 / 30 June 2022,
- » Michele Morisoli: 2 December 2008 / 30 June 2020,
- » Luca Soncini: 16 October 2017 / 30 June 2020.

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. Decisions are determined by a simple majority of those present, and abstention is not permitted.

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

The Board of Directors has defined its own committees, which are described below. The organisation, functioning and competences of the 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 2019, the Board of Directors convened 13 times. The meetings of the Board of Directors and its committees lasted on average between three and four hours.

3.4 Areas of responsibility

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

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

Regulatory duties

- establishing the Bank's regulatory provisions;
- laying down 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 and 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, Chief Internal Auditor and his deputy as well as their periodic assessment, 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. 22 and 23 of the Operating Rules and Regulations;
- authorisation to assume mandates as corporate or foundation bodies on the part of all Bank staff;
- authorisation to operate in new sectors;
- approval of tasks and objectives of each division;

- decision to appear in court and initiate legal proceedings, with power to delegate;
- appointment of the Chairs 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;
- review and approval of budgets, accounts, semi-annual and annual financial reports and all other elements subject to publication requirements;
- approval of capital planning and liquidity planning;
- definition of the staff and remuneration policies;
- review and 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;
- ratification of loans granted to members of the Board of Directors by the Executive Board or by its subordinate offices within the framework of their delegated responsibilities;
- decision-making on the acquisition and disposal of participations exceeding 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, in particular the control of major risks as per Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Traders (CAO, RS 952.03) and the requirements of the Ordinance on Liquidity (OLiq, RS 952.06);
- 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 and the Internal Auditors;
- analysis of the summary prepared by the Head of the Risk Division of the results of various reports on activities and risk evaluation of the Legal and Compliance, Human Resources and Group Internal Control Departments, as well as the organisational units Risk Management and Security.

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

With respect to consolidated supervision, the Board of Directors exercises its competences on the basis of the Group Rules and Regulations which is drawn 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 Obligations¹⁰, 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 2019 are described hereunder.

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

Chairman's Office

The Chairman's Office represents the Bank vis-à-vis its owner as well as political institutions and public opinion. As of the beginning of 2020, specific functions were reattributed to this office.

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

¹⁰ <https://www.admin.ch/opc/en/classified-compilation/19110009/index.html>

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;
- policy statements with respect to staff and remuneration.

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 a year, an evaluation of the framework strategy;
- 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;
- reports on the risk-assessment activities of the Legal and Compliance, Human Resources and Group Internal control departments, as well as the Risk management and Security organisational units. The Head of the Risk Division summarises the results of the various reports and ensures this information is conveyed;
- 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 2019 the Committee convened ten times.

Projects Committee

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

- planning, implementation, management and control methods, budgets and observance 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 2019 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 balance sheet, the consolidated income statement and the Annex to the group financial statements, as well as any other element subject to a publication requirement;
- information on measures implemented in order to close loopholes and on the progress of implementing recommendations resulting from internal and external audits, and from any request by FINMA.

On an annual basis

- strategic planning;
- budgets, financial statements and annual reports, as well as any other element subject to a publication requirement;
- 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 competences of the Board of Directors;
- confirmation of adequate allocation of resources both in terms of personnel and any type of equipment;
- a report on the activities and risk evaluation of the Legal and Compliance Department, the Human Resources Department and Group Internal Controls, and the organisational units of Risk Management and Security;
- summary of 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 has External Auditors, in conformity with current banking legislation (refer to Section 8.1) as well as Internal Auditors. The Internal Auditors' Office is independent of the Executive Board and was composed at the end of 2019 of five staff, including the Head of Internal

Auditors (Mr. Gabriele Guglielmini, Chartered Accountant – Federal Accounting Diploma). The Chairman of the Audit and Risk Committee of the Board of Directors acts as the Head of Internal Auditor's direct superior and oversees his activity.

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

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

The 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. 15 of the Operating Rules and Regulations, and are the following:

Regulatory duties

- implementing the regulatory provisions and recommendations of the supervisory authority and surveillance bodies, internal and professional guidelines, and oversight on compliance of the same;

- issuing specific regulations, 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 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 of 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 competences based on the Group Regulations.

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

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

Risk Committee

The Risk Committee is responsible for ensuring adequate supervision of overall risk and, in particular, operational risks. The duties assigned to this Committee are to develop risk profiles within the framework of thresholds set by the Board of Directors, to ratify the individual operational losses up to the threshold described in the Committee's regulations, and the provision of infrastructure and adequate resources for the control and supervision of risks (including aspects related to personnel and outsourced activities).

The Risk Committee is chaired by the President of the Executive Board. Its Deputy Chairman is the Head of Financial and Operational Services.

Credit Risk Committee

The Credit Risk Committee is responsible for managing the Bank's credit risk with the aim of optimising its administration. Within the framework of the competencies assigned to it, the

Credit Risk Committee decides on loan applications (loan granting, extension, renewal, increase). It also proceeds to a preliminary examination of and submits prior notice on all matters which are brought to the attention of the Board of Directors for information or debate.

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

ALCO (Assets & Liabilities Committee)

Within the framework of assignments entrusted to it, the ALCO is responsible for 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.

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

4.1 Members of the Executive Board

The Executive Board comprises the President of the Executive Board and members who are all Heads of Divisions. The members' term is indefinite, and they retire three years earlier than the standard age of retirement, 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 five members in office as at 31 December 2019 along with their functions on the Executive Board, their educational background, their professional record of accomplishments and their other principal activities.

FABRIZIO CIESLAKIEWICZ

Function

Appointed President of the Executive Board on 15 March 2017, 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 (IOR), 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



From left to right:

Gabriele Zanzi Head of the Retail and Corporate Clients Division;

Patrick Lafranchi Head of the Risk Division;

Fabrizio Cieslakiewicz President of the Executive Board;

Claudio Genasci Head of the Markets and Private Banking Division;

Daniele Albisetti Head of the Financial and Operational Services Division.

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, he became a member of the Executive Board and Head of Financial Services and Operations Division which is responsible for financial management and risk supervision, as well as for providing organisational, IT and operational support to various Bank processes. Since the introduction of the new organisational chart at the beginning of 2020, risk supervision activities have been channelled into the Risk Division.

Other activities

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

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.

Other activities¹¹

- » Chairman of the Foundation Council of the Fondazione di Previdenza Risparmio 3 of Banca dello Stato del Cantone Ticino, Bellinzona;
- » Member of the Investment Committee of the Real Estate Fund Residentia, as an expert in real estate financing.

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 Division¹².

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 Committee of "Fondazione per il perfezionamento commerciale", Lugano;
- » Chairman of the Child to Child for Africa Foundation, Lugano.

5. COMPENSATION, PARTICIPATIONS AND LOANS

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

The fixed and variable compensation of the Executive Board, as well as that of the Chief 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 using 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 2019, total compensation for members of the Bank's bodies was as follows: CHF 533,219 for the Board of Directors and CHF 3,665,601 for the five members of the Executive Board. The highest compensation within the Board of Directors was CHF 110,242 and the highest compensation within the Executive Board was CHF 908,000¹³.

¹¹ In 2019, Claudio Genasci stepped down from membership of the Board of Directors of Axion SWISS Bank SA, Lugano.

¹² Before the introduction of the new organisational chart effective at the beginning of 2020, this Division was known as Credit Management and Support.

¹³ The Corporate Governance guidelines (which BancaStato implements on a voluntary basis) 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.

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 2019, loans to Bank governing bodies totalled CHF 21.2 million and amounts due CHF 7.9 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 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 2019, the Commission included: Maurizio Agustoni (Chairman), Tiziano Galeazzi (Deputy Chairman as of June 2019, replacing Gabriele Pinoja since May 2019), Omar Balli, Samantha Bourgoïn (replacing Claudia Crivelli Barella since May 2019), Fabrizio Garbani Nerini (replacing, since December 2019, Bruno Storni, who took over from Pelin Kandemir Bordoli in May 2019), Giacomo Garzoli (succeeding Nicola Brivio since May 2019).

7. CONTROL AND DEFENCE MEASURES

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

8. AUDITORS

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

The appointment of the Auditors falls under the authority of the Board of Directors (Art. 37 of the Law on Banca dello Stato del Cantone Ticino). In 2005, the Board of Directors entrusted the External Auditor mandate to PricewaterhouseCoopers SA in accordance with the Banking Law. In 2019, Ms. Glenda Brändli, partner at PricewaterhouseCoopers SA, assumed the function of Lead Auditor for the third time. This mandate is annual.

PricewaterhouseCoopers SA also audits Axion SWISS Bank SA.

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

Financial results are published twice a year and communicated to the Ticinese media (radio, television and newspapers as well as on the internet), to press agencies, as well as to the press offices of all Cantonal Banks and the Association of Swiss Cantonal Banks. 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.ch¹⁴ and are available at any BancaStato counter.

For the 2019 financial year, the Bank published once again its Social and Environmental Report¹⁵. BancaStato can be accessed by the public via their website www.bancastato.ch which facilitate access to information on products, services and news from the Bank. The Bank is present in various daily newspapers, broadcasts and publications which deal with financial issues with interviews, presentations and financial articles¹⁶. 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. Moreover, representatives from BancaStato participate

¹⁴ <https://www.bancastato.ch/su-di-noi/cifre-e-pubblicazioni.html>

¹⁵ <https://www.bancastato.ch/su-di-noi/cifre-e-pubblicazioni.html>

¹⁶ <https://www.bancastato.ch/su-di-noi/media-novita-eventi/notizie.html>

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

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

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

Dr. rer. pol. Curzio De Gottardi

Member of the Management

Head of Strategic Planning and Communications,

Viale H. Guisan 5, 6500 Bellinzona

Phone +41 91 803 74 38

Fax +41 91 803 71 70

curzio.degottardi@bancastato.ch

Ticino's Economy in 2019 and Outlook for 2020

Davide Arioldi

Head of the PanelCODE (www.panelcode.ch)

Economic Research Institute, University of Lugano

February 2020

The international overview

The reporting year was characterised by an overall economic slowdown in most countries. The risks which manifested in the latter part of 2018 affected global growth in 2019.

Based on OECD figures, the economic growth rate stood at +2.91%, well below the +3.55% recorded in the preceding year. Growing uncertainties and a worsening geopolitical situation have affected investments which fell to minimal levels during 2019. For OECD countries, the real rate of investment growth was estimated at +1% for 2019, its lowest since the 2009 economic crisis. Growing trade tension between the United States and China have given rise to tariff increases on commerce as well as limitations on a number of technological goods in strategic sectors. This weakened the propensity of American companies to invest, which in turn substantially reduced the production of capital goods in supplier countries such as Germany and Japan. Industrial production tapered off in these countries, reverberating throughout their national economies. The economic slowdown was felt throughout Europe, particularly in Germany and Italy where growth rates of +0.6% and +0.19% respectively are expected in 2019, -0.9 and -0.5 percentage points below the previous year.

In Germany, the crisis in the automotive sector weighed heavily as demand was down, particularly from China, a number of tax incentives were abolished, and adjustments to production lines had to be made in order to accommodate new emission standards. The reduced demand in capital goods was evidenced by a decreased growth rate in world trade, its lowest in the last eight years. In this context, the service sector demonstrated a certain degree of resilience, generating employment and supporting domestic consumption. Central banks have reacted to changing economic conditions by reinstating more accommodating monetary policies. The American central bank put a stop to and reversed its policy of rate increases, while the European Central Bank announced a new round of quantitative easing in order to stimulate investments in the Eurozone. Overall, inflation fell slightly during the third quarter of 2019 to 1.87% in OECD countries. Lower inflation was also driven by a slight contraction in oil

prices with respect to its peak values of 2018. After a round of severe negative performance in the last quarter of 2018, financial markets evolved positively in 2019 surpassing, in most cases, their top values of the preceding year. Economic forecasts for 2020 point to substantial stagnation in growth, set at +2.94% globally. The European Union is expected to register a decreased growth rate of +1.2% and the American economy of +2.1%. In Asia, economies will continue their slowing trend with Japan expanding at a rate of +0.4% and China attaining a +5.9% growth. Risks for 2020 are connected to the world geopolitical situation: rising tensions between the United States and Iran as well as among Middle Eastern countries on the Libyan stage may cause inflationary pressures linked to higher oil prices with consequent negative impacts on domestic demand. Trade relations between the United States and China are expected to approach normalisation or, at least, to experience the crystallisation of political and commercial tensions, while Brexit negotiations seem to have averted an uncontrolled exit of the United Kingdom from the European Union.

The national overview

In 2019, growth in the domestic economy also experienced a substantial slowdown, primarily as a result of the world economic situation. From a GNP growth rate above +2.5% in 2018, the estimate for 2019 is +0.9%. As in the rest of the world, this reduction in growth levels was due almost exclusively to variations in capital goods (machinery and equipment) investment rates. These were expanding at a rate of +3.2% in 2018 down to +0.6% in 2019 – a drop of approximately -2.6 pp. Growth in construction investments also diminished from +1.4% in 2018 to +0.4% in 2019. Consumption, both private and public, maintained a stable course, with growth rates of +1% and +1.1%. The commercial balance continued to provide good support to the Swiss economy with exports up by +2.8% and imports increasing by +1.2%. In this context, employment was on the rise, up by +1.1% in 2019 in terms of full-time equivalents. Unemployment was therefore further reduced, down

to an annual average of 2.3% based on the SECO calculation method. Considering the various sectors, minor growth rates were registered in the construction and commerce industries, while manufacturing, specifically pharmaceuticals, showed higher growth rates. For 2020, SECO expects improving economic trends and a GDP growth of +1.7%. This increase in growth is likely to be favoured by a limited expansion of investments (+1.6%) in plants and equipment. Household consumption is expected to reach +1.3% in 2020, primarily boosted by a reduced inflation rate (+0.1%). The commercial balance will continue to make a positive contribution with exports and imports up by +3% and +2.8%. Occupation in terms of FTEs is expected to continue to increase, although at a lower rate (+0.8%), while the SECO-based jobless rate will increase slightly to 2.4%.

experienced the most shutdowns, also as a result of its larger size. With respect to the job market, the number of employed persons increased, and SECO registered a slight decrease in unemployment. Employment in terms of FTEs increased by +1.2% on an annual basis in the third quarter, while the SECO unemployment rate stood at 2.8% in 2019, below the 2.9% recorded in 2018. Unemployment, as calculated by SECO, is expected to remain stable, or to experience a slight increase in the second half of 2020, while employment should continue to improve, although at a lesser pace than at present. For 2020, BAK Basel forecasts indicate a potential real GDP growth equivalent to that experienced in 2019, at +1%.

The overview for Canton Ticino

According to BAK Basel estimates, Canton Ticino's real GDP grew by +1.1% in 2019. The slowdown in growth therefore also affected Ticino, cutting its rate by one half compared to 2018. As in the previous year, the commerce sector was the most hardly hit, experiencing a drop in sales and activities. All other areas fared better compared to the preceding year with positive results in the logistics, transport and financial sectors. The negative trend in commerce was confirmed by company demographics. In the first three quarters of 2019, the number of commercial businesses dropped by -90 units, or approximately -1.12%. All other sectors showed a positive evolution, or no change in their numbers, with an increase in professional, scientific and technical businesses as well as health and social services companies. The rate of corporate bankruptcies in Ticino fell slightly in 2019 standing at approximately 0.28% in the third quarter. The liquidation rate dropped primarily in the construction and ITC sectors, as well as in professional, technical and scientific areas and the financial sector. However, there was an increase in the tourism and accommodation industry and, to a lesser degree, in the manufacturing sector. A geographical breakdown shows that the district of Lugano

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 2019

The Swiss National Bank (SNB) has maintained its expansive monetary policy, and continued to apply negative interest rates on the Swiss franc again in 2019, beginning with assets deposited by banks at the SNB. As in 2015, this particular situation continues to impact negatively on commercial margins of credit institutions who are facing obvious difficulties in applying negative rates to their core clients.

In 2019, economic growth in Switzerland experienced a substantial slowdown, primarily as a consequence of the prevailing economic situation in the world. As regards stock markets, however, the turbulences of 2018 were followed by increased serenity, which was beneficial to client assets volumes and financial transactions.

In our Canton the real estate sector continues on its growth trend, driven by historically lowest interest rates, albeit showing – as in 2018 – specific signs of saturation. This is evidenced by the rate of empty housing that in Ticino is progressing more rapidly than in the rest of Switzerland.

In 2019, BancaStato once again recorded excellent results. This performance was achieved in a persistently difficult market for financial institutions, first and foremost because of the negative rates regime on the short and medium terms.

Comment on the Evolution of Major Balance Sheet and Off-balance-sheet Items¹⁷

Although BancaStato provides the full range of services typically offered by a universal bank, it continued to maintain its focus on mortgage lending in 2019. Mortgage loans increased by 4.5% or CHF 426 million, and stood at CHF 9.8 billion. As interest rates remain at a historic low, the loan portfolio continues to be primarily structured along the lines of fixed rate mortgages.

In this regard, it must be stated that BancaStato maintains a lending policy that reflects a cautious approach. As a result, the quality of its lending portfolio has steadily improved. An analysis of the stratification of mortgage loans at year-end shows that 94.1% of them are first mortgages and 73.6% are for housing. Approximately 70% of mortgage loans are for amounts below CHF 0.5 million, confirming that the Bank continues to be a valuable resource for those Ticinese people wishing to buy their own home.

Amounts due from customers saw a further slight increase (+CHF 22.1 million or 1.3%), exceeding CHF 1.7 billion. Loans to public corporations, for which the present negative rate situation has induced some institutional investors (primarily pension funds) to enter this market at extremely competitive conditions, decreased from CHF 706 million at the end of 2018 to CHF 670 million at 31.12.2019. BancaStato nevertheless succeeded in maintaining its dominant position in Ticino within this market segment. Loans to private individuals and companies also exhibited a positive trend (+CHF 58 million) and reached CHF 1.03 billion. These items are tangible signs of BancaStato's significant contribution to the development of the economy in the Canton.

As regards funding, payables resulting from client deposits once again showed a renewed and clear progression, up by CHF 567 million, and stood at CHF 8.9 billion. This 6.8% growth confirms the trend which has been positive for several years. Within this item, clients have turned primarily to savings accounts, which progressed by CHF 417 million and, in a smaller way, towards transactional accounts, which were up by CHF 150 million. Negative market rates have once again caused a further regression in all fixed-term deposit items on the balance sheet (fixed savings and cash bonds).

In order to satisfy its requirements for medium- to long-term funding, as well as to ensure sound management of exposure to interest rate

¹⁷ 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.

risk, the Bank operated on the capital market¹⁸ to finance increased lending with two mortgage bonds totalling CHF 250 million, maturing in February and July 2029. Moreover, as it had done in previous years, the Bank turned to bond issues of the Central Mortgage Bond Issuing Body of the Swiss Cantonal Banks to substitute matured funding. This source provided additional medium- to long-term capital at particularly low costs. Total funding obtained on the capital market slightly exceeded CHF 3 billion at the end of 2019, representing an 8.2% increase.

The Bank's balance sheet total grew by CHF 973 million or 7.3%, from CHF 13.4 billion at the end of 2018 to almost CHF 14.4 billion as at 31.12.2019. In the ten-year period from 2009 to 2019, business volumes increased by 79%.

With respect to off-balance-sheet operations, contingent liabilities increased by CHF 13 million, and stood at CHF 125.6 million. In this context it is to be noted that guarantees provided by the Bank increased slightly to CHF 105.4 million from CHF 100.1 million in the preceding year. Commitments arising from documentary letters of credit partly connected to Commodity & Trade Finance recorded a slight CHF 7.8 million increase, up to CHF 20.2 million. Irrevocable commitments decreased by CHF 46.3 million for new confirmed loans for mortgages and participations in syndicated loans.

Evolution of Assets under Management

Assets under management at the BancaStato Group exhibited a further major progression during 2019, up from CHF 15.7 billion at the end of 2018 to CHF 17.2 billion at 31.12.2019.

The volume of assets under management at BancaStato increased by CHF 862 million (+ 7.5%), levelling off at CHF 12.4 billion. In 2019, inflow in net new money,

CHF 601 million, was once again particularly gratifying. Asset values showed a positive performance of CHF 261 million as a result of stock and forex market trends. By the end of 2019, assets under custody totalled CHF 425 million, down from CHF 503 million at the end of 2018.

A similar trend was recorded for assets under management by Axion SWISS Bank SA which increased from CHF 4.1 billion at the end of 2018 to CHF 4.8 billion at 31.12.2019 (+16.1%). This gratifying influx of net new money of CHF 480 million, in addition to the positive performance amounting to CHF 187 million (as a result of financial market effects on client assets), contributed to an overall increase of assets under management of CHF 666 million in 2019.

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

In 2019 BancaStato was once again able to consolidate the ongoing growth achieved in the preceding years, thus reconfirming its position as a valuable source of income for the Canton's treasury. The operating result for 2019, CHF 85.4 million exceeded, by CHF 12.4 million (+17%), the result achieved by the Bank in the previous year. BancaStato once again seized this opportunity to bolster its capital with an allocation of CHF 31 million to reserves for general banking risks (CHF 22 million in 2015, CHF 24 million in 2016, CHF 26.1 million in 2017 and CHF 26 million in 2018). In spite of this major allocation, net income progressed by 4% from CHF 50 million in 2018 to CHF 52 million in 2019. Consequently, the payment to the Canton increased by close to CHF 3.5 million (+9.1%), from CHF 38.4 million for 2018 to CHF 41.8 million for 2019.

Net revenues for 2019 totalled CHF 202.2 million, compared to CHF 190.7 million in 2018, a 6% increase (+CHF 12.5 million), showing growth in all related items.

¹⁸ The 0.45% CHF 150 million bond issue of Banca dello Stato del Cantone Ticino 2019-2029 was floated with the support of Credit Suisse and the Basel Cantonal Bank, while the 0.05% CHF 200 million bond issue of Banca dello Stato del Cantone Ticino was floated through Credit Suisse and the Cantonal Banks of Basel and Zurich.



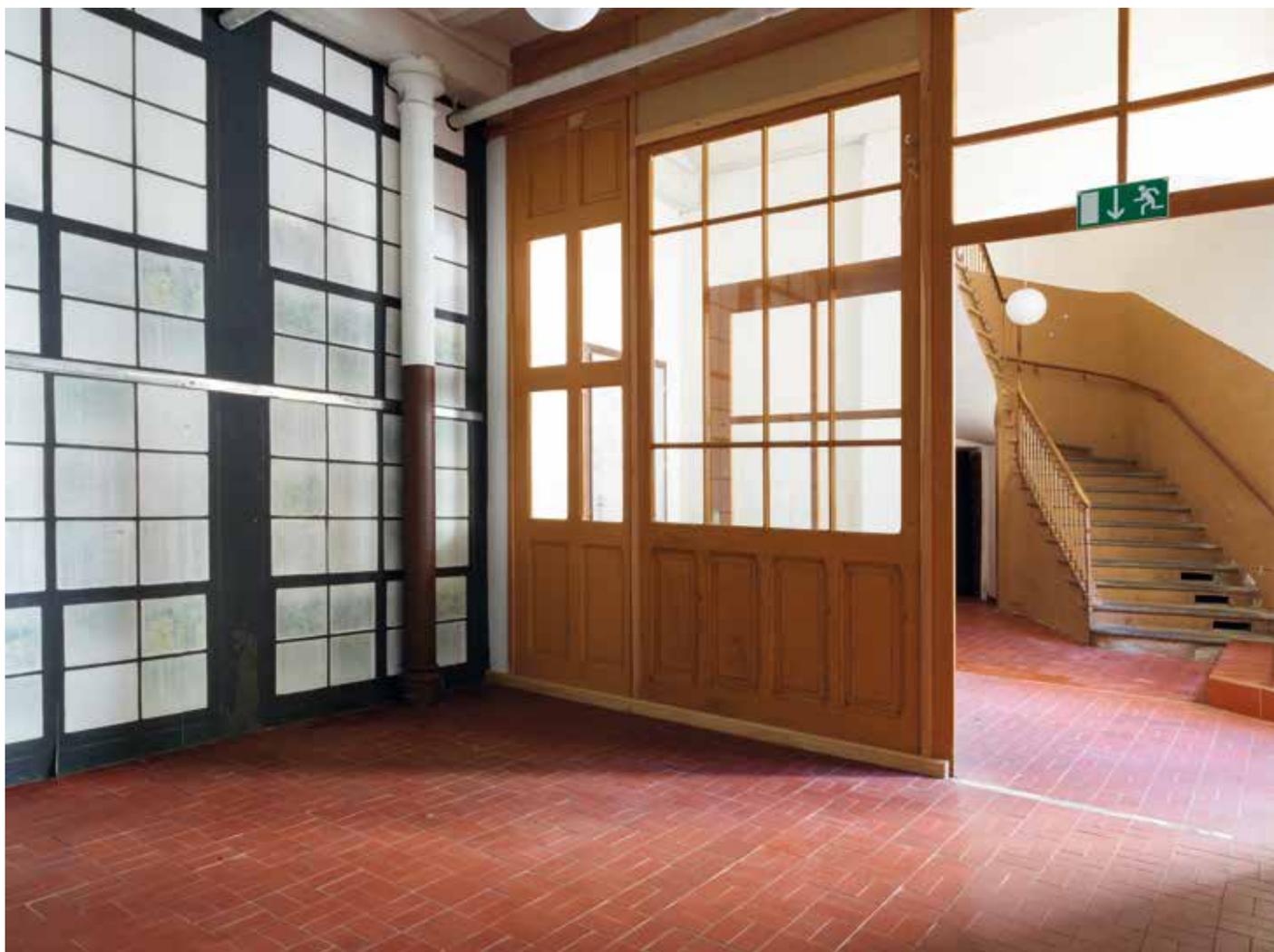
The gross results from interest activities, traditionally the principal revenue item for BancaStato, continued its upward trend from previous years, and grew by over CHF 1.7 million. This growth, however, proceeded at a slower pace, from +5.5% in 2018 to +1.2% in 2019. This trend was supported on the one hand by an increase in mortgage volumes in recent years as well as by related commercial margins and, on the other, by opportunities being offered in the current market environment for lower cost financing. Negative market rates on short- and medium-term operations are having a growing impact by progressively reducing margins on client deposits. In this context, BancaStato has achieved 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 issues of the Cantonal Banks' mortgage refinancing institute in order to adequately refinance existing outstanding loans. Net result from interest operations stood at CHF 146 million (+0.8%), and benefitted from a reduced need for provisions for lending activities with respect to loans granted.

The results from commission business and services stood at CHF 29.5 million, exceeding the outstanding results achieved in previous years by CHF 0.8 million (+2.8%). This increase was

due primarily to increased net revenues from securities trading and investments (+CHF 0.3 million) as a result of the positive evolution in stock markets and a higher operational propensity on the part of clients, as well as to income from general services provided by the Bank (+ CHF 0.5 million). Commission income from lending activities remained largely unchanged.

The result from trading business returned to its record levels of 2017, increasing from CHF 12.3 million in 2018 to CHF 14.8 million in 2019 (+20.1%). On the one hand, the main item of this result, i.e. forward foreign exchange transactions with clients (CHF 11.3 million) regressed by CHF 1.9 million compared to the previous year. On the other, the Bank's own securities and precious metals positions benefitted from the positive evolution of financial markets in 2019: gains on securities and precious metals accounted for a CHF 4.4 million improved result under this item.

Other results from ordinary activities were up from CHF 5 million in 2018 to CHF 11.9 million in 2019 (+140.4%). The main drivers of this positive development were the recovery of the previous year's losses on the Bank's financial investment portfolio as well as gains from disposals of financial investments (+ CHF 5.8 million). This was a result of the positive trends in



stock markets in 2019 and increased dividends cashed by companies in which the Bank holds stakes (+ CHF 1.4 million).

Operating expenses shrank by 3.7%, down from CHF 109.6 million in 2018 to CHF 105.6 million in 2019. Disregarding non recurrent elements over two years, this item did not show any significant change. Personnel expenses regressed by CHF 4.2 million (-5.7%) and stood at CHF 69.6 million. In this regard, it should be noted that in 2018 the Bank decided to fully and immediately pay out a staff pre-pension plan which was due to be implemented by 2020. Other operating expenses remained mostly unchanged (+0.5%) and stood at CHF 36 million.

Value adjustments on participations and depreciation and amortisation of tangible fixed assets as well as intangible assets were up from CHF 8 million in 2018 to CHF 9.6 million in 2019 as a result of major depreciation on fixed assets (principally informatics developments which are depreciated over 2 years).

The item "Changes to provisions and other value adjustments,

and losses"¹⁹ recorded an extraordinary requirement of CHF 1.4 million in 2019 to regularise liabilities towards the Italian Tax Agency (including related certifications and tax consultancy expenses).

Operating results for 2019 recorded a substantial increase of CHF 12.4 million (+17%) at CHF 85.4 million, by far the best performance in the Bank's history.

The item "Extraordinary income" which benefitted in 2018 from the last payment of the variable component in the sales price of the Swisscanto Holding AG participation (sold to Zurich Cantonal Bank in 2015), only recorded amounts of little relevance in 2019.

In consideration of the excellent results achieved by the Bank, the Board of Directors has decided to contribute CHF 2 million to BancaStato's Fondazione del Centenario which supports Ticinese start-ups through TiVenture, as well as to further bolster the Bank's capital and financial base by allocating CHF 31 million to the Reserve for general banking risks. This amount represents CHF 5 million more than the preceding year's allocation.

¹⁹ Since 2015, in accordance with FINMA Circular 2015/01 "Accounting – banks", this item shows only operating losses relative to operational events and no longer shows provisions and losses from lending activities.

This major allocation had no effect on the growth in net income which progressed by 4%, up from CHF 50 million in 2018 to CHF 52 million in 2019. As has already been mentioned, this increase is to the advantage of the Bank's owner, as the payment to the Canton was augmented from CHF 38.4 in 2018 to CHF 41.8 in 2019 (+9.1%).

This payment is a valuable source of income for the public body. An analysis of the evolution of this item over the last decade shows that the payment to the Canton has increased substantially (+52.6%) from CHF 27.4 million in 2009 to CHF 41.8 million in 2019. In the same decade, BancaStato paid out over CHF 324.8 million to its owner. Considering that the endowment capital was increased from CHF 300 million at the end of 2017 to CHF 430 million at the end of 2018 and to CHF 480 million as at 31.12.2019, it can be said that the Institute provided a substantial income with respect to the Canton's initial investment.

As for the results of Axion SWISS Bank SA²⁰, net revenues increased by CHF 1.2 million (+3.5%) and stood at CHF 36.1 million, while operating expenses remained almost unchanged at CHF 25.3 million (+0.5%).

Among revenue items, results from interest operations grew by CHF 0.8 million and stood at CHF 13.1 million in 2019 (+6.2%) thanks to careful management of the balance sheet structure, especially with regards to balances in foreign currency on client current accounts, even though these were adversely affected by negative market rates applied to short- and to medium-term for both CHF and EUR. The result from commission business and services, the principal source of revenue for a private-banking-oriented bank, decreased from CHF 19.7 million in 2018 to CHF 19.3 million in 2019 (-2%). This stemmed primarily from reduced income on client securities transactions on the back of a minor increase in income from asset management. However, income from trading activities progressed from CHF 2.8 million in 2018 to CHF 3.7 million in 2019, marking a 31.8% growth which principally resulted from client foreign exchange transactions.

As for operating expenses, while costs for personnel increased by CHF 0.38 million (+2.2%), general and administrative expenses decreased by CHF 0.25 million (-3.1%). As in the previous year, the item Value adjustments on participations and depreciation and amortisation of tangible fixed assets

and intangible assets results from the depreciation of goodwill following the acquisition of a portion of client assets of Société Générale Private Banking SA (Lugano) in 2016.

The item Changes in value adjustments, provisions and losses showed a CHF 1.1 million increase in 2019 as a result of a prudent evaluation of legal risk.

The operating results and net income recorded a slight increase (+CHF 0.3 million) compared to the gratifying results of 2018, and stood at CHF 5.3 million (+5.1%) and CHF 4.2 million (+7.6%), respectively. This allowed a major distribution to the Parent Bank.

From a consolidated viewpoint, the Group's profit grew from CHF 49.3 million in 2018 to CHF 52.9 million in 2019, a 7.2% increase.

Profitability, Efficiency and Financial Strength

BancaStato's profitability in terms of Return on Equity (ROE)²¹ stood at 7.1%, slightly below its previous year level (7.6%) 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 approximately half its 2019 amount. Return on Risk Adjusted Capital (RORAC) showed an improvement from 14.2% in 2018 to 14.8% in 2019, due primarily to a higher increase in the Bank's performance as compared to the increase in capital requirements.

As regards efficiency indicators, a ratio of operating expenses (whether or not they include depreciation and provisions for other operating risks) to income (Cost / Income I and II), 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 54.6% in 2018²² to 52.2% in 2019 (against a 67.3% indicator in 2010), while Cost / Income II (which considers all costs, depreciation and provisions during the year) further improved from 58.8% in 2018 to 57.8% in 2019 (76.4% in 2010). The strategic measures implemented by the Bank in the past decade bolstered its profitability. The Institute's operating result grew by close to 150% over the past 10 years (from CHF 35.2 million in 2010 to CHF 85.4 million in 2019).

²⁰ For further information on the results of Axion SWISS Bank SA, refer to its Annual Report.

²¹ 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).

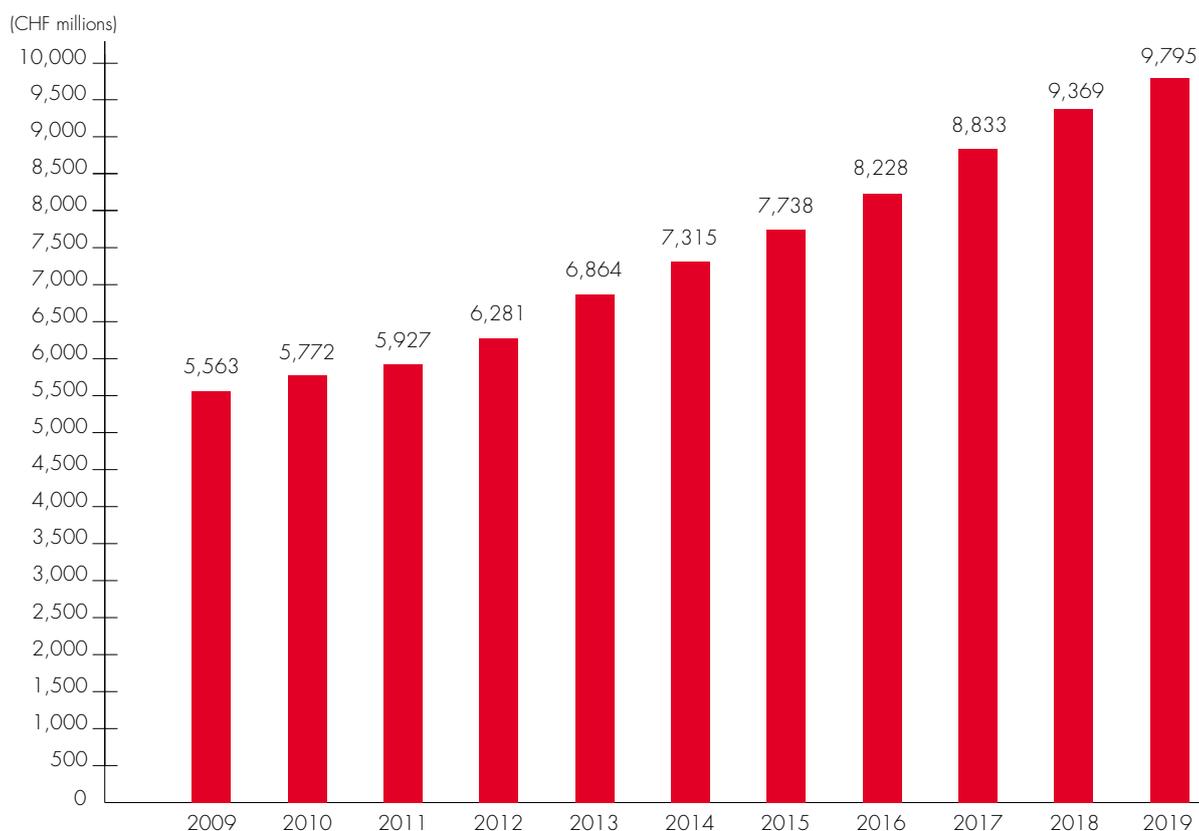
²² For the calculation of efficiency indicators, non-recurring costs charged to the 2018 financial year and linked to the pre-pension plan to be implemented by end 2020 were neutralised.

As at 31 December 2019, the Institute had 408 staff (370.75 FTEs with trainees calculated at 50%) compared to 419 at the end of 2018 (380.95 FTEs).

From the close of 2011 to the present, the Bank's capital adequacy, as determined by the ratio of required capital to available funds²³, showed changes resulting from stricter requirements on the part of the surveillance authority set against 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. Therefore, on the back of the coverage ratio of required capital with available capital (including the countercyclical buffer which was introduced by the Federal Council in 2013 and doubled in the following year), the Bank's capital adequacy stood at 196% at the close of 2011, after fluctuating from a minimum of 178.1% (31.12.2013) to a maximum of 211.9% (31.12.2015). It further improved from 196.5% at the end of 2017 to 198.2% in 2018, and stood at 199.8% as at 31.12.2019.

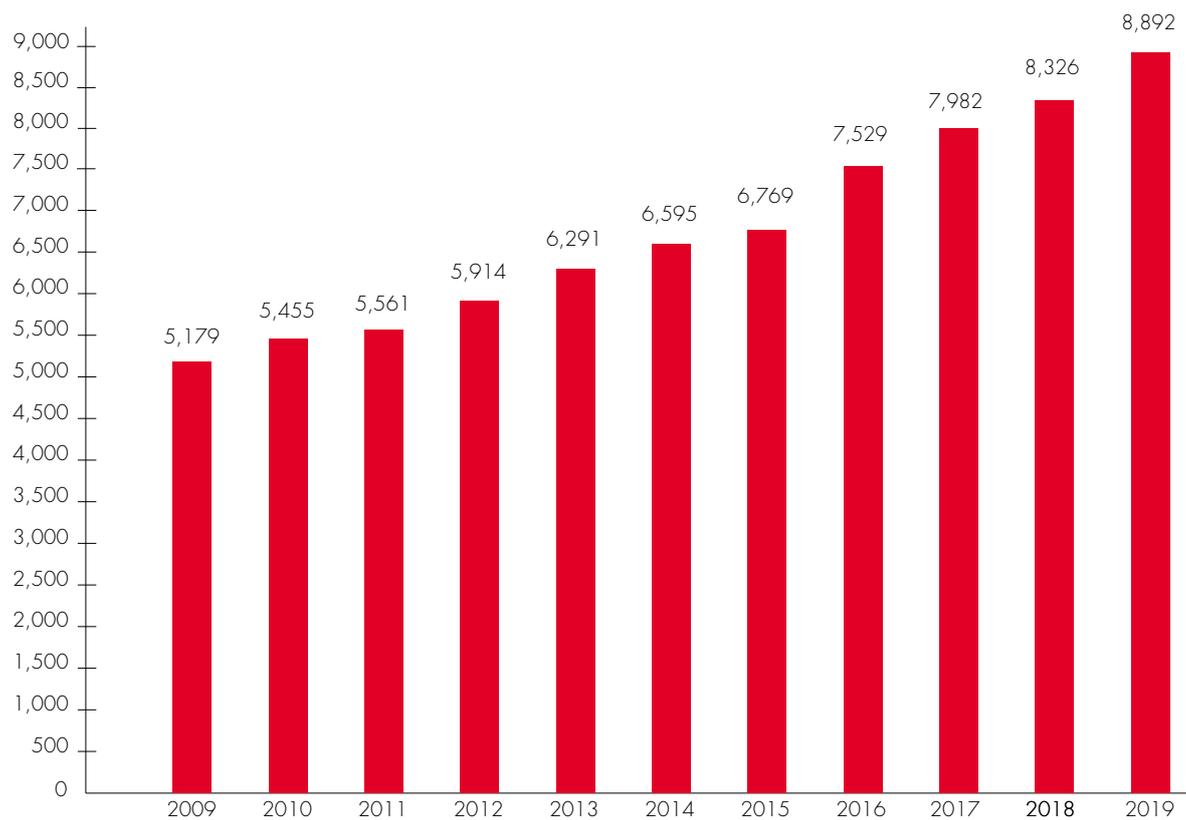
EVOLUTION OF MORTGAGE LENDING



²³ Calculated on the basis of Basel III rules set by the Bank for International Settlements.

EVOLUTION OF TOTAL AMOUNTS DUE TO CUSTOMERS

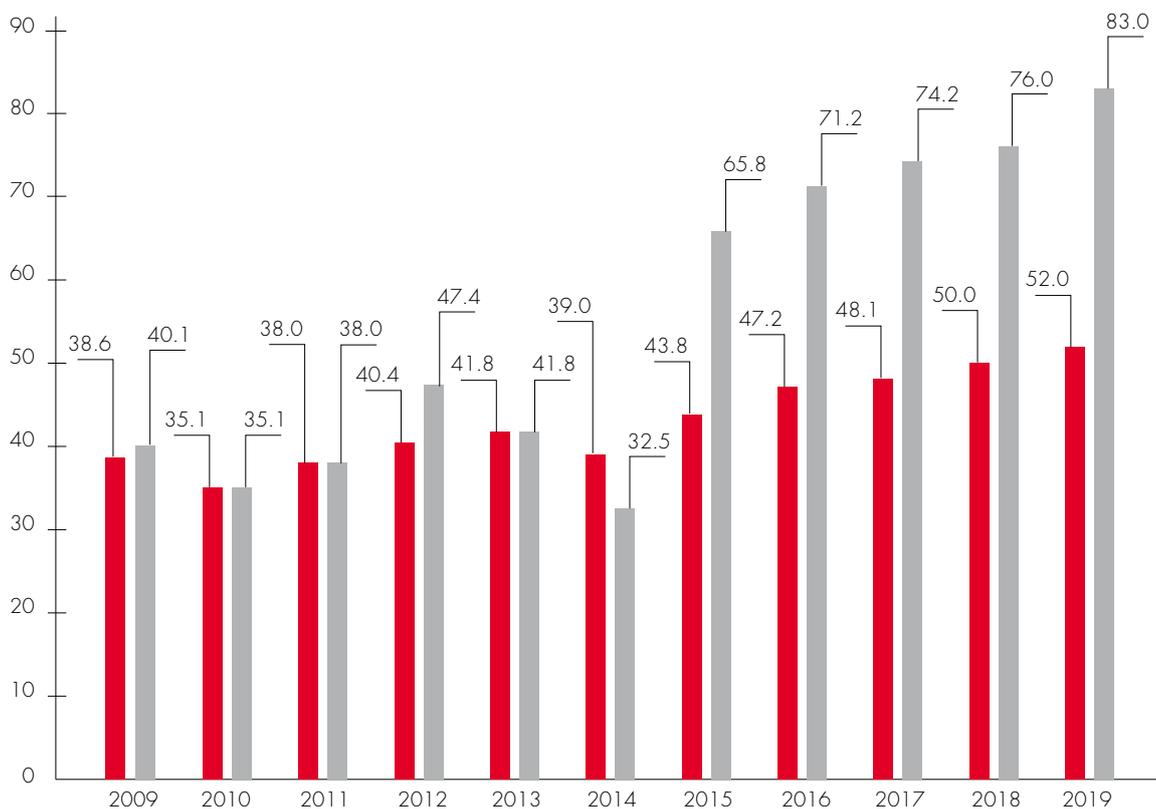
(CHF millions)



EVOLUTION OF NET INCOME

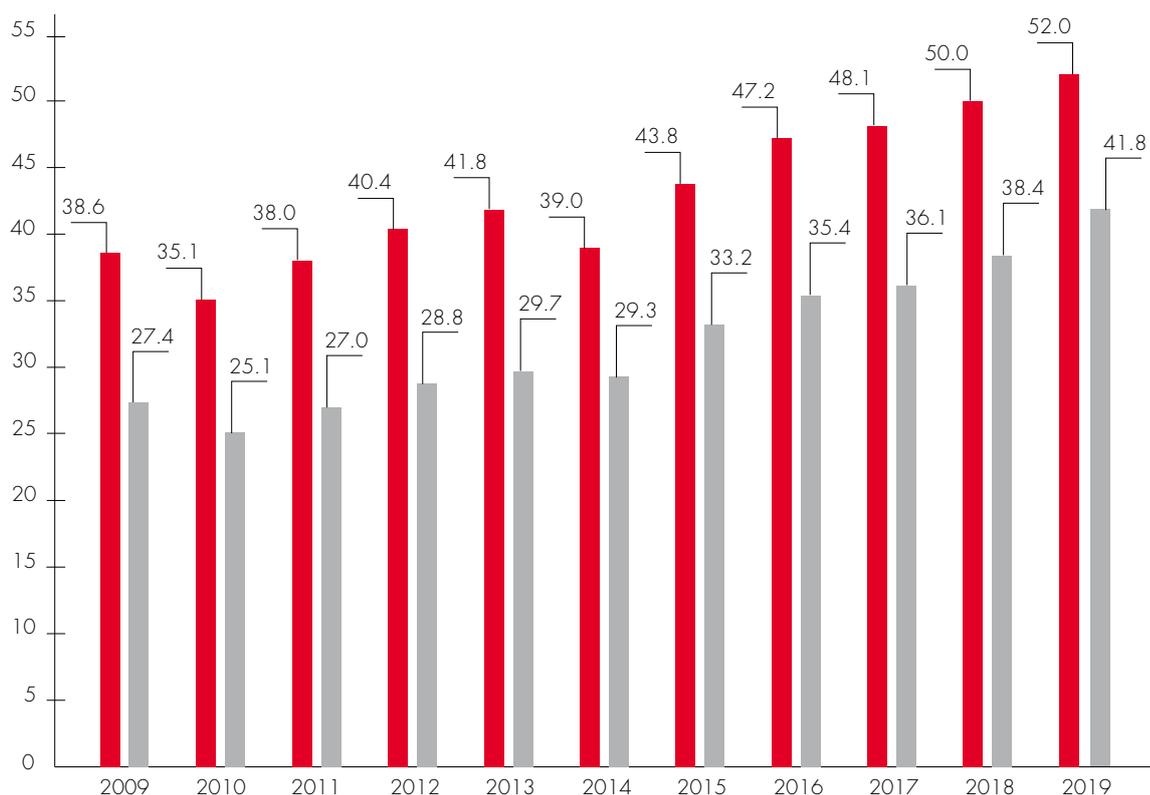
(CHF millions)

■ 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



This translates into a 16.8% solvency ratio (16.7% at the end of 2018) against a minimum FINMA requirement of 16% (15.9% at the end of 2018), including the countercyclical buffer. The reader should be reminded that for BancaStato (which for its size and profile is included in the Category IV of medium-sized

banks), the minimum regulatory requirement is 140%, equivalent to a solvency ratio of 11.2% and to a minimum FINMA requirement of 12%.

The evolution of the Bank's principal adequacy indicators on an individual level may be summarised as follows:

BIS adequacy indicators	Without countercyclical buffer		With countercyclical buffer	
	2019	2018	2019	2018
Core Tier 1 (CET1) ²⁴	16.3%	15.6%	15.5%	14.8%
Tier 1 (T1) ²⁵	16.3%	15.6%	15.5%	14.8%
Total regulatory capital ²⁶	16.8%	16.7%	16.0%	15.9%

²⁴ Common Equity Core Tier 1 – CET1.

²⁵ Additional Tier 1 – T1.

²⁶ Capital adequacy indicator.



Capital adequacy at the consolidated level is marginally better compared to the individual financial statements. Taking into account the countercyclical capital buffer introduced by the Federal Council in order to restrain an overheated real estate market, the Bank's coverage ratio increased from 199.3% at the end of 2014 to a maximum of 219.2% at 31.12.2015,

decreasing to 216.4% at the end of 2016, and 204.4% at 31.12.2017. It rose again, reaching 207.8% by the end of 2018 and to 209.2% at 31.12.2019.

The Group's indicators, as set by the Bank for International Settlements, evolved in a much similar manner as those of the Bank's individual accounts, namely:

BIS adequacy indicators	Without countercyclical buffer		With countercyclical buffer	
	2019	2018	2019	2018
Core Tier 1 (CET1)	17.0%	16.4%	16.3%	15.6%
Tier 1 (T1)	17.0%	16.4%	16.3%	15.6%
Total regulatory capital	17.5%	17.4%	16.7%	16.6%

Group Financial Statements

1. Consolidated Balance Sheet	36
2. Consolidated Income Statement	37
3. Cash Flow Statement	38
4. Statement of Changes in Equity	39
5. Annex	40
Auditors' Report	67

1. Consolidated Balance Sheet

(CHF thousands)	Annex	31.12.2019	31.12.2018	Change
Assets				
Liquid assets		2,306,556	2,022,904	283,652
Amounts due from banks		215,990	277,984	-61,994
Amounts due from customers	5.10.2	1,983,876	1,962,296	21,580
Mortgage loans	5.10.2	9,795,074	9,369,105	425,969
Trading portfolio assets	5.10.3	24,095	27,620	-3,525
Positive replacement values of derivative financial instruments	5.10.4	8,568	9,892	-1,324
Financial investments	5.10.5	389,946	356,037	33,909
Accrued income and prepaid expenses		10,730	12,994	-2,264
Non-consolidated participations	5.10.6 and 5.10.7	6,308	6,313	-5
Tangible fixed assets	5.10.8	77,235	78,120	-885
Intangible assets	5.10.9	3,489	7,011	-3,522
Other assets	5.10.10	39,325	191,570	-152,245
Total assets		14,861,192	14,321,846	539,346
Total subordinated claims		10,208	10,208	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		10,208	10,208	-
Liabilities				
Amounts due to banks		286,607	639,647	-353,040
Liabilities from securities financing transactions	5.10.1	230,000	171,290	58,710
Amounts due in respect of customer deposits		9,892,244	9,417,141	475,103
Negative replacement values of derivative financial instruments	5.10.4	41,987	37,334	4,653
Cash bonds		450	736	-286
Bond issues and central mortgage institution loans	5.10.11 and 5.10.13	3,035,000	2,806,000	229,000
Accrued expenses and deferred income		43,360	41,273	2,087
Other liabilities	5.10.10	37,393	10,902	26,491
Provisions	5.10.14	11,790	10,677	1,113
Reserves for general banking risks	4 and 5.10.14	495,000	464,000	31,000
Endowment capital	4	480,000	430,000	50,000
Statutory retained earnings reserve	4	254,483	243,514	10,969
Group profit	4	52,878	49,332	3,546
Total liabilities		14,861,192	14,321,846	539,346
Total subordinated liabilities		175,273	175,273	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		-	-	-
Off-balance-sheet transactions				
Contingent liabilities	5.10.2 and 5.11.21	135,237	114,958	20,279
Irrevocable commitments	5.10.2	266,128	307,267	-41,139
Obligations to pay up and make further contributions	5.10.2	14,180	14,180	-

2. Consolidated Income Statement

(CHF thousands)	Annex	2019	2018	Change
Income and expenses arising from ordinary banking operations				
Result from interest operations				
Interest and discount income		191,155	193,603	-2,448
Interest and dividend income from financial investments		3,072	3,104	-32
Interest expense		-35,515	-40,573	5,058
Gross result from interest operations		158,712	156,134	2,578
Changes in value adjustments for default risks and losses from interest operations		324	939	-615
Net result from interest operations		159,036	157,073	1,963
Result from commission business and services		49,689	49,281	408
Commission income from securities trading and investment activities		47,252	47,265	-13
Commission income from lending activities		3,748	3,736	12
Commission income from other services		10,507	10,145	362
Commission expenses		-11,818	-11,865	47
Result from trading activities and fair value option	5.12.23	18,456	15,096	3,360
Other results from ordinary activities		5,784	300	5,484
Result from the disposal of financial investments		2,121	-299	2,420
Income from participations		930	934	-4
<i>of which from participations valued using the equity method</i>		-	6	-6
<i>of which non-consolidated participations</i>		930	928	2
Result from real estate		113	304	-191
Other ordinary income		2,837	1,856	981
Other ordinary expenses		-217	-2,495	2,278
Net revenues		232,965	221,750	11,215
Operating expenses		-129,232	-133,142	3,910
Personnel expenses	5.12.25	-87,212	-91,052	3,840
General and administrative expenses	5.12.26	-42,020	-42,090	70
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	5.10.6, 5.10.8 and 5.10.9	-13,689	-16,071	2,382
Changes to provisions and other value adjustments, and losses		-2,751	-86	-2,665
Operating result		87,293	72,451	14,842
Extraordinary income	5.12.27.02	92	4,606	-4,514
Extraordinary expenses	5.12.27.02	-2,000	-320	-1,680
Changes in reserves for general banking risks	5.12.27.04	-31,000	-26,000	-5,000
Taxes	5.12.28	-1,507	-1,405	-102
Group profit		52,878	49,332	3,546

3. Cash Flow Statement

(CHF thousands)	2019		2018	
	Cash inflow	Cash outflow	Cash inflow	Cash outflow
Cash flow from operating activities (internal financing)	243,404	-	-	228,172
Group result	52,878	-	49,332	-
Change in reserves for general banking risks	31,000	-	26,000	-
Valuation adjustments on participations and depreciation of fixed assets and intangible assets	13,689	-	16,071	-
Provisions	1,113	-	7,077	-
Accrued income and prepaid expenses	2,264	-	-	992
Accrued expenses and deferred income	2,087	-	-	739
Other assets and liabilities	178,736	-	-	288,829
Interest on the endowment capital of the previous year	-	15,000	-	12,000
Prior year dividend	-	23,363	-	24,092
Cash flow from endowment capital transactions	50,000	-	130,000	-
Endowment capital	50,000	-	130,000	-
Cash flow from transactions in respect of participations, fixed assets and intangible assets	-	9,277	-	6,573
Non-consolidated participations	5	84	323	123
Real estate	-	1,219	-	1,216
Other tangible fixed assets	-	7,979	-	6,853
Intangible assets	-	-	1,296	-
Cash flow from banking operations	-	475	91,023	-
Medium and long-term business (>1 year)	-	211,062	-	557,961
Amounts due to banks	969	-	-	4,000
Amounts due in respect of customer deposits	-	7,688	-	91,119
Cash bonds	-	286	-	369
Bond issues and central mortgage institution loans	63,000	84,000	185,000	246,000
Bond issues	250,000	-	250,000	-
Amounts due from banks	-	969	-	-
Amounts due from customers	27,790	-	-	54,556
Mortgage loans	-	425,969	-	536,293
Financial investments	-	33,909	-	60,624
Short-term business	210,587	-	648,984	-
Amounts due to banks	-	354,009	126,118	-
Liabilities from securities financing transactions	58,710	-	101,290	-
Negative replacement values of derivative financial instruments	4,653	-	8,671	-
Amounts due in respect of customer deposits	482,791	-	405,709	-
Trading portfolio assets	3,525	-	13,213	-
Positive replacement values of derivative financial instruments	1,324	-	41,715	-
Amounts due from banks	62,963	-	-	15,223
Amounts due from customers	-	49,370	-	32,509
Liquidity	-	283,652	13,722	-
Liquid assets	-	283,652	13,722	-
	293,404	293,404	234,745	234,745

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	Total
Equity at 01.01.2019	430,000	243,514	464,000	49,332	1,186,846
Appropriation of retained earnings 2018					
<i>Assignment to statutory retained earnings reserve</i>	-	+10,969	-	-10,969	-
<i>5% interest on the endowment capital</i>	-	-	-	-15,000	-15,000
<i>Additional payment to the Canton</i>	-	-	-	-23,363	-23,363
Endowment capital increase	+50,000	-	-	-	50,000
Changes in the reserves for general banking risks	-	-	+31,000	-	31,000
Group profit	-	-	-	+52,878	52,878
Total equity at 31.12.2019	480,000	254,483	495,000	52,878	1,282,361

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.

In previous years, as part of a move to diversify its sources of revenue, BancaStato acquired the capital of Axion SWISS Bank SA, Lugano (Axion).

Axion's core business is asset management for private as well as institutional clients, and it is active in the principal directly related services, such as securities and currency intermediation on the main international markets, investment advisory and lending. Operations in the lending business are prevalently limited to 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), 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 2019, the Group had a total of 476 employees on payroll, i.e. 438.1 full-time equivalents (FTEs) with apprentices calculated at 50%, compared to 483 employees at the end of 2018 (444.15 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 work stations) 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 2019 this item totalled CHF 3,166,000 (CHF 3,010,000 in 2018). Moreover, the "Sherpany" application for the management of strategic documents is administered by a third party.

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 FINMA Circular 2015/1 "Accounting - banks".

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

All transactions are recorded at the time they are concluded. 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 with the corresponding items in the liabilities;
- offsetting of positive and negative changes in book value with no income effect in the compensation account.

5.2.3 Financial instruments

5.2.3.1 Liquid assets

Liquid assets are recognised at their nominal value.

5.2.3.2 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 is considered to be in default and no longer considered as interest income; it is directly provisioned and offset against assets.

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

The valuation of the portfolio of securities and metals held for trading purposes is at fair value.

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

5.2.3.5 Positive and negative replacement values of derivative financial instruments

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

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

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

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 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.

5.2.4 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.

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.

5.2.5 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).

5.2.6 Intangible fixed assets

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

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

These commitments are recognised at their nominal value.

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

5.2.8 Provisions

This item includes probable commitments whose amounts and/or due date are uncertain but can be reliably estimated. It also comprises a provision for deferred taxes in connection to Axion's reserves for general banking risks.

5.2.9 Reserves for general banking risks

In compliance with the FINMA guidelines on financial statement reporting (FINMA Circ. 2015/1 Accounting Rules - banks), the

reserves for general banking risks are prudently created reserves set aside to cover latent risks related to banking activities. As laid down in Art.21 c 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".

5.2.10 Off-balance-sheet

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

5.2.11 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 1.0868 (2018: 1.1269)

USD/CHF 0.9686 (2018: 0.9842)

5.2.12 Treatment of the refinancing of trading positions

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

5.2.13 Consolidation principles

5.2.13.1 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.

5.2.13.2 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 amortisations 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.

5.2.13.3 Consolidation period

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

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

There were no changes in accounting principles in 2019.

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 a 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 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 operationally independent units that report to the Executive Board, which in turn reports to the Board of Directors on a regular basis.

An information system ensures that the members of the Board of Directors as well as the Executive Board are updated regularly regarding the Bank's and the Group's 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 9 April 2019, the Audit and Risk Committee of the Board of Directors of the Parent Bank and, subsequently, the Board of Directors of the Parent Bank in its meeting of 29 April 2019, 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 (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 setting lending margins on collateral and credit granting procedures at different hierarchical levels on the basis of the aggregate amounts granted and risk incurred.

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

The Board of Directors is responsible for approving large credit exposures as well as loans to members of the governing bodies. At BancaStato, other loan granting competencies are entrusted to the Credit Risk Committee, and at Axion to the Executive Board who may delegate a limited part *ad personam*. The Credit Risk Committee is composed of three members of the Executive Board, the Head of Credit Management and Analysis Department or a Credit Officer. This Committee deals with all credit matters delegated to it and draws up notices to the Board of Director for decisions falling within the Board's competence. In addition, at BancaStato, competencies are delegated to the 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 used in the IT-based decision-making process. An internal control system ensures loan granting processes and competency delegation rules are complied with. Loans reviewed and approved by the competent authorities are managed by the Credit Competence Center 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 from 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 competence 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 Asset Management 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. Operations at Axion are managed by its Risk Committee. Competencies are determined in terms of changes in current equities for a 1% sudden parallel shift in market rates (value effect) and a movement in interest margin in the following 12 months still with the same market parameter variations (income effect). On the basis of the chosen methodology, monitoring refers to the present value of equity and to the variation of net interest income in the 12 months following measurement. A software feature enables the Risk Management Unit to regularly provide the ALCO and Axion's Risk Committee with information on risk exposure, simulations of the interest margin, as well as to perform stress tests, i.e. analyses based on predetermined potentially negative scenarios.

For the management of the rate risk inherent to variable rate products without fixed maturity, replication models are used to assess such 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 with the Bank;
- generate risk-adjusted income within the risk limits;
- ensure cost-effective refinancing in line with the development of the balance sheet;
- monitor liquidity and avoid potential liquidity shortfalls.

5.4.2.2 Currency risk

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

5.4.2.3 Trading activities

The Group's exposure to market risks arising from trading 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 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 guarantees that limits and objectives are adhered to. The Risk Management Unit monitors liquidity, the financing situation and concentration risks. Liquidity at Axion is managed by its Risk Committee.

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

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

The 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.

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

Every month, the organisational units Risk Management, Security and Human Resources, as well as the Legal and Compliance Department and the Group Internal Controls Department submit to the Parent Company'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 and particularly operational 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).

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 provisioned individually. The provision represents the expected loss with the counterparty with regard to the corresponding transaction. The organisational unit proposing the loan is responsible for setting any necessary provisions which will be decided upon by the Credit Office or the Executive Board. 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 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).

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

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

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

Treasury swaps are used within the framework of the structural management of the balance sheet in order to manage currency risk resulting from the conversion of the available liquidity in foreign currency into Swiss francs or from the need to refinance loans in foreign currency. 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 an exchange rate risk or convert excess liquidity in domestic currency into foreign

currency in order to finance loans in foreign currency.

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 could have led to changes in the balance sheet or the income statement at 31 December 2019.

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)	31.12.2019	31.12.2018
Securities lending, securities borrowing and repurchase agreements		
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions ¹	-	-
Book value of obligations from cash collateral received in connection with securities lending and repurchase agreements ¹	230,000	171,290
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	222,722	170,569
<i>of which with unrestricted right to resell or repledge</i>	222,722	170,569
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>	-	-

¹ Before any netting agreement.

5.10.2 Presentation of collateral for loans / receivables and off-balance-sheet transactions, as well as impaired loans / receivables at 31.12.2019

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)				
Amounts due from customers	173,389	536,398	631,071	1,340,858
Amounts due from public corporations	502	54	669,699 ¹	670,255
Mortgage loans	9,809,359 ¹			9,809,359
<i>Residential property</i>	7,259,752			7,259,752
<i>Office and business premises</i>	1,323,684			1,323,684
<i>Commercial and industrial premises</i>	562,112			562,112
<i>Other</i>	663,811			663,811
Total loans (before netting with value adjustments)	9,983,250	536,452	1,300,770	11,820,472
Previous year	9,551,727	480,322	1,357,244	11,389,293
Total loans (after netting with value adjustments)	9,968,965	528,842	1,281,143	11,778,950
Previous year	9,533,845	474,606	1,322,950	11,331,401
Off-balance-sheet				
Contingent liabilities	6,191	40,897	88,149	135,237
Irrevocable commitments	15,920	13,833	236,375 ²	266,128
Obligations to pay up shares and make further contributions	-	-	14,180	14,180
Total off-balance-sheet	22,111	54,730	338,704	415,545
Previous year	51,329	46,312	338,764	436,405

(CHF thousands)	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
Impaired loans				
Current year	131,343	89,821	41,522	41,522
Previous year	150,386	92,494	57,892	57,892

¹ Including loans to entities related to public institutions for CHF 108.7 million (2018: CHF 117.8 million).

² Including CHF 39 million (2018: CHF 37.4 million) as a required share for deposit guarantee purposes.

5.10.3 Breakdown of trading portfolios and other financial instruments at fair value

(CHF thousands)	31.12.2019	31.12.2018
Trading portfolio assets		
Debt securities, money market securities	3,460	1,643
<i>of which listed</i>	3,460	1,643
Equity-type securities	-	30
Shares in investment funds	6,256	10,684
Precious metals and commodities	11,837	12,565
Structured products	2,542	2,698
Total trading portfolio assets	24,095	27,620
<i>of which determined using a valuation model</i>	-	-
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	-	-

5.10.4 Presentation of derivative financial instruments (assets and liabilities)

(CHF thousands)	Trading instruments			Hedging instruments		
	Replacement values		Contract volume	Valori di sostituzione		Contract volume
	positive	negative		positive	negative	
Interest rate instruments						
IRS	-	-	-	4,128	15,853	460,000
Options (OTC)	-	-	-	-	-	-
Total interest rate instruments	-	-	-	4,128	15,853	460,000
Foreign currencies / precious metals						
Forward contracts	754	1,144	172,271	-	-	-
Combined currency and interest rate Swaps	2,273	1,726	372,644	1,169	23,036	2,127,121
Options (OTC)	244	228	117,505	-	-	-
Total foreign currencies / precious metals	3,271	3,098	662,420	1,169	23,036	2,127,121
Total before netting agreements	3,271	3,098	662,420	5,297	38,889	2,587,121
<i>of which determined using a valuation model</i>	3,271	3,098	-	5,297	38,889	-
Total previous year	4,174	4,080	677,912	5,718	33,254	2,892,319
<i>of which determined using a valuation model</i>	4,174	4,080	-	5,718	33,254	-

	Positive replacement values (cumulative)	Negative replacement values (cumulative)
Total after netting agreements	8,568	41,987
Total previous year	9,892	37,334

Breakdown by counterparty

(CHF thousands)	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	-	7,434	1,134

5.10.5 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Debt securities	363,999	332,799	372,277	334,312
<i>of which intended to be held to maturity</i>	339,635	304,168	347,550	305,681
<i>of which not intended to be held to maturity (available for sale)</i>	24,365	28,631	24,727	28,631
Shares in investment funds	15,652	17,304	16,116	17,775
Equity-type securities	4,171	4,386	5,138	4,879
<i>of which qualified participations (at least 10% of capital or votes)</i>	-	-	-	-
Precious metals	203	103	203	103
Real estate	5,921	1,445	5,921	1,445
Total financial investments	389,946	356,037	399,655	358,514
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	250,619	205,989	257,950	207,963

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	292,623	36,632	4,665	-	-	30,079

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 31.12.2018	Currency conversion differences	2019				Book value 31.12.2019	Market value
					Additions	Disposals	Value adjustments	Changes in book value of participations valued using the equity method / depreciation reversals		
Participations valued using the equity method										
listed	-	-	-	-	-	-	-	-	-	-
unlisted	400	400	-	-	-	-	-	-	-	-
Other participations										
listed	-	-	-	-	-	-	-	-	-	-
unlisted	14,907	8,594	6,313	5	84	-	84	-	6,308	-
Total non-consolidated participations	15,307	8,994	6,313	5	84	-	84	-	6,308	-



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

Companies are recognized 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%	-
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 31.12.2018	2019					Book value 31.12.2019
				Reclassifications	Additions	Disposals	Depreciation	Reversals	
Bank buildings	180,816	125,431	55,385	-	1,219	-	4,426	-	52,178
Other real estate	26,861	13,942	12,919	-	-	-	518	-	12,401
Acquired software	88,449	84,472	3,977	-	3,750	-	3,595	-	4,132
Other tangible fixed assets	111,728	105,889	5,839	-	4,229	-	1,544	-	8,524
Total tangible fixed assets	407,854	329,734	78,120	-	9,198	-	10,083	-	77,235

5.10.9 Presentation of intangible assets

(CHF thousands)	Cost value	Accumulated amortisation	Book value 31.12.2018	2019					Book value 31.12.2019
				Reclassifications	Additions	Disposals	Amortisation	Reversals	
Goodwill	35,781	28,770	7,011	-	-	-	3,522	-	3,489
Total intangible assets	35,781	28,770	7,011	-	-	-	3,522	-	3,489

5.10.10 Breakdown of other assets and other liabilities

(CHF thousands)	31.12.2019	31.12.2018
Other assets		
Compensation account	9,660	6,073
Indirect taxes	713	678
Other different assets	28,952 ¹	184,819 ²
Total other assets	39,325	191,570
Other liabilities		
Direct/indirect taxes	3,379	4,479
Unredeemed cash bonds	1,215	1,634
Compensation account	316	615
Other different liabilities	32,483 ³	4,174
Total other liabilities	37,393	10,902

¹ of which a balance of CHF 24.0 million resulting from in-house banking operations.

² of which CHF 184.3 million from in-house banking operations.

³ of which CHF 23.4 million additional payment to the Canton for 2018.

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

(CHF thousands)	31.12.2019		31.12.2018	
	Book value	Effective commitments	Book value	Effective commitments
Pledged / assigned assets (excluding securities financing transactions)				
Book value of mortgages set as collateral for bonds and loans with the SCB Central	2,511,706	1,960,000	2,384,523	1,981,000
Book value of securities delivered as collateral to SIX Group AG	1,414	-	1,416	-
Book value of securities delivered as collateral in connection with Repo Light credit with the SNB	21,418	-	21,760	-
Book value of assets pledged to secure own commitments	47,283	41,795	30,659	27,450
Total pledged / assigned assets	2,581,821	2,001,795	2,438,358	2,008,450
Assets under reservation of ownership Assets under reservation of ownership	-	-	-	-

5.10.12 Disclosure on the economic situation of pension schemes

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

The Group has no obligations towards pension schemes.

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 31.12.2019.

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

	Over / underfunding at the end of 2019	Economic interest of the Bank		Change in economic interest and/or commitment versus previous year	Contributions paid for 2019	Pension expenses in personnel expenses	
		31.12.2019	31.12.2018			31.12.2019	31.12.2018
Group Pension plans without over- / underfunding	-	-	-	-	9,267	9,182	14,143 ¹

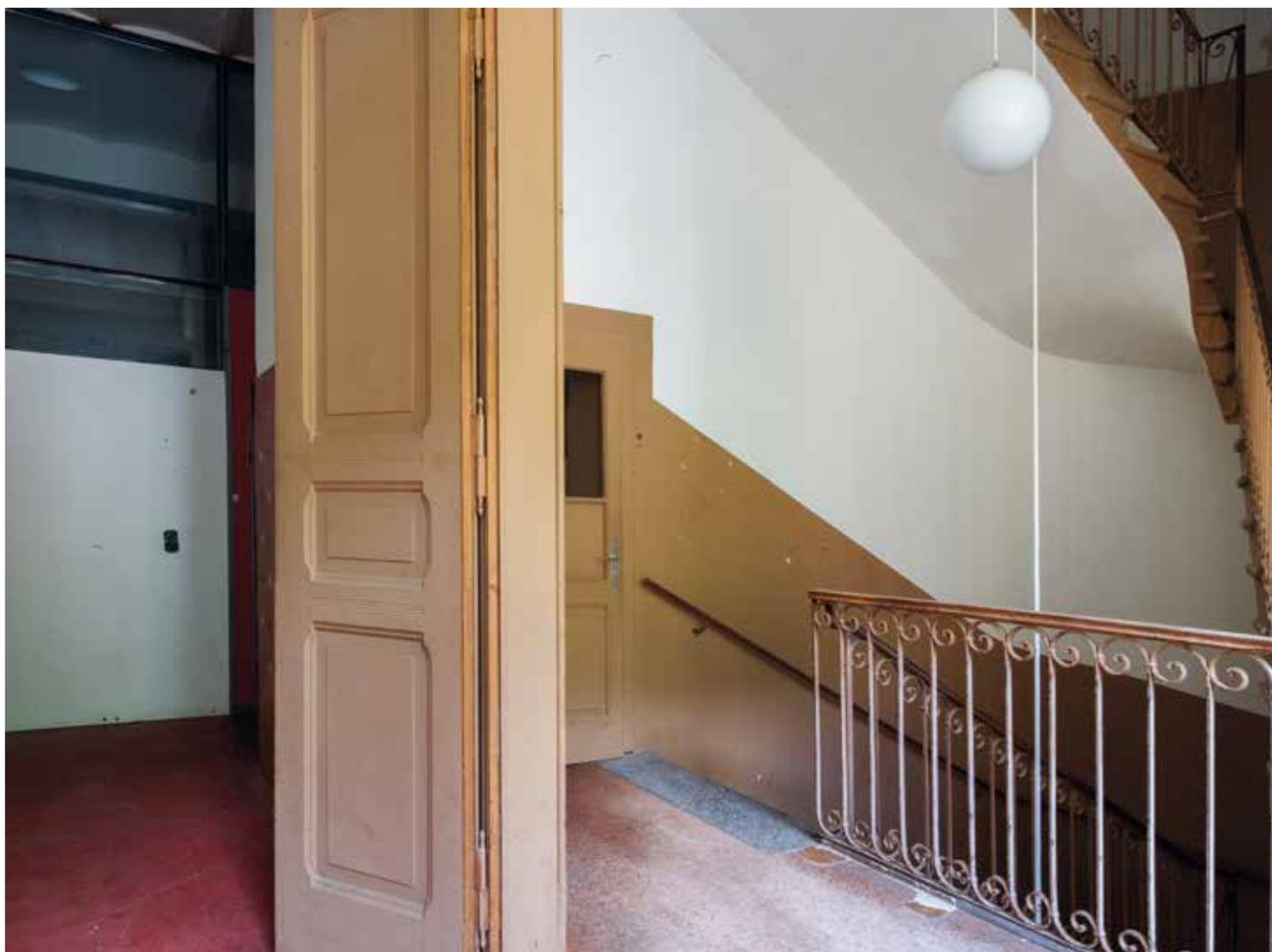
Contributions are paid to the insurance company. The employer's contributions are carried under "Personnel expenses".

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.

¹ Including the provision for an early retirement plan to be carried out by the parent company over a two-year period (2019 and 2020).



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 ¹	2011	15.12.2021	175,000
0.000%	Non-subordinated ²	2016	04.03.2022	50,000
0.500%	Non-subordinated ²	2015	24.06.2024	150,000
0.300%	Non-subordinated ²	2017	15.06.2027	200,000
0.375%	Non-subordinated ²	2018	08.02.2028	250,000
0.450%	Non-subordinated ²	2019	26.02.2029	150,000
0.050%	Non-subordinated ²	2019	10.07.2029	100,000
Total bonds				1,075,000
Bonds and loans from central issuing institutions ³				1,960,000
Total outstanding bonds and mortgage bonds from central mortgage bond institutions and mandatory convertible bonds				3,035,000

¹ Early repayment only under certain conditions.

² No early repayment.

³ Average interest rate 0.79%.

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	700,000	1,075,000
Mortgage bonds from central issuing institutions	183,000	120,000	121,000	158,000	239,000	1,139,000	1,960,000
Total	183,000	295,000	171,000	158,000	389,000	1,839,000	3,035,000

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

(CHF thousands)	Status 31.12.2018	2019					Status 31.12.2019
		Use in conformity with designated purpose	Currency differences	Past due interest, and recoveries	New creations charged to income	Releases to income	
Provisions							
Provisions for default risks	82	-	-	-	-	-	82
Provisions for other business risks	344	-931	1	-	2,492	-	1,906
Additional pension provision	9,034	-2,364	-	-	1,535	-	8,205
Provisions for deferred taxes	900	-	-	-	-	-	900
Other provisions	317	-	-	-	380	-	697
Total provisions	10,677	-3,295	1	-	4,407	-	11,790
Reserves for general banking risks	464,000	-	-	-	31,000	-	495,000
Value adjustments for default and country risks	57,941	-16,040	-11	-	11,112	-11,431	41,571
of which value adjustments for default risks in respect of impaired loans	57,941	-16,040	-11	-	11,112	-11,431	41,571
of which value adjustments for latent risks	-	-	-	-	-	-	-

5.10.15 Disclosure of amounts due from / to related parties

(CHF thousands)	31.12.2019		31.12.2018	
	Amounts due from	Amounts due to	Amounts due from	Amounts due to
Holders of qualified participations	22,429	112,662	15,000	157,605
Group companies	-	-	-	78
Linked companies	136,379	212,594	129,903	177,549
Transactions with members of governing bodies	21,188	8,295	111,062	8,367

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.

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		
Assets / Financial instruments								
Liquid assets	2,306,556	-	-	-	-	-	-	2,306,556
Amounts due from banks	215,990	-	-	-	-	-	-	215,990
Amounts due from customers	23,119	447,062	496,739	200,407	487,399	329,150	-	1,983,876
Mortgage loans	4,269	139,590	675,969	1,107,646	4,326,628	3,540,972	-	9,795,074
Trading portfolio assets	24,095	-	-	-	-	-	-	24,095
Positive replacement values of derivative financial instruments	8,568	-	-	-	-	-	-	8,568
Financial investments	16,026	-	2,413	66,714	116,029	182,843	5,921	389,946
Total	2,598,623	586,652	1,175,121	1,374,767	4,930,056	4,052,965	5,921	14,724,105
Previous year	2,378,705	592,274	1,260,407	1,409,841	4,706,537	3,676,629	1,445	14,025,838
Debt capital / Financial instruments								
Amounts due to banks	88,658	42	197,907	-	-	-	-	286,607
Liabilities from securities financing transactions	-	-	230,000	-	-	-	-	230,000
Amounts due in respect of customer deposits	5,049,732	4,043,020	421,034	42,167	226,492	109,799	-	9,892,244
Negative replacement values of derivative financial instruments	41,987	-	-	-	-	-	-	41,987
Cash bonds	-	-	450	-	-	-	-	450
Bond issues and central mortgage institution loans	-	-	15,000	168,000	1,013,000	1,839,000	-	3,035,000
Total	5,180,377	4,043,062	864,391	210,167	1,239,492	1,948,799	-	13,486,288
Previous year	5,462,726	3,640,380	789,748	92,828	1,061,938	2,024,528	-	13,072,148

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

(CHF thousands)	31.12.2019		31.12.2018	
	Switzerland	Foreign	Switzerland	Foreign
Assets				
Liquid assets	2,306,472	84	2,022,691	213
Amounts due from banks	156,749	59,241	143,769	134,215
Amounts due from customers	1,678,316	305,560	1,650,770	311,526
Mortgage loans	9,795,074	-	9,369,105	-
Trading portfolio assets	15,772	8,323	16,406	11,214
Positive replacement values of derivative financial instruments	6,728	1,840	7,219	2,673
Financial investments	254,563	135,383	208,603	147,434
Accrued income and prepaid expenses	9,891	839	11,975	1,019
Non-consolidated participations	6,195	113	6,182	131
Tangible fixed assets	77,235	-	78,120	-
Intangible assets	3,489	-	7,011	-
Other assets	39,325	-	191,570	-
Total assets	14,349,809	511,383	13,713,421	608,425
Liabilities				
Amounts due to banks	154,946	131,661	488,597	151,050
Liabilities from securities financing transactions	120,000	110,000	171,290	-
Amounts due in respect of customer deposits	7,355,692	2,536,552	7,012,220	2,404,921
Negative replacement values of derivative financial instruments	36,144	5,843	32,793	4,541
Cash bonds	450	-	736	-
Bond issues and central mortgage institution loans	3,035,000	-	2,806,000	-
Accrued expenses and deferred income	43,207	153	41,160	113
Other liabilities	37,232	161	10,902	-
Provisions	11,790	-	10,677	-
Reserves for general banking risks	495,000	-	464,000	-
Endowment capital	480,000	-	430,000	-
Statutory retained earnings reserve	254,483	-	243,514	-
Group profit	52,878	-	49,332	-
Total liabilities	12,076,822	2,784,370	11,761,221	2,560,625

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)	31.12.2019		31.12.2018	
	Absolute	Share as %	Absolute	Share as %
Assets held abroad				
Europe	356,941	2.40	371,756	2.60
Croatia	3,072		3,150	
France	26,311		23,602	
Germany	11,041		24,766	
Guernsey	22,793		18,632	
Italy	127,113		127,273	
Liechtenstein	15,468		13,896	
Luxembourg	42,032		59,848	
Malta	6,345		4,755	
Monaco	6,383		4,997	
Norway	14,786		15,105	
Netherlands	5,932		11,022	
United Kingdom	57,111		56,065	
Romania	4,435		-	
Other countries	14,119		8,645	
North America	70,773	0.48	123,420	0.86
Canada	12,134		5,823	
United States	58,639		117,597	
Asia	59,349	0.40	76,885	0.54
United Arab Emirates	9,662		7,496	
Kazakhstan	37,067		61,030	
Singapore	4,862		4,946	
Other countries	7,758		3,413	
Caribbean	18,046	0.12	29,105	0.20
Panama	14,446		20,596	
Other countries	3,600		8,509	
South America	2,100	0.01	7,107	0.05
Mexico	75		5,480	
Other countries	2,025		1,627	
Oceania	4,029	0.03	2	0.00
Africa	145	-	150	-
Total assets abroad	511,383	3.44	608,425	4.25
Switzerland	14,349,809	96.56	13,713,421	95.75
Total assets	14,861,192	100.00	14,321,846	100.00



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	31.12.2019		31.12.2018	
		Net foreign exposure	Share as %	Net foreign exposure	Share as %
1 Excellent and high quality	AAA to AA-	294,099	57.5%	361,286	59.4%
2 Greater quality than average	A+ to A-	9,748	1.9%	8,919	1.5%
3 Medium quality	BBB+ to BBB-	187,632	36.7%	215,351	35.4%
4 Default risk	BB+ to BB	102	0.0%	3,281	0.5%
5 Default risk material	BB-	511	0.1%	1,310	0.2%
6 Speculative, high default risk	B+ to B-	5,387	1.1%	5,517	0.9%
7 Poor quality, very high risk	CCC+ to D	-	0.0%	9	0.0%
Unrated	-	13,904	2.7%	12,752	2.1%
Total assets		511,383	100.0%	608,425	100.0%

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

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

(CHF thousands)	Currencies				Total
	CHF	EUR	USD	Other	
Assets					
Liquid assets	2,235,377	68,709	1,141	1,329	2,306,556
Amounts due from banks	41,354	32,653	28,146	113,837	215,990
Amounts due from customers	1,479,293	341,448	154,046	9,089	1,983,876
Mortgage loans	9,795,074	-	-	-	9,795,074
Trading portfolio assets	5,986	3,919	2,354	11,836	24,095
Positive replacement values of derivative financial instruments	8,329	110	129	-	8,568
Financial investments	274,695	43,691	71,357	203	389,946
Accrued income and prepaid expenses	9,686	537	502	5	10,730
Non-consolidated participations	6,195	113	-	-	6,308
Tangible fixed assets	77,235	-	-	-	77,235
Intangible assets	3,489	-	-	-	3,489
Other assets	39,266	38	21	-	39,325
Total assets shown in balance sheet	13,975,979	491,218	257,696	136,299	14,861,192
Delivery entitlements from spot exchange, forward forex and forex options transactions ¹	91,537	1,981,577	622,518	93,926	2,789,558
Total assets	14,067,516	2,472,795	880,214	230,225	17,650,750
Liabilities					
Amounts due to banks	87,669	123,311	74,790	837	286,607
Liabilities from securities financing transactions	230,000	-	-	-	230,000
Amounts due in respect of customer deposits	7,085,098	2,054,917	548,392	203,837	9,892,244
Negative replacement values of derivative financial instruments	41,764	110	113	-	41,987
Cash bonds	450	-	-	-	450
Bond issues and central mortgage institution loans	3,035,000	-	-	-	3,035,000
Accrued expenses and deferred income	43,314	-	44	2	43,360
Other liabilities	37,191	139	60	3	37,393
Provisions	11,790	-	-	-	11,790
Reserves for general banking risks	495,000	-	-	-	495,000
Endowment capital	480,000	-	-	-	480,000
Statutory retained earnings reserve	254,483	-	-	-	254,483
Group's profit	52,878	-	-	-	52,878
Total liabilities in balance sheet	11,854,637	2,178,477	623,399	204,679	14,861,192
Delivery obligations from spot exchange, forward forex and forex options transactions ¹	2,236,107	291,480	257,503	24,969	2,810,059
Total liabilities	14,090,744	2,469,957	880,902	229,648	17,671,251
Net position per currency	-23,228	2,838	-688	577	-20,501
Net position per currency in the previous year	-19,154	5,177	-4,913	3,938	-14,952

¹ Options have been delta-weighted.



5.11 INFORMATION CONCERNING OFF-BALANCE-SHEET TRANSACTIONS

5.11.21 Breakdown of contingent liabilities and contingent assets

(CHF thousands)	31.12.2019	31.12.2018
Contingent liabilities		
Guarantees to secure credits and similar	83,719	70,771
Performance guarantees and similar	31,347	31,787
Irrevocable commitments arising from documentary letters of credit	20,171	12,400
Total contingent liabilities	135,237	114,958

5.11.22 Breakdown of fiduciary transactions

(CHF thousands)	31.12.2019	31.12.2018
Fiduciary investments	465,035	265,627
Fiduciary loans	5,860	7,923
Total fiduciary transactions	470,895	273,550

5.12 INFORMATION ON THE INCOME STATEMENT

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

(CHF thousands)	2019	2018
Result from trading activities from:		
Foreign currencies	16,306	17,783
Banknote trading	-1,314	-1,245
Commodities / precious metals	2,450	-335
Securities trading	1,014	-1,107
Total result from trading activities	18,456	15,096

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)	2019	2018
Negative interest		
Negative interest on assets (decrease in interest and discount income)	5,888	4,675
Negative interest on liabilities (decrease in interest expenses)	3,065	3,385

5.12.25 Breakdown of personnel expenses

(CHF thousands)	2019	2018
Salaries	67,755	67,184
<i>of which expenses relating to share-based compensation and alternative forms of variable compensation</i>	-	-
Social insurance benefits ¹	16,566	20,784
Other personnel expenses	2,891	3,084
Total personnel expenses	87,212	91,052

5.12.26 Breakdown of general and administrative expenses

(CHF thousands)	2019	2018
Office space expenses	5,567	5,847
Expenses for information and communications technology	23,131	22,622
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	458	436
Fees of audit firm	583	961
<i>of which for financial and regulatory audits</i>	538	821
<i>of which for other services</i>	45	140
Other operating expenses	12,281	12,224
<i>of which compensation for any State guarantee</i>	-	-
Total general and administrative expenses	42,020	42,090

¹ The pre-retirement plan to be carried out over a two-year period (2019 and 2020) was booked in 2018.

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

<p>5.12.27.1 Material losses No material losses were incurred during the financial year.</p>
<p>5.12.27.2 Extraordinary income and extraordinary expenses A contribution of CHF 2 million to the Fondazione del centenario BancaStato was booked under Extraordinary expenses.</p>
<p>5.12.27.3 Hidden reserves The Group does not hold any hidden reserve as it discloses its financial statements on the basis of the true and fair view principle.</p>
<p>5.12.27.4 Reserves for general banking risks CHF 31 million were deducted from "Changes in reserves for general banking risks" to create reserves for general banking risks.</p>
<p>5.12.27.5 Value adjustments and provisions no longer required There is no relevant information to provide under this heading.</p>
<p>5.12.27.6 Revaluations of participations and tangible fixed assets 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)	31.12.2019	31.12.2018
Current taxes	1,050	1,091
Real estate tax	327	314
Other taxes	130	-
Provisions for deferred taxes	-	-
Total taxes	1,507	1,405
Average tax rate weighted on the basis of the operating result¹	1.2%	1.5%

¹ The Parent company Banca dello Stato del Cantone Ticino is exempt from federal, cantonal and communal taxation. It is subject to real estate taxation.

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 the Group Banca dello Stato del Cantone Ticino and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2019, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes for the year then ended, including a summary of significant accounting policies (pages 36-66).

In our opinion, the consolidated financial statements as at 31 December 2019 give a true and fair view of the financial position, the results of operations and the cash flow in accordance with 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 4'360'000

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

PricewaterhouseCoopers Ltd, Piazza Indipendenza 1, Casella postale, CH-6901 Lugano, Switzerland
Telephone: +41 58 792 65 00, Fax: +41 58 792 65 10, www.pwc.ch

PricewaterhouseCoopers SA is a member of the global PricewaterhouseCoopers network of firms, each of which is a separate and independent legal entity.

Materiality

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

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

Overall group materiality	CHF 4'360'000
How we determined it	5% of the operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items).
Rationale for the materiality benchmark applied	We chose the operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items) because it is the benchmark against which the performance of a banking group is most commonly measured and it is the generally accepted benchmark in the financial industry.

We agreed with the Audit Committee of the Board of Directors that we would report to them misstatements above CHF 218'000 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

As shown in note 5.10.2 of the annual report 2019, the Group grants loans and advances to customers and mortgage loans (79% of total assets or CHF 11'779 million). We consider the valuation of amounts due from customers and mortgage loans that show signs of potential default of debtor or 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.

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

In addition, we tested on a sample basis that:

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

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

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 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 entity 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;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate 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, related safeguards.

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 Ltd



Glenda Brändli

Audit expert
Auditor in charge



Lorenzo Morelli

Audit expert

Lugano, 30 March 2020



Individual Financial Statements

1. Balance Sheet	74
2. Income Statement	75
3. Proposed Appropriation of Available Earnings	76
4. Statement of Changes in Endowment Capital	77
5. Annex	78
Auditors' Report	87

1. Balance Sheet

(CHF thousands)	Annex	31.12.2019	31.12.2018	Change
Assets				
Liquid assets		2,080,798	1,322,640	758,158
Amounts due from banks		210,184	310,779	-100,595
Amounts due from customers	5.6.2	1,701,803	1,679,674	22,129
Mortgage loans	5.6.2	9,795,074	9,369,105	425,969
Trading portfolio assets	5.6.3	20,113	25,472	-5,359
Positive replacement values of derivative financial instruments	5.6.4	11,228	11,838	-610
Financial investments	5.6.5	365,012	336,733	28,279
Accrued income and prepaid expenses		10,538	12,663	-2,125
Participations		70,169	70,156	13
Tangible fixed assets		76,456	77,252	-796
Other assets	5.6.6	39,186	191,190	-152,004
Total assets		14,380,561	13,407,502	973,059
Total subordinated claims		30,718	30,718	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		30,718	30,718	-
Liabilities				
Amounts due to banks		808,594	817,961	-9,367
Liabilities from securities financing transactions	5.6.1	230,000	171,290	58,710
Amounts due in respect of customer deposits		8,891,952	8,325,104	566,848
Negative replacement values of derivative financial instruments	5.6.4	42,170	37,375	4,795
Cash bonds		450	736	-286
Bond issues and central mortgage institution loans	5.6.7	3,035,000	2,806,000	229,000
Accrued expenses and deferred income		35,789	33,821	1,968
Other liabilities	5.6.6	36,300	9,637	26,663
Provisions	5.6.9	9,528	9,460	68
Reserves for general banking risks	4 and 5.6.9	495,000	464,000	31,000
Endowment capital	4 and 5.6.10	480,000	430,000	50,000
Statutory retained earnings reserve	4	263,755	252,074	11,681
Profit (result for the period)	4	52,023	50,044	1,979
Total liabilities		14,380,561	13,407,502	973,059
Total subordinated liabilities		175,273	175,273	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		-	-	-
Off-balance-sheet transactions				
Contingent liabilities	5.6.2	125,580	112,537	13,043
Irrevocable commitments	5.6.2	250,760	297,055	-46,295
Obligations to pay up and make further contributions	5.6.2	14,180	14,180	-

2. Income Statement

(CHF thousands)	Annex	2019	2018	Change
Income and expenses arising from ordinary banking operations				
Result from interest operations				
Interest and discount income		177,958	181,243	-3,285
Interest and dividend income from financial investments		2,661	2,858	-197
Interest expense		-35,000	-40,230	5,230
Gross result from interest operations		145,619	143,871	1,748
Changes in value adjustments for default risk and losses from interest operations		372	915	-543
Net result from interest operations		145,991	144,786	1,205
Result from commission business and services				
Commission income from securities trading and investment activities		24,142	23,883	259
Commission income from lending activities		3,577	3,577	-
Commission income from other services		8,430	7,921	509
Commission expenses		-6,660	-6,708	48
Result from trading activities and fair value option	5.8.15	14,767	12,298	2,469
Other results from ordinary activities				
Result from the disposal of financial investments		2,121	-299	2,420
Income from participations		4,527	3,089	1,438
Result from real estate		713	904	-191
Other ordinary income		4,789	3,765	1,024
Other ordinary expenses		-217	-2,495	2,278
Net revenues		202,180	190,721	11,459
Operating expenses				
Personnel expenses	5.8.17	-69,569	-73,785	4,216
Other operating expenses	5.8.18	-36,042	-35,846	-196
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		-9,603	-8,044	-1,559
Changes to provisions and other value adjustments, and losses		-1,578	-45	-1,533
Operating result		85,388	73,001	12,387
Extraordinary income	5.8.19.02	92	3,677	-3,585
Extraordinary expenses	5.8.19.02	-2,000	-320	-1,680
Changes in reserves for general banking risks	5.8.19.04	-31,000	-26,000	-5,000
Taxes	5.8.20	-457	-314	-143
Profit (result of the period)		52,023	50,044	1,979

3. Proposed Appropriation of Available Earnings

(CHF thousands)	2019	2018	Change
Appropriation of available earnings			
Profit (result of the period)	52,023	50,044	1,979
Profit carried forward	-	-	-
Balance sheet profit	52,023	50,044	1,979
Proposal of the Board of Directors			
Assignment to the statutory retained earnings reserve	10,174	11,681	-1,507
Payment to the Canton	41,849	38,363	3,486
<i>of which 5% interest on the endowment capital</i>	21,500	15,000	6,500
<i>of which additional payment to the Canton</i>	20,349	23,363	-3,014
Amount carried forward	-	-	-

4. Statement of Changes in Endowment Capital

(CHF thousands)	Endowment capital	Statutory retained earnings reserve	Reserves for general banking risks	Result of the period	Total
Endowment capital at 01.01.2019	430,000	252,074	464,000	50,044	1,196,118
Appropriation of retained earnings 2018					
<i>Assignment to statutory retained earnings reserve</i>	-	+11,681	-	-11,681	-
<i>5% interest on the endowment capital</i>	-	-	-	-15,000	-15,000
<i>Additional payment to the Canton</i>	-	-	-	-23,363	-23,363
Endowment capital increase	+50,000	-	-	-	50,000
Allocation to reserves for general banking risks	-	-	+31,000	-	31,000
Profit (result of the period)	-	-	-	+52,023	52,023
Total endowment capital at 31.12.2019	480,000	263,755	495,000	52,023	1,290,778

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.

In last few years, as part of a move to diversify its sources of revenue, BancaStato acquired 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 2019, the Bank had a total of 408 employees on payroll (370.75 FTEs) with apprentices calculated at 50%, compared to 419 staff at the end of 2018 (380.95 FTEs).

5.2 ACCOUNTING AND VALUATION PRINCIPLES

5.2.1 General principles

The financial statements of BancaStato as at 31 December 2019 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 accompanying directive.

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

The valuation rules for the individual financial statements 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 1.0868 (2018: 1.1269)

USD 0.9686 (2018: 0.9842)

5.4 CHANGES IN FINANCIAL STATEMENTS AND PRESENTATION OF ACCOUNTS

There were no changes in the accounting principles or in the presentation of accounts in 2019.

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).

5.6 INFORMATION ON THE BALANCE SHEET

5.6.1 Breakdown of securities financing transactions (assets and liabilities)

(CHF thousands)	31.12.2019	31.12.2018
Securities lending, securities borrowing and repurchase agreements		
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions ¹	-	-
Book value of obligations from cash collateral received in connection with securities lending and repurchase agreements ¹	230,000	171,290
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.	222,722	170,569
<i>of which with unrestricted right to resell or repledge</i>	222,722	170,569
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge.	-	-
<i>of which repledged securities</i>	-	-
<i>of which resold securities</i>	-	-

¹ Before any netting agreement.

5.6.2 Presentation of collateral for loans / receivables and off-balance-sheet transactions, as well as impaired loans/receivables at 31.12.2019

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)				
Amounts due from customers	173,389	257,056	628,278	1,058,723
Amounts due from public corporations	502	54	669,699 ¹	670,255
Mortgage loans	9,809,359 ¹			9,809,359
<i>Residential property</i>	7,259,752			7,259,752
<i>Office and business premises</i>	1,323,684			1,323,684
<i>Commercial and industrial premises</i>	562,112			562,112
<i>Other</i>	663,811			663,811
Total loans (before netting with value adjustments)	9,983,250	257,110	1,297,977	11,538,337
Previous year	9,551,727	200,996	1,353,929	11,106,652
Total loans (after netting with value adjustments)	9,968,965	249,562	1,278,350	11,496,877
Previous year	9,533,845	195,299	1,319,635	11,048,779
Off-balance-sheet				
Contingent liabilities	6,191	24,281	95,108	125,580
Irrevocable commitments	15,920	-	234,840 ²	250,760
Obligations to pay up shares and make further contributions	-	-	14,180	14,180
Total off-balance-sheet	22,111	24,281	344,128	390,520
Previous year	51,329	25,583	346,860	423,772

(CHF thousands)	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
Impaired loans				
Current year	127,806	86,346	41,460	41,460
Previous year	149,117	91,244	57,873	57,873

¹ Including loans to entities related to public institutions for CHF 108.7 million (2018: CHF 117.5 million).

² Including CHF 37.5 million (2018: CHF 36 million) as a required share for deposit guarantee purposes.

5.6.3 Breakdown of trading portfolios and fair value option

(CHF thousands)	31.12.2019	31.12.2018
Trading portfolio assets		
Equity-type securities	-	30
Shares in investment funds	5,734	10,179
Precious metals and commodities	11,837	12,565
Structured products	2,542	2,698
Total trading portfolio assets	20,113	25,472
<i>of which determined using a valuation model</i>	-	-
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	-	-

5.6.4 Presentation of derivative financial instruments (assets and liabilities)

(CHF thousands)	Trading instruments			Hedging instruments		
	Replacement values		Contract volume	Replacement values		Contract volume
	positive	negative		positive	negative	
Interest rate instruments						
IRS	-	-	-	4,128	15,853	460,000
Total interest rate instruments	-	-	-	4,128	15,853	460,000
Foreign currencies / precious metals						
Forward contracts	743	1,156	172,266	-	-	-
Swaps (interest rate/currency)	2,273	1,727	372,644	3,840	23,206	2,526,423
Options (OTC)	244	228	117,505	-	-	-
Total foreign currencies / precious metals	3,260	3,111	662,415	3,840	23,206	2,526,423
Total before netting agreements	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>
Total previous year	4,157	4,094	677,905	7,681	33,281	3,497,208
<i>of which determined using a valuation model</i>	<i>4,157</i>	<i>4,094</i>	<i>-</i>	<i>7,681</i>	<i>33,281</i>	<i>-</i>
(CHF thousands)	Positive replacement values (cumulated)			Negative replacement values (cumulated)		
Total after netting agreements	11,228			42,170		
Total previous year	11,838			37,375		

Breakdown by counterparty

(CHF thousands)	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	-	10,519	709

5.6.5 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Debt securities	343,475	317,278	351,635	319,006
<i>of which intended to be held to maturity</i>	319,110	288,647	326,908	290,375
<i>of which not intended to be held to maturity (available for sale)</i>	24,365	28,631	24,727	28,631
Shares in investment funds	11,242	13,521	11,612	13,991
Equity-type securities	4,171	4,386	5,138	4,879
<i>of which qualified participations (at least 10% of voting capital)</i>	-	-	-	-
Precious metals	203	103	203	103
Real estate	5,921	1,445	5,921	1,445
Total financial investments	365,012	336,733	374,509	339,424
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	250,619	205,489	257,950	207,460

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	283,768	29,628	-	-	-	30,079

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

5.6.6 Breakdown of other assets and other liabilities

(CHF thousands)	31.12.2019	31.12.2018
Other assets		
Compensation account	9,660	6,073
Indirect taxes	698	671
Various other assets	28,828 ¹	184,446 ²
Total other assets	39,186	191,190
Other liabilities		
Direct / indirect taxes	2,672	3,885
Unredeemed cash bonds	1,215	1,634
Various other liabilities	32,413 ³	4,118
Total other liabilities	36,300	9,637

¹ of which a balance of CHF 24.0 million for in-house banking transactions.

² of which a balance of CHF 184.3 million from in-house banking transactions.

³ of which a balance of CHF 23.4 million additional undistributed payment to the Canton for 2018.

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

(CHF thousands)	31.12.2019		31.12.2018	
	Book value	Effective commitments	Book value	Effective commitments
Pledged / assigned assets (excluding securities financing transactions)				
Book value of mortgages set as collateral for bonds and loans with the SCB Central	2,511,706	1,960,000	2,384,523	1,981,000
Book value of securities delivered as collateral to SIX Group AG	1,414	-	1,416	-
Book value of securities delivered as collateral in connection with Repo Light credit with the SNB	21,418	-	21,760	-
Book value of assets pledged with the SNB to secure own commitments	37,484	37,484	24,611	24,611
Total pledged / assigned assets	2,572,022	1,997,484	2,432,310	2,005,611
Assets under reservation of ownership				
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 obligations towards pension schemes.

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 31.12.2019.

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

	Over- / underfunding at the end of 2019	Economic interest of the Bank		Change in economic interest (benefit and/or commitment) versus previous year	Contributions paid for 2019	Pension expenses in personnel expenses	
		31.12.2019	31.12.2018			31.12.2019	31.12.2018
Pension plans without overfunding / underfunding	-	-	-	-	8,081	7,837	12,813 ¹

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 funds. 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.

¹ Including a provision for a pre-retirement plan to be carried out over a two-year period (2019 and 2020).

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

(CHF thousands)	Status 31.12.2018	2019					Status 31.12.2019
		Use in conformity with designated purpose	Currency conversion differences	Past due interest and recoveries	New creations charged to income	Releases to income	
Provisions							
Provisions for default risks	82	-	-	-	-	-	82
Provisions for other business risks	344	-555	-	-	1,452	-	1,241
Additional pension provision	9,034	-2,364	-	-	1,535	-	8,205
Total provisions	9,460	-2,919	-	-	2,987	-	9,528
Reserves for general banking risks	464,000	-	-	-	31,000	-	495,000
Value adjustments for default and country risks	57,922	-16,037	-10	-	11,048	-11,414	41,509
of which value adjustments for default risks in respect of impaired loans	57,922	-16,037	-10	-	11,048	-11,414	41,509

5.6.10 Presentation of the Bank's endowment capital

(CHF thousands)	31.12.2019			31.12.2018		
	Total par value	Quantity	Capital eligible for dividend	Total par value	Quantity	Capital eligible for dividend
Endowment capital						
Endowment capital	480,000	480,000	480,000	430,000	430,000	430,000
<i>of which paid up</i>	480,000	480,000	480,000	430,000	430,000	430,000
Total endowment capital	480,000	480,000	480,000	430,000	430,000	430,000

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.

On 22 August 2018 the State Council authorised a CHF 130 million increase and on 27 November 2019 it authorised an additional CHF 50 million increase. The Bank did not issue participation rights.

5.6.11 Disclosure of amounts due from / to related parties

(CHF thousands)	31.12.2019		31.12.2018	
	Due from	Due to	Due from	Due to
Holders of qualified participations	22,429	112,662	15,000	157,605
Group companies	27,192	532,704	67,660	193,053
Linked companies	136,649	212,594	129,203	177,549
Transactions with members of governing bodies	21,169	7,888	111,016	7,692

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

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

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

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

5.6.12 Disclosure of holders of significant participations

(CHF thousands)	31.12.2019		31.12.2018	
	Nominal	% of equity	Nominal	% of equity
Canton Ticino With voting rights	480,000	100	430,000	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	31.12.2019		31.12.2018	
		Net foreign exposure	Share as %	Net foreign exposure	Share as %
1 Excellent and high quality	AAA to AA-	191,864	77.2%	286,405	82.7%
2 Greater quality than average	A+ to A-	896	0.4%	2,222	0.6%
3 Medium quality	BBB+ to BBB-	47,469	19.1%	53,076	15.3%
4 Default risk	BB+ to BB	101	0.0%	130	0.0%
5 Default risk material	BB-	3	0.0%	3	0.0%
6 Speculative, high default risk	B+ to B-	677	0.3%	103	0.0%
7 Poor quality, very high risk	CCC+ to D	-	0.0%	-	0.0%
Unrated	-	7,447	3.0%	4,935	1.4%
Total		248,457	100.0%	346,874	100.0%

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

5.7 INFORMATION CONCERNING OFF-BALANCE-SHEET TRANSACTIONS

5.7.14 Breakdown of fiduciary transactions

(CHF thousands)	31.12.19	31.12.18
Fiduciary investments	77,473	94,804
Total fiduciary transactions	77,473	94,804

5.8 INFORMATION ON THE INCOME STATEMENT

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

(CHF thousands)	2019	2018
Result from trading activities from:		
Foreign currencies	11,295	13,210
Banknote trading	82	276
Commodities / precious metals	2,450	-336
Securities trading	940	-852
Total result from trading activities	14,767	12,298

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

Refinancing income in the item "Result from interest operations"		
Income and dividend income from trading portfolio is offset with costs of refinancing of that portfolio.		
(CHF thousands)	2019	2018
Negative interest		
Negative interest on assets (decrease in interest and discount income)	845	182
Negative interest on liabilities (decrease in interest expenses)	3,299	3,750

5.8.17 Breakdown of personnel expenses

(CHF thousands)	2019	2018
Salaries	53,328	53,100
<i>of which expenses relating to share-based compensation and alternative forms of variable compensation</i>	-	-
Social insurance benefits ¹	14,071	18,368
Other personnel expenses	2,170	2,317
Total personnel expenses	69,569	73,785

5.8.18 Breakdown of general and administrative expenses

(CHF thousands)	2019	2018
Office space expenses	4,918	5,153
Expenses for information and communications technology	19,386	19,099
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	437	418
Fees of audit firm	398	569
<i>of which for financial and regulatory audits</i>	353	438
<i>of which for other services</i>	45	131
Other operating expenses	10,903	10,607
<i>of which compensation for any State guarantee</i>	-	-
Total general and administrative expenses	36,042	35,846

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

5.8.19.1 Material losses No material losses were incurred during the financial year.
5.8.19.2 Extraordinary income and extraordinary expenses The CHF 2 million contribution to the Fondazione del centenario BancaStato was booked under extraordinary expenses.
5.8.19.3 Hidden reserves 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.
5.8.19.4 Reserves for general banking risks CHF 31 million were deducted from "Changes in reserves for general banking risks" and allocated to reserves for general banking risks.
5.8.19.5 Value adjustments and provisions no longer required There is no relevant information to be provided under this heading.
5.8.19.6 Revaluations of participations and tangible fixed assets There were no revaluations of participations or tangible fixed assets during the financial year.

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

(CHF thousands)	31.12.2019	31.12.2018
Real estate tax	327	314
Other taxes	130	-
Total taxes	457	314

The Bank is exempt from federal, cantonal and communal taxation. It is subject to real estate taxation.

¹ This decrease is attributable to the pre-retirement plan to be carried out over a two-year period (2019 and 2020) which was booked in the previous year.

Auditors' Report

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 2019, income statement, statement of changes in equity and notes for the year then ended, including a summary of significant accounting policies (pages 74-86).

In our opinion, the financial statements as at 31 December 2019 give a true and fair view of the financial position, the results of operations and the cash flow in accordance with 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 4'250'000

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.

PricewaterhouseCoopers Ltd, Piazza Indipendenza 1, Casella postale, CH-6901 Lugano, Switzerland
Telephone: +41 58 792 65 00, Fax: +41 58 792 65 10, www.pwc.ch

PricewaterhouseCoopers SA is a member of the global PricewaterhouseCoopers network of firms, each of which is a separate and independent legal entity.

Materiality

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

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

Overall materiality	CHF 4'250'000 million
How we determined it	5% of the operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items).
Rationale for the materiality benchmark applied	We chose the operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items) because it is the benchmark against which the performance of a bank is most commonly measured and it is the generally accepted benchmark in the financial industry.

We agreed with the Audit Committee of the Board of Directors that we would report to them misstatements above CHF 210'000 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	How our audit addressed the key audit matter
<p>As shown in the note 5.6.2 of the annual report 2019, the Bank grants loans and advances to customers and mortgage loans (80% of total assets or CHF 11'497 million). We consider the valuation of amounts due from customers and mortgage loans that show signs of potential default of debtor or 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.</p> <p>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.</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">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. <p>We conclude 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">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. <p>The methods used to determine impairments are appropriate and in accordance with our expectations.</p>

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 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, related safeguards.

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 company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd



Glenda Brändli

Audit expert
Auditor in charge



Lorenzo Morelli

Audit expert

Lugano, 30 March 2020

Board of Directors

at 31.12.2019

Chairman

Bernardino Bulla ¹

Deputy Chairman

Raoul Paglia ^{1,2}

Secretary

Marco Fantoni ¹

Members

Avv. Giovanni Jelmini ^{1,2}

Daniel Joss ¹

Michele Morisoli ^{1,2}

Luca Soncini ¹

Public Mandate Control Commission

at 31.12.2019

Chairman

Maurizio Agustoni

Deputy Chairman

Tiziano Galeazzi

Members

Omar Balli

Samantha Bourgoïn

Fabrizio Garbani Nerini

Giacomo Garzoli

¹ Independent members as specified in FINMA Circular 2017/01

² 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 31.12.2019

President of the Executive Board

Fabrizio Cieslakiewicz

Members of the Executive Board

Daniele Albisetti

Claudio Genasci

Patrick Lafranchi

Gabriele Zanzi

Members of the Management

at 31.12.2019

Bellinzona Branch

Domenico Albertoni
(until May 2019)

Mauro Bazzotti

Lucamaria Beeler

Enrico Bertozzi

Luca Bordonzotti

Omar Cadola

Dario Caramanica

Medardo Caretti

Curzio De Gottardi

Maurizio Derada

Adolfo Genzoli

Luca Ghiringhelli

Manuel Giambonini

Clio Indemini

Gabrio Lavizzari

Daniele Manzoni

Raffaele Marti

Roberto Meyer

Marco Molteni

Massimiliano Morelli

Roberto Nuschak

Massimo Penzavalli

Francesco Pisano

Fiorenzo Poretti

Giulio Ruggeri

Giorgio Sala

Matteo Saladino

Michele Schandroch

Pietro Soldini
(since January 2019)

Lorenzo Squellati

Norman Stampanoni

Fabrizio Stöckli

Carlo Tomasini

Ferruccio Unternährer

Mirko Zoppi

Lugano Branch

Roberto Barbera

Gianluca Colpo

Filippo Dotti

Sura Fini Di Pietro
(since October 2019)

Luigi Longoni

Gabriele Mantegazzi

Alberto Pedrazzi

Carlo Ruggia

Luca Todesco

Jvan Zatta

Locarno Branch

Boris Ceschi
(until October 2019)

Fabrizio Conti-Rossini

Verena Gaggetta

Claudio Gnesa

Stephan Mair

Marco Meschiari

Marco Pellanda

Franco Storni

Chiasso Branch

Maurizio Brenta

Claudio Cereghetti

Mario Grassi

Lorenzo Imperiali

Gilberto Pittaluga

Marco Soragni

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 Cantonale

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. Franscini 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 36

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 Bank Headquarters

ATM ONLY

Lugano-Agno Airport

6982 Agno

San Giovanni Hospital

6500 Bellinzona

Piazza Collegiata

6500 Bellinzona

Via San Francesco 1

6600 Locarno-Città vecchia

Via Emmaus 1

(Cattori Shopping Center)

6616 Losone

Civico Hospital

6900 Lugano

Via Turconi 23

6850 Mendrisio

Via Cantonale 19

6805 Mezzovico

Via alle Brere 5

6598 Tenero

linea**DIRETTA**

Tel 091 803 71 11

Fax 091 803 71 70

lineadiretta@bancastato.ch

Website

www.bancastato.ch