



ANNUAL REPORT 2014

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BancaStato

BANCA DELLO STATO DEL CANTONE TICINO



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Dr. Fulvio Pelli

Chairman of the Board of Directors

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In 2014 Banca dello Stato del Cantone Ticino was able to post excellent results: mortgage loans grew by CHF 450 million, running ahead of CHF 7.3 billion, and assets under management increased by more than CHF 400 million to over CHF 9.5 billion. The inflow of new assets exceeded CHF 300 million. Operating activities also evolved positively, which allowed the Bank to offset without too much difficulty the cost of an early retirement plan for its employees as well as the depreciation of approximately one half of the investments for the new IT solution.

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Message from the Chairman of the Board of Directors

Dear Madam,
Dear Sir,

In 2014 Banca dello Stato del Cantone Ticino was able to post excellent results: mortgage loans grew by CHF 450 million, running ahead of CHF 7.3 billion, and assets under management increased by more than CHF 400 million to over CHF 9.5 billion. The inflow of new assets exceeded CHF 300 million. Operating activities also evolved positively, which allowed the Bank to offset without too much difficulty the cost of an early retirement plan for its employees as well as the depreciation of approximately one half of the investments for the new IT solution. Net of these two elements, gross profit would have shown an increase of almost 20%, just short of CHF 69 million while net income would have increased by close to 40% to approximately CHF 58 million. It is thus the beginning of a new turn for the Bank after the investments made to improve its cost/income ratio. Before extraordinary expenses, which reduced the Bank's accounts by roughly CHF 26 million, the cost/income ratio dropped below 60% to 59.1% for the first time in the Institution's history. After the release of CHF 6.5 million from reserves for general banking risks, net income amounted to CHF 39 million, slightly below the CHF 42 million posted in 2013. The dividend paid out to the Canton was just slightly below CHF 30 million, in line with that of the previous year. Axion SWISS Bank SA also performed well, with an excellent inflow of new assets totalling CHF 170 million, and a 5% increase in gross profit to CHF 2.6 million.

The Bank was successful in achieving these positive operating results despite the difficult economic climate. Despite low interest rates, as well as uncertainties prevailing in financial markets and asset management conditions which impacted negatively on income, it is important to remember that the year under review saw substantial resources being taken up by the migration to the new BSM (B-Source Master) IT-system. The work undertaken for this project was particularly intensive in 2013 and 2014, and severely affected the 2014 accounts. This nevertheless represents an important investment towards the Bank's development.

The outsourcing of specific support services, new work processes, the new informatics solution and a more streamlined organisational structure are expected to contribute to an increase in operational efficiency as well as better service for the Bank's clients. Efficiency should also improve with a gradual staff reduction by some 60 employees, all of whom have taken advantage of the early retirement plan that was announced in 2014. By the end of 2017, the Bank is expected to reach its optimum size, and will be able to draw on the opportunities provided by the new informatics solution and the renewed work processes.

The achievement of these goals is important, as it will allow the Institution to not only attain efficiencies in line with other cantonal banks, but also to better face the many challenges that have defined banking activities in recent years. In this regard, it must be mentioned that 2014 was a particularly challenging year. Alongside persistent instability pervading the economic and financial landscape and problems inherent in the tax controversy with the United States, there is also the voluntary disclosure program implemented by the Italian government, which has already entailed considerable administrative expenses for banks and will lead in 2015 to a reduction in managed assets and margins. The voluntary disclosure program allows Italian taxpayers who hold undeclared assets abroad to resolve their tax position in their home country. This will facilitate the repatriation of part of these assets. The costs for the administration of the declared assets remaining in local financial institutions will increase, thus reducing margins.

With regard to the real estate market, it should be mentioned that the Federal Council, acting on a request from the Swiss National Bank (SNB) which was especially concerned by the increasing risk of a real estate bubble, intervened again by doubling the "countercyclical capital buffer" on mortgage lending from 1% to 2%. Since the growth in mortgage lending cannot be slowed down by a restrictive monetary policy (an increase in interest rates would have a cooling effect on the real estate market, but would also further strengthen the Swiss franc and penalize exports), the SNB has decided to intervene directly by increasing the banks' ratio of capital to mortgage lending.



As the reporting year saw a consistent increase in lending, BancaStato has had to allocate a substantial share of its own capital and reduce its margin of manoeuvre in the ongoing development of its business. In order to avoid a slowdown in the Bank's lending business at a time that is not particularly easy on the Canton's economy, the Board of Directors and the Council of State have agreed to a CHF 40 million allocation in endowment capital (paying out the total amount of CHF 130 million in a capital increase approved by the Grand Council in 2011) as well as a subordinated loan of CHF 60 million – eligible as own capital – from the Canton. With these measures, as well as the ordinary allocation to legal reserves and the release of reserves for general banking risks, the Bank's capital adequacy, measured as the ratio of required capital to available funds, has improved, and now exceeds 190% (exceeding the minimum ratio set by FINMA of 140%).

With regard to the anticipated performance in 2015, the instability of the economic situation and uncertainties pertaining to the voluntary disclosure program, it is even more difficult than in the past to make reliable predictions, particularly in terms of business volume and revenues.

Dr. Fulvio Pelli

Chairman of the Board of Directors

Corporate Governance

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

Introduction

For the tenth year in a row, Banca dello Stato del Cantone Ticino (BancaStato) chose to voluntarily publicise information on its corporate governance. The publication draws reference from the outline proposed by the Directive on Information Relating to Corporate Governance, issued by SIX Swiss Exchange, latest version effective 1 September 2014¹.

All data herein are at 31 December 2014 or refer to the entire 2014 financial year, unless otherwise indicated.

Corporate Name, Legal Status, Duration and Head Office

Banca dello Stato del Cantone Ticino, founded in 1915, is an autonomous institution operating under public law. The Republic and Canton of Ticino owns 100% of the Bank's equity.

The Institution's statute is that of a cantonal bank, in accordance with the Swiss Federal Law on Banks and Savings Banks².

The activities of the Bank are regulated by the Law on Banca dello Stato del Cantone Ticino dated 25 October 1988.

The Bank is established with no time limit. Its head office is in Bellinzona³.

Purpose and Activities

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

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

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

1. acceptance of deposits in all forms allowed by the banking legislation;
2. granting of collateralised and non-collateralised loans and credits;
3. processing transactions with letters of credit and stand-by letters of credit, in particular in Commodity Trade Finance;
4. issuing guarantees, sureties and guarantee commitments;
5. securities trading for third parties and on own account;
6. trading in derivative financial instruments both for third parties and on own account;
7. issuing and participating in the issuance of shares, bonds and other securities, for both Swiss and foreign debtors;
8. spot or forward trading of currency and securities in foreign currency, precious metals and monetary market papers, both for third parties and on own account;
9. trading with professional banknote dealers as per Art. 2 of ORD-FINMA;
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;

¹ Refer to: http://www.six-exchange-regulation.com/admission_manual/06_16-DCG_fr.pdf

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

³ Refer to: http://www.bancastato.ch/dms/site-bancastato/documenti/Corporate-BancaStato/Legge_di_istituzione/Leggelstituzione.pdf

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 legislation⁴.

1. BANK STRUCTURE AND OWNERSHIP

1.1 Operational structure

1.1.1 Group operational structure

BancaStato is a Group. As at 31 December 2014 the Bank held a 100% share in a holding company, AHSA Holding SA, with headquarters in Lugano (nominal capital: CHF 7.5 million).

AHSA Holding SA in turn owns 100% of the share capital of Axion SWISS Bank SA with head office in Lugano (nominal capital: CHF 43 million). With this structure, BancaStato remains legally autonomous. As a Group, BancaStato adopted special Group Regulations which lay down its overall organisational rules.

1.1.2 Bank operational structure

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

The other business units are: Special Tasks, Services, Markets and Private Banking, Retail and Corporate.

The new Services Division takes over from the former Logistics Division and includes "Financial and Risk Management" (which formerly reported directly to the Chairman of the Executive Board) and the Service Center Department which now comprises the former Logistics Division.

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 Capital⁵

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

To this date, the Bank has not made use of the latter source of capital, and its capital solely consists of the endowment capital provided by the State, that is CHF 240 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 2014.

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 23 November 2011, the Government issued a request to Parliament with respect to increasing BancaStato's endowment capital from CHF 110 million to CHF 240 million⁶ in order to satisfy the new requisites of the Federal Supervisory Authority on financial markets in terms of capital adequacy⁷ and to sustain the investments involving several important projects which BancaStato is implementing while, at the same time, still

⁴ Refer to: <http://www.finma.ch/i/regulierung/gesetze/Pagine/banken.aspx>

⁵ Refer to: http://www.bancastato.ch/dms/site-bancastato/documenti/Corporate-BancaStato/Legge_di_istituzione/Leggelstizione.pdf

⁶ Refer to: <http://www.ti.ch/CAN/SegGC/comunicazioni/GC/odg-mes/6570.htm>

⁷ Refer to: <http://www.finma.ch/i/regulierung/Documents/finma-rs-2011-02-i.pdf>

guaranteeing a margin of financial autonomy. The Legislative Decree related to this request was approved by Parliament on 8 May 2012.

2.3 Changes in capital

On 31 December 2014, in conformity with Government Resolution 5761 of 17 December 2014, the endowment capital was increased from CHF 200 million to CHF 240 million. In 2013, the endowment capital was increased from CHF 110 million to CHF 200 million while in 2012 it rose from CHF 100 million to CHF 110 million.

2.4 Shares and participation certificates

The Bank's endowment capital is not divided up into shares. According to Art. 6 of the Law on Banca dello Stato del Cantone Ticino, the Institution is authorised to issue participation certificates not exceeding 50% of its endowment capital. As at 31 December 2014 there was no participation capital.

2.5 Bonus certificates

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

2.6 Limitations on transferability and nominee registrations

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

2.7 Convertible bonds and options

Banca dello Stato del Cantone Ticino has not issued any convertible bonds, and there are no options on the Bank's equity. It is however important to mention the "old style" hybrid product – AT2 loan (Additional Tier 2) with PONV, point of non-viability clause – issued in 2011 for an amount of CHF 175 million and the CHF 60 million AT1 loan received from the Canton at the end of 2014 (Additional Tier 1) with PONV clause. Although technically these loans are not convertible, in the event of the Bank's impending insolvency (PONV), these funds would

contribute to its recovery through a credit reduction or a full conversion into capital (lenders' claims would be fully covered). For details, refer to Table 7.6 of the Notes to the Group Financial Statements.

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 2008/24⁸.

The members of the Board of Directors do not carry out operational functions. No member of the Board of Directors has been a member of the Executive Board or member of the Auditors (previous or present).

Hereunder is a brief presentation of the members of the Board in office as at 31 December 2014⁹, their function, education, professional background and principal activities.

FULVIO PELLI

Function

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

⁸ Refer to: <http://www.finma.ch/i/regulierung/Documents/finma-rs-2008-24-i.pdf>

⁹ The composition of the Board of Directors has remained unchanged with respect to 31.12.2013.

Education and professional background

Law studies at the Universities of Bern and of Zurich, degree from the University of Zurich in 1974, PhD in 1977, with a thesis on the relationship between majority and minority in limited companies. That same year, he was admitted to Bar and Notary Public Council. He was Assistant Public Prosecutor for the Sottoceneri area for an extraordinary period of four years. He is at present the owner of the law and notary firm Pelli e Associati, Lugano.

Other principal activities

- » National councillor from 1995 to 2014, president of the Swiss Liberal Radical Party from 2005 to 2012;
- » Member of the Board of Directors of the Cooperative, the Holding and two operational companies of the La Mobiliare Group, Bern;
- » Member of the Board of Directors of Sogeho International Holding SA, Luxemburg;
- » Member of the Board of Directors of Genolier Swiss Medical Network SA and Chairman of the Board of Directors of its controlled companies Ars Medica Clinic SA, Gravesano and Salus Medica Clinic SA (Clinica Sant'Anna), Sorengo;
- » Chairman of the Board of Directors of Edy Toscano AG, Chur.

ROBERTO GRASSI

Function

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

Education and professional background

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

General Manager of Fidinam Group Holding SA, Lugano since 2001.

Other principal activities

- » Chairman or Member of the Board of Directors of various companies of the Fidinam Group;
- » Chairman of the Board of Directors of Pizzarotti SA, Lugano;
- » Member of the Chairman's Office of the Chamber of

Commerce, Industry and Crafts of Canton Ticino (CCIATI);

- » Vice-president of the Lugano Commodity Trading Association;
- » Chairman of the Board of Directors of Axion SWISS Bank SA.

CARLO DANZI

Function

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

Education and professional background

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

Other principal activities

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

MARCO FANTONI

Function

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

Education and professional background

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

Other principal activities

- » Member of the Board of directors of the Carla and Bruno Fabbroni Foundation, Lugano.

GIOVANNI JELMINI

Function

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

Education and professional background

Degree in Law from the University of Fribourg, lawyer and public notary. Owner of the law and notary firm Jelmini from 1996 to 2009. Since 2010 co-owner of the law and notary firm Respini, Jelmini, Beretta Piccoli & Fornara.

Other principal activities

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

MICHELE MORISOLI

Function

Member of the Board of Directors, born on 30 November 1966, Swiss. On the Board of Directors since 2 December 2008, member of the Audit 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 General Agent for Ticino of the insurance company Nationale Suisse.

Other principal activities

- » President of the Casa dell'Accademia Foundation, Mendrisio;
- » Vice-president of the Associazione l'Ancora, a center for drug addictions, Lugano;
- » Member of the IT for Persons with Disabilities Foundation, 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, Member of the Projects Committee.

Education and professional background

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

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

Other principal activities

- » Sole director of Genco Food SA;
- » Sole director of Leponti SA.

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

This information is included in Section 3.1.

3.3 Elections and terms of office

The members of the Board of Directors are appointed by the State Council. Their education, competence and professional history are decisive criteria for their appointment. They remain in office for 3 years, until 30 June. Retiring members may be re-elected. On an annual basis, the State Council renews two, two and three mandates respectively (Articles 21 and 22 of the Law on Banca dello Stato del Cantone Ticino).

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

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

Fulvio Pelli, Chairman: 1 July 2004/30 June 2016
Carlo Danzi, Secretary: 10 July 2007/30 June 2016
Marco Fantoni: 10 March 2009/30 June 2015
Roberto Grassi, Deputy Chairman: 1 July 2004/30 June 2016
Giovanni Jelmini: 1 December 2011/30 June 2016
Michele Morisoli: 2 December 2008/30 June 2017
Raoul Paglia: 10 July 2012/30 June 2015

3.4 Internal organisational structure

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

The Board of Directors reaches a quorum when at least five of its seven members are present. Decisions are determined by a simple majority of those present, and abstention is not permitted.

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

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

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

In 2014, the Board of Directors convened 13 times. The meetings of the Board of Directors and its committees lasted between two and five hours.

3.5 Areas of responsibility

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

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

Regulatory duties

- establishing the Bank's regulatory provisions;
- laying down the operating rules and 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 the Staff Rules and Regulations upon prior consultation with personnel.

Organisational duties

- establishment of the Bank's organisation;
- definition of the Bank's organisational chart;
- appointment, suspension, removal or dismissal of the President of the Executive Board, members of the Executive Board, members of the Management, Chief Auditor, Deputy Chief Auditor and the Compliance Officer;
- compensation and adoption of disciplinary measures as regards the Executive Board, the Chief Auditor and the Deputy Chief Auditor;
- organisation of accounting, controlling 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 of the Committees of the Board of Directors.

Strategic and financial duties

- approval of the Bank's financial plans and strategic guidelines laid down in the strategic planning document;
- review and approval of budgets, accounts, semi-annual and annual financial reports;
- review and approval of the annual social and environmental report and of the section on Corporate Governance of the Annual Report;
- decision on the issuance of participation certificates as per special 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 Auditor;
- ratification of loans granted to members of the Board of Directors by the Executive Board or by its subordinate offices within the framework of their delegated responsibilities;
- decision-making on the acquisition and disposal of participations exceeding 15% of the subsidiary's capital or exceeding CHF 2 million, within the limits set by Art. 14 of the Law on Banca dello Stato del Cantone Ticino;
- fixation, in agreement with the State Council, of the interest rate on the endowment capital;
- providing the State Council with the annual report, the

financial statements, the proposal for appropriation of available earnings and the External Auditors' report by 31 March of each year;

- establishment of reference rates and oversight to ensure that the individual rates set by the Executive Board are in conformity with Art. 3 of the Law on Banca dello Stato del Cantone Ticino;
- reporting to the Swiss Financial Market Supervisory Authority (FINMA) in the event that capital requirements are not met;
- current operating expenses and investments in infrastructure which are not specifically delegated to the Executive Board.

Supervision and control duties

- determining the control procedures to undertake in line with current applicable external regulatory provisions;
- approval and review, at regular intervals, of the Organisation and Risk Management Regulations which are submitted by the Executive Board;
- oversight on compliance with banking regulatory provisions with respect to risks, in particular the control of major risks as per Art. 16 of the Ordinance on Liquidity and Art. 95 and following of the Capital Adequacy Ordinance;
- supervision of the work of the Executive Board, including assessment of the Executive Board in terms of meeting its objectives and its work procedures;
- supervision of the work performed by the Internal Auditors and the Legal and Compliance Office;
- review of the reports of the External Auditors, the Internal Auditors and the Legal and Compliance Office, and their treatment.

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

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

In compliance with Art. 25 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 Civil Code, to permanent or ad hoc committees composed of members of the Board of Directors or to the Executive Board.

As a rule, the Committees do not have any decision-making authority; they draw up notices to the Board of Directors on matters relating to their own charter. Specific decisional authority may be attributed by the Board of Directors.

Minutes are taken at every meeting of the Chairman's Office and of the Committees. With respect to the delegation of duties to the Executive Board, refer to the corresponding paragraph under Executive Board.

The functions and organisation of the Chairman's Office and the Board of Directors' Committees as at the end of 2014 are described hereunder.

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

CHAIRMAN'S OFFICE

The Chairman's Office makes all urgent and extremely significant decisions on any matter which the Law or the Rules and Regulations assign to the Board of Directors. In such cases the decision must be submitted to the Board of Directors for approval at its earliest meeting.

The Chairman's Office brings to the attention of the Board of Directors all matters relating to the approval of the Rules and Regulations which fall within the authority of the Board of Directors, as well as matters pertaining to the Bank's organisation, internal regulatory provisions (other than those falling within the duties of the Audit Committee) and matters of personnel policy. It handles relations with the authorities and communications of the Board of Directors, both internal and external.

The Chairman's Office is composed, as it was at the end of 2013, of the Chairman, Dr. Fulvio Pelli, the Deputy Chairman, Dr. Roberto Grassi and the Secretary, Mr. Carlo Danzi. In 2014, the Chairman's Office convened three times.

Audit Committee of the Board of Directors

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

With respect to financial matters, the Committee examines the issues and draws up recommendations to the Board of Directors regarding accounting principles to be adopted for the preparation of accounts, approval of accounts and drawing up of annual reports, approval of semi-annual reports, approval of the budget, approval of expenses and overrun expenditures for matters which fall within the authority of the Board of Directors, as well as the organisation of accounting and financial planning.

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

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

The Audit Committee of the Board of Directors is composed, as it was at the end of 2013, of the Chairman, Dr. Roberto Grassi, and Messrs. Carlo Danzi and Michele Morisoli, members. In 2014 the Committee convened eight times.

Projects Committee

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

- planning, implementation, management and control methods, budgets and observance, work progress, reasons pertaining to planning variations, future impacts and other possible aspects of current projects;

- planning, 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, as it was at the end of 2013, of the Chairman, Mr. Marco Fantoni and Messrs. Giovanni Jelmini and Raoul Paglia. In 2014 the Committee met nine times.

Strategy Committee

The Strategy Committee examines the issues and submits notices to the Board of Directors in matters of the Bank's strategy.

This Committee is composed, as it was in 2013, of the Chairman, Dr. Fulvio Pelli and Mr. Carlo Danzi and Dr. Roberto Grassi, members. In 2014 the Committee met three times.

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

In line with the Operating Rules and Regulations, the President of the Executive Board reports monthly to the Board of Directors: the balance sheet and income statements, information on the Bank's liquidity, capital adequacy, the situation as regards risks and information on the functioning, effectiveness and results of the internal control system.

Moreover, quarterly, he must convey to the Board of Directors information regarding the business development with respect to targets and strategies set by the Board of Directors, as well as information regarding the general business state of the Bank and information on major risks, as per Art. 16 of the Ordinance on Liquidity and Art. 95 and following of the Capital Adequacy Ordinance. Semi-annually, he must provide the balance sheet and the semi-annual income statement. Every year, he must submit the strategic planning, budgets, the financial statements and annual report, the social and environmental report, the evaluation on the possible updating of the Organisation and Risk Management Regulations, as well as a report on the activity and risk assessment of the Legal and Compliance Office, the Risk Management Office and the Security Service.

As deemed necessary, other documents or data may be requested. Information concerning the management of risks is provided in the Notes to the Financial Statements.

The fundamental principles of information flows have been set also at the level of the Group. The Bank has External Auditors, in conformity with current banking legislation (cf. Section 8.1) as well as Internal Auditors.

The Internal Auditors' Office is independent of the Executive Board and was composed at the end of 2014 of five staff, including the Chief Auditor (Mr. Gabriele Guglielmini, Chartered Accountant – Federal Accounting Diploma).

The Chairman of the Board of Directors acts as the Chief Auditor's direct superior and oversees his activity. The 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 staff of the Internal Auditors Office are not permitted to participate in bank operations. The members of the Board of Directors receive all reports relating to ordinary audits. These documents comprise also the stance of the Executive Board on the recommendations formulated by the Internal Auditors.

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

4. EXECUTIVE BOARD

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

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

Regulatory duties

- implementing the regulatory provisions and recommendations of the supervisory authority and surveillance bodies, internal and professional guidelines, and oversight on compliance of the same;
- issuing specific regulations relating to instituted committees;
- issuing guidelines and appropriate orders as required for the performance of banking activities;
- implementing the provisions as laid down in the public mandate document;

- implementing the measures set out in the Staff Rules and Regulations;
- issuing a code of conduct and laying down the sanctions in case of non compliance.

Management and organisational duties

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

Financial duties

- preparation of budgets, semi-annual and annual financial statements;
- drawing up of the social and environmental reports and of the section of the Annual Report on Corporate Governance;
- approval of monthly accounts to be submitted to the Board of Directors;
- implementation of the decisions taken by the Board of Directors with regard to loan requests, credits or advances on operations which engage Bank funds or pecuniary responsibility and which are not included in delegated responsibilities as outlined in the Operating

Rules and Regulations;

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

Supervision and control duties

- implementation of the control procedures based on applicable external regulatory provisions;
- implementation of the provisions envisaged in 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 the Executive Management, as well as by specific 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 ensures adequate supervision of overall risks, and in particular of operational risks. The duties assigned to this Committee are: to decide on risk thresholds and risk spread (based on the Bank's strategy), to define strategies and operational policies for overall aggregated risk management to be submitted to the Board of Directors for approval, to ensure the implementation and compliance with the objectives set by the Board of Directors with respect to overall risk and in particular operational risks, including aspects pertaining to risk assessment methods, organisation and control, as well as to supervising outsourced activities.

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

Credit Risk Committee

The Credit Risk Committee is responsible for managing the credit risk with the aim of optimising its administration. Within the framework of the competencies assigned to it, the Credit Risk Committee decides on loan applications (loan granting, extension, renewal, increase). It also proceeds to a preliminary examination of, and submits prior notice on all matters which are brought to the attention of the Board of Directors for information or debate.

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

ALCO Committee (Assets & Liabilities Committee)

Within the framework of assignments entrusted to it, the ALCO is responsible for the market risk on all Bank portfolios in view of optimising the management of this risk based on the Bank's strategy and budget. More specifically, this Committee manages rate and currency risk exposure on the balance sheet

(as regards both benefits and economic value), overall liquidity, positions in the investment portfolio, and exposure to market risk derived from trading activities.

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

4.1 Members of the Executive Board

The Executive Board is composed of the President of the Executive Board and members who are all Heads of Divisions. The members' term is indefinite and they retire three years earlier than the standard age of retirement.

No member of the Executive Board was ever a member of the Bank's Board of Directors or worked for the Auditors (past or present).

Following is a short introduction to the members in office as at 31 December 2014 along with their functions on the Executive Board, their educational background, their professional record of accomplishments and their other activities.

BERNARDINO BULLA

Function

Appointed President of the Executive Board on 16 December 2011, in charge since 1 January 2012. Born on 7 February 1957, Swiss. Member of the Executive Board since 1 October 2000.

Education and professional background

Degree in Economics and Social Sciences from the University of Geneva in 1983. He started work for the Credit Department of BSI SA in Lugano in 1984. In 1997, he joined the Swiss Bank Society as Head of Private and Corporate Clients, then transferred to UBS SA as Head of International Clients and Trading within the Corporate Clients Division.

At the end of 1998 he was responsible for corporate customers 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. In January 2012, he became President of the Executive Board (competencies listed under 1.1.2).

Other activities

» Member of the Board of Directors of Axion SWISS Bank SA, Lugano and of its Audit Committee;

- » Member of the Executive Committee of the Ticino Bankers' Association;
- » Member of the Board of Directors of the Association of Swiss Cantonal Banks (ASCB), Basel;
- » Member of the Agire Invest SA Foundation.

RENATO ARRIGONI

Function

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

Education and professional background

Degree in Economics and Social Sciences from the University of Geneva in 1978, professional training and development at UBS SA: Organiser in Geneva, Assistant Branch Manager in Biasca and team leader for organisation in Lugano. From 1987 to 1990, Assistant Regional Logistics Manager at UBS in Tokyo. Returning to Switzerland, he joined Banco di Lugano, first as Head of the Organisation Unit, then as Head of Logistics. On 1 October 2000, he joined Banca Stato as a Member of the Executive Board and Head of Logistics. Since 1 April 2014 he heads the Special Tasks Division.

Other activities

- » Colonel of the General Staff in the Swiss Army, former Commander of the Territorial Regiment 96;
- » Member of the Board of Directors of TeleTicino SA;
- » Deputy Chairman of the Board of Directors of Axion SWISS Bank SA as well as Chairman of their Audit Committee.

DANIELE ALBISETTI

Function

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

Education and professional background

Degree in Economics with a major in Corporate Management from the University of Lausanne in 1985. He began his professional career in the internal audit division of Banca del Gottardo where he was team leader and was promoted to Bank Officer in 1985 and then to Assistant Vice-President in 1989. In 1990, he was entrusted with several projects pertaining to organisation, control and risk management within the Controlling 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 Financial and Risk Management, 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 Services Division which is responsible for financial management and risk supervision, as well as for providing organisational, IT and operational support to various Bank processes.

Other activities

- » Member of the Executive Committee and treasurer of the Swiss Walking Federation.

FABRIZIO CIESLAKIEWICZ

Function

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

Education and professional background

Degree in Political Economics from the University of Lausanne in 1993. In 1994 he was employed by UBS SA as a member of a post-graduate team for corporate clients in the Ticino area. In the following year, he became a business consultant with the title of Bank Officer.

From the end of 1997 to the beginning of 2000 he was Head of the General Secretariat for the Liberal Radical Party of Ticino. He began his employment at BancaStato on 19 June 2000 as Deputy Manager of the Biasca Agency. On 31 December 2001, he was appointed Member of the Management and assumed the position of Regional Head and Head of the Corporate Clients Division for the Bellinzona Area.

He has been Member of the Executive Board and Head of Retail and Corporate Clients since 1 August 2008.

Other activities

- » Deputy Chairman of the Foundation Council of the Fondazione di Previdenza Risparmio 3 of Banca dello Stato del Cantone Ticino;
- » Member of the Board of the Carlo and Albina Cavargna Foundation;
- » Member of the Board of Governors of the Ticino Cancer League.

CLAUDIO GENASCI

Function

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

Education and professional background

Degree in Economics and Social Sciences from the University of Fribourg in 1985. Hired at UBS SA as an all-rounder and later as an asset manager in their Finance Department in Lugano. Starting in 1990 he was Head of Asset Management at UBS SA in Locarno.

He moved to 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 activities

- » Chairman of the Foundation Council of the "Risparmio 3" Pension Fund of Banca dello Stato del Cantone Ticino;
- » Member of a Board of Directors' Commission of Swisscanto SA;
- » Member of the Investment Committee of the Real Estate Fund Residentia, in quality of expert in real estate financing.

5. COMPENSATION, PARTICIPATIONS AND LOANS

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

The fixed and variable compensation of the Executive Board, as well as that of the Chief Auditor 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 23 June 2004, effective 1 July 2004.

The Board of Directors approves the Staff Rules and Regulations and the Management Rules and Regulations, which also outline the Bank's policy with regard to salaries, allowances and variable retributions. On an annual basis and acting on proposals from the Executive Board, the Board of Directors makes decisions with regard to the review of annual salaries and the variable component within the framework of MbO (management by objectives).

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

Moreover, they benefit from the family allowances granted to all staff.

The following figures include fixed retribution, variable retribution and a lump sum figure for entertainment expenses.

In 2014, total compensation for members of the Bank's bodies was as follows: CHF 295,284 for the Board of Directors and CHF 2,962,001 for five members of the Executive Board.

The highest compensation within the Board of Directors was CHF 58,538 and the highest compensation within the Executive Board was CHF 748,000¹⁰.

Among the Bank's providers there are entities connected to the members of the Board of Directors and the Executive Board. The members of the Board of Directors and the members of the Executive Board benefit from mortgage loans under the same conditions as the Bank staff.

At the end of 2014, loans to Bank governing bodies totalled CHF 80.3 million (see also Table 4.5 of the Notes to the Financial Statements).

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

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

¹⁰ The September 2014 version of the Corporate Governance Guidelines introduces new and more specific recommendations for the presentations 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.

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 accounts, 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 at 31 December 2014 the Commission included: Raffaele De Rosa (chairman), Marco Chiesa (deputy chairman), Elena Bacchetta (member), Daniele Caverzasio (member), Pelin Kandemir Bordoli (member) and Christian Vitta (member).

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 2014, Mr. Beresford Caloia, partner at PricewaterhouseCoopers SA, assumed the function of lead auditor for the fifth time. This mandate is annual. PricewaterhouseCoopers SA also audits AHSA Holding SA and Axion SWISS Bank SA.

8.2 Auditing honorarium

For the year 2014, the auditing honorarium of PricewaterhouseCoopers SA for the ordinary audit of BancaStato and other audits amounted to CHF 448,081.

8.3 Additional honorariums

In 2014 additional services for CHF 495,593 were required from PricewaterhouseCoopers by BancaStato.

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

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

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

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

9. INFORMATION POLICY

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

The responsibility for the management of the Bank's communication policy is entrusted to 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. As a rule, 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 Swiss Financial Market Supervisory Authority (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.ch¹¹ and are available at any BancaStato counter.

For the 2014 financial year, the Bank published for the tenth year in a row its Social and Environmental Report¹².

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 website www.bancastato.ch was developed in cooperation with IT professionals, and is updated on an ongoing basis and has become a choice communication channel with the public.

The Bank publishes the magazine "BancaStato News"¹³ twice a year (in January and July) and contributes to various publications which deal with financial and economic issues with interviews, presentations and financial articles¹⁴.

Since the fall of 2012, Internet users may subscribe to the newsletter service which provides information on the diversified world of the Institution. Since November 2014, BancaStato also spreads its institutional news on Twitter. Moreover, representatives from BancaStato participate regularly in conferences and other public events and respond to queries from the media with regard to the Bank's stance on topical issues.

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.

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

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

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

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

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

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Ticino's Economy in 2014 and Outlook for 2015

Davide Arioldi, Head of the PanelCODE (www.panelcode.ch),
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The International overview

The year 2014 saw a widening range of growth rates in several countries. In general, the world economy grew by 3.3%, driven largely by the American, British and emergent markets, while the Eurozone lagged behind, with an average growth rate of 0.8%. These differences affected employment, which was on the upturn in the States and the UK while remaining stagnant, or even decreasing, in the Eurozone. In this context, central banks have continued to maintain an accommodating policy. The ECB decided to expand its balance sheet with the aim of lifting inflation to a targeted 2% threshold. The forecasts on price increases in the developed economies remain very limited, at around 1%. This is also a result of lower quotations for many commodities, particularly oil. According to FMI economic forecasts, the world growth rate for 2015 should hover around 3.5%, again with wide gaps in the various areas. The American GDP is expected to reach approximately 3.6% and that of the Eurozone to level off at +1.2%. Such divergences in growth and in the various monetary policies adopted by central banks accounted for the strong volatility in the foreign exchange market in 2014. The US dollar appreciated against other principal currencies, and the second half-year in particular saw a general weakening of the common European currency. Special mention must be made regarding the situation in Russia where the effects of international sanctions applied in response to the Russian support of separatist groups in Ukraine, as well as the drop in crude prices, caused a severe slowdown in growth coupled with a major devaluation of the ruble.

The national overview

Against this international backdrop, the Swiss economy remained strong. In 2014, the Swiss GDP is believed to have grown by 1.8%, driven by increased private consumption, investments and exports (the latter was up by 3.6%). Employment improved by 0.7% with an unemployment rate of 3.2% in 2014. Prices did not evolve much compared to the previous year, with a difference estimated at 0%. In this largely positive situation, some events contributed to an increase in the risk of an economic slowdown in 2015.

The outcome of the popular vote of 9 February and the abolition of the minimum exchange rate of CHF 1.20 per euro are a cause of concern and difficulties for the Swiss export industry. The first event puts the bilateral agreements between Switzerland and the European Union – Switzerland's major market in terms of commercial exchanges – at risk, while the removal of the peg for the Common currency brought about a sharp appreciation of the Swiss franc against the euro, hampering the export industry. This new context required a drastic review of growth predictions for 2015. These are now estimated between -0.5% and +0.8%. The major negative impact will clearly be on exports, while domestic consumption may rise by up to +1.5%. Tensions in the forex market will entail major deflationary pressures: in 2015 prices are expected to drop between -0.6% and -1.5%. Moreover, the rate of unemployment will likely rise, settling between 3.4% and 3.6%.



The overview for Canton Ticino

Ticino's economic performance in 2014 was weaker compared to the rest of Switzerland. Growth estimates drawn up by BakBasel indicate a positive variation of 1.18%, still below the national trend. The average rate of unemployment for 2014 was 4.2%, below the 4.5% recorded in 2013. Newly created jobs are estimated at 1%.

The Ticino companies monitored by PanelCODE posted a decrease in sales, the para-banking (fiduciary companies) and commercial sectors registered more severe difficulties, while transport and building sectors indicated an upswing in their activities (invoicing, orders and production). The banking sector also continued to recoup profitability and proceeds, while still pursuing their rationalization policy. In the manufacturing sector, turnover, orders and production remained at their 2013 levels.

The forecast for 2015 is characterised by an increasing level of uncertainty. The new exchange rate for the Swiss franc against the euro will further penalize the commercial sector which has been already troubled in recent years. Deflationary pressures are expected to materialize on the level of prices, presumably increasing compression on wages. Negative repercussions are expected also in the labour market as a consequence of a rationalization of production structures in order to balance operating profit margins based on the new exchange rate.

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

Banca dello Stato del Cantone Ticino and the Economy in Switzerland and Ticino in 2014

On the basis of initial estimates on the evolution of the gross domestic product, the Swiss economy displayed a somewhat better pace of growth in 2014 than in 2013. The economic environment in Europe improved slightly and the fears of a crash in Europe's single currency further abated. Stock Exchanges, principally in Switzerland and the United States, performed well. However, in spite of these positive signs, conditions remain difficult, particularly as a result of residual instability in several European countries. This accounted for the ongoing pressure on the Swiss franc against the main currencies, in primis the euro, thus compelling the Swiss National Bank (SNB) to pursue an expansionist monetary policy with considerable interventions in the foreign exchange market to counter further appreciation of the Swiss franc. The SNB policy helped to maintain low interest rates which continued to revolve around their historical minimum.

This particular situation will continue to bear negatively on banks' commercial margins, particularly with respect to client deposits.

As a result of the positive evolution on the main stock markets experienced in 2014, financial institutes were able to improve their commission income on clients' investments.

With respect to real estate – a market that has long been under continuous close scrutiny by all economic operators – there were no significant changes: the growth trend of the last years has persisted in Switzerland and in Ticino, although less dynamically. Real estate prices have shown a positive, yet mixed evolution, not only on the national level, but also in various regions of Canton Ticino.

Concern about a possible real estate bubble remains high. In 2014, the Federal Council therefore acted on the recommendation of the SNB by doubling the "countercyclical capital buffer" which compels banks to hold more capital in relation to the mortgage loans granted in order to cool down an overheated mortgage market.

Although the buffer effect fell somewhat short of expectations, it is predicted to gain strength during 2015, contributing to a toning down of activity on the real estate market. In general terms, expectations regarding the 2014 results of banking institutions operating on the national level are largely positive, and this sector is expected to show a slight overall growth, except for the negative impacts on some institutes of the regularisation program introduced by the American revenue authorities (US program).

The conclusive year of the "Focus 2014" strategy led, as planned, to the transition to the new informatics platform based on the B-Source Master / Avaloq application, thereby laying the foundations for the new "Light 2017" strategic plan. The Board of Directors has ratified the decision for a staff pre-pension plan developing over the next three years. This will allow the Institution to attain its optimum size without resorting to layoffs. This plan and the costs related to the implementation of the new informatics platform as well as the reduction of the depreciation period of IT applications were all entirely absorbed by the income generated in the 2014 financial year. In spite of such conspicuous non-recurring expenses (totaling approximately CHF 25.7 million) the Bank's results are once again gratifying both in terms of the realisation of its development strategy and the results obtained. This has allowed the Bank to maintain the substantial payment to its ownership at the same levels as in the previous year.

The growth in client business volumes, both in the loan area (+4.9% to CHF 9.1 billion) and in funding (+4.8% to CHF 6.6 billion), is a clear sign of the Bank's pivotal role in the development of the Ticinese economy. The Bank's income statement shows a regression in gross profit (-15.5% to CHF 48.8 million) and net earnings (-6.6% to CHF 39 million) because of the strategic measures described earlier.

Net of the above factors, the Bank's gross profit would have shown a CHF 10.8 million growth, equivalent to +18.8% with net income amounting to CHF 58.1 million, a growth of CHF 16.4 million or +39.2%.

The payment to the Canton, which amounted to CHF 29.7 million in 2013, totals CHF 29.3 million (-1.2%) thanks to the release of CHF 6.5 million in reserves for general banking risks.

Comment on the Evolution of Major Balance Sheet and Off-balance Sheet Items¹⁵

In 2014, mortgage lending was again confirmed as BancaStato's core activity. On the balance sheet, mortgage lending volumes expanded by 6.6%, up by CHF 450 million, totalling over CHF 7.3 billion. The low interest rate trend continued in 2014 and fixed-rate mortgages are present in most lending portfolios. In this regard, as well as in consideration of the concerns voiced over the last years regarding a possible real estate bubble, it must be stated that BancaStato's lending policy continues to be based on cautiousness. As a result, the quality of its lending portfolio has remained stable as in previous years. It is interesting to note that just under 80% of mortgage loans are for amounts below CHF 500,000, which guarantees good risk diversification.

Amounts due from customers declined by 1.7% or CHF 29.7 million, settling at CHF 1.7 billion. Loan requests on the part of public corporations totalled CHF 827 million, up by 8.4% with respect to the previous year, thereby guaranteeing the Bank a predominant share in this market.

Loans to private individuals and companies however fell by CHF 94.1 million (-9%) levelling at CHF 907 million. This item comprises construction loans. These increased slightly compared to the previous year, totalling CHF 146 million. Overall, this is a tangible sign of BancaStato's direct contribution to the development of the economy in the Canton.

As regards funding, amounts due to customers in savings and investment accounts were up again, though less markedly than in the two previous years, rising by CHF 116 million (+4.2%). Within this item lies, once again, the confirmation of our clients' interest in the special savings products designed by the Bank. These deposits recorded a further growth rate of 8.1%. PRIMA salary accounts, traditional savings accounts and tied-up pension accounts (3rd pillar and vested benefits) deposits experienced healthy growth, up by 14%, 4.5% and 1.9% respectively. This also came as a result of the Bank's decision to convert savings books (a bank product which requires sizeable administrative costs) into savings accounts with a wider range

of services available. The persistent low level of interest rates in the market has translated into a further natural regression in the volumes of clients' term deposits (fixed savings and cash bonds).

Other amounts due to customers continued on an upward trend with a progression of about CHF 200 million (+5.6% or CHF 3.7 billion), primarily in the private account segment; deposits by institutional clients, however, continued on a downward trend.

In 2014, the Bank again turned to bond issues of the Central Mortgage Bond Issuing Body of the Swiss Cantonal Banks for its own medium- to long-term financing needs (net increase of CHF 90 million to CHF 2.3 billion). This source provided capital at a particularly low cost, especially during the reporting year.

In 2014, the growth in the Bank's balance sheet total was more subdued compared to the substantial variations experienced in previous years, with a progression of CHF 148 million (+1.4%).

The positive evolution of the Bank's business volumes continued its over 20 year uninterrupted upward trend. In 1991 this item totalled CHF 4.3 billion, reaching CHF 6.3 billion in 2001 and exceeding CHF 10.8 billion by the end of 2014.

With respect to off-balance sheet operations, there has been a further positive evolution in business connected to the Commodity and Trade Finance Service based on guarantees and commitments arising from documentary credits. Contract volumes on derivative instruments used primarily for exchange and rate risk hedging purposes have also increased.

Evolution of Assets under Management

The volume of assets under management at BancaStato increased by over CHF 400 million (+4.5%), to over CHF 9.5 billion. The inflow of net new money exceeded CHF 306 million. At the end of 2014, assets under custody amounted to CHF 689 million, a further confirmation of the trust enjoyed by BancaStato in the Swiss domestic market.

Assets under management by Axion SWISS Bank SA showed a progression of close to CHF 300 million (+15.5%), and stood at over CHF 2.2 billion. Net new money exceeded CHF 170 million.

¹⁵ 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.

Comment on the Evolution of the Main Revenue Items

The considerable efforts deployed at all Bank levels to complete and consolidate the transition to the new informatics platform (which entailed new work processes in view of attaining better operational efficiency) did not impede the Institute in achieving gratifying results. What is more, net of non-recurring elements ascribable to the project itself and to the strategic measures implemented, gross and net profit grew by 18.8% and 39.2% respectively. In spite of these non-recurring costs – just below CHF 25.7 million – the payment to the Canton remained stable at CHF 29.3 million (-CHF 341,000 or -1.2%) compared to the preceding year.

For a better understanding of the evolution of this important source of revenue for the Canton, it should be noted that in 2004 this payment stood at approximately CHF 15.9 million.

It has thus almost doubled since. The overall share distributed over the past 10 years exceeds CHF 253 million on the back of the present endowment capital of CHF 240 million (the endowment capital stood at CHF 110 million at the beginning of 2013, CHF 200 million by the end of 2013, and totalled CHF 240 million a few days before the 2014 end year closing). BancaStato has therefore paid out to the Canton an amount considerably higher than the capital that was invested in the Institute.

The significantly improved results achieved by the Bank were backed up by the CHF 14.3 million growth in total net revenues (+9.3%) against a backdrop of moderately increasing operations expenses (+CHF 3.4 million or +3.6%). The rise in other operating expenses is explained mainly by the costs of usage and licensing for the new informatics platform (up until the previous year, these were booked as a depreciation on investments).

The results from interest activities rose from CHF 109.3 million in 2013 to CHF 117.9 million in 2014, up by CHF 8.6 million or 7.9%. The conspicuous growth in the volume of mortgages and other loans experienced in 2013 and 2014, coupled with slightly rising commercial margins in the lending business, contributed to mitigating diminishing margins on client deposit operations arising from close to null (or even negative) market rates on short durations. The strong pressure on the Swiss franc in relation to other main currencies has prompted the SNB to bring reference rates down to negative levels (-0.25%) towards year-end. BancaStato pursued its cautious policy in managing its balance sheet structure by turning to issues of the Cantonal Banks' mortgage refinancing institution in order to adequately finance its lending exposure.

Even though market uncertainty remains to be dissipated, and low risk propensity on the part of BancaStato clients (traditionally cautious in operating investments) has remained largely unchanged, net fees and commission income grew by 10.5% or CHF 2.9 million, levelling out at CHF 30.7 million. A positive contribution in this regard resulted primarily from increased volumes of assets under management and the updating of specific conditions applied to clients in close connection to new work processes.

Most items under commission income, with the exception of those derived from commission expenses, showed a positive trend.

Particularly worth mentioning is the rise in income from asset management (+20.2%), administrative fees (+8.1%), service fee activities (+14.7%) and credit commissions (+58%, primarily as a result of the new Commodity & Trade Finance business). However, there was a drop in commissions from intermediation activities for clients in the securities markets (-5.8%) and a hike in commission expenses (+29.4%) as a result of major volumes administered through external asset managers as well as to the costs of outsourced back-office activities at B-Source.

Trading income rose to a record level of CHF 13.7 million, up by CHF 1.3 million, representing a 10.5% increase. This was due primarily to the substantial volume of currency brokerage business as well as to the careful management of market risks.

Other operating results totalled CHF 5.4 million in 2014, rising by 35.3%, and showing a positive progression in all positions of this item.

Net revenues improved by CHF 14.3 million (+9.3%) to CHF 167.7 million. Cost containment actions which have been implemented for several years contributed to maintaining expenses at the same level, except for expenses in connection to the staff pre-pension plan (CHF 19.8 million) and to the project expenses incurred in 2014 for the adoption and stabilization of the new informatics solution (CHF 2.3 million).

Operating expenses rose from CHF 95.7 million to CHF 118.9 million, up 24.2%. This comprises the expenses for the implementation, over 3 years, of an early retirement plan for some 60 staff members. Personnel costs rose from CHF 68.7 million to CHF 88.3 million (+28.4%). Net of non-recurrent costs (early retirement plan), this expense item would have shown a slight decrease (-CHF 266,000 or -0.4%).

Other operating expenses increased from CHF 27 million to CHF 30.6 million (+13.6%). This came as a result of the new modes of utilization of the informatics service (formerly booked as depreciation of the IT investments).

Gross profit contracted by CHF 9 million, down to CHF 48.8 million (-15.5%). Net of non-recurring costs mentioned above, gross profit would have shown a rise of 18.8%, or CHF 10.8 million, to CHF 68.6 million.

The item depreciation on fixed assets rose substantially from CHF 12.8 million in 2013 to CHF 19.6 million in 2014. This increase is due to a shorter duration of depreciation of software licenses from 5 to 2 years, entailing an additional expense of CHF 5.8 million in the 2014 accounts. The decision was necessary in order to align depreciation of IT programs to the frequency at which new software versions are released.

Net value adjustments, provisions and losses fell substantially from CHF 4.1 million in 2013 to CHF 0.9 million in 2014 (this amount comprises only provisions for other business risks and operating losses). It must be mentioned that CHF 3.9 million in release of provisions for credit risks were transferred to Extraordinary income, as further evidence of the quality of the Bank's lending portfolio and of the strict policy applied in the granting of loans.

Extraordinary income rose from CHF 1.1 million in 2013 to CHF 11.3 million in 2014 in part as a result of the events described earlier. In order to guarantee the Canton a distribution in line with that of 2013 – even in the presence of non-recurring items for a total of CHF 25.7 million – the Bank released CHF 6.5 million from reserves for general banking risks which also flowed into extraordinary income.

BancaStato's net income amounted to CHF 39 million, down from CHF 41.8 million in 2013 (-6.7%). Without considering the non-recurring elements described earlier, or the release of the reserve of general banking risks, net income would have stood at a substantial CHF 58.1 million, an improvement of CHF 16.4 million (+39.2%).

The evolution of the various items contributing to the results of Axion SWISS Bank SA¹⁶ showed similar trends to BancaStato's results with a slight increase in net revenues (+2.5%) and expenses (+1.7%). Gross profit increased by CHF 0.13 million (+5.1%) to CHF 2.6 million, while net income rose by CHF 0.02 million (+1.1%) to CHF 1.9 million.

The consolidated gross profit fell from CHF 59.2 million in 2013 to CHF 49.5 million in 2014, down by CHF 9.7 million (-16.3%); net income also contracted from CHF 41.6 million to CHF 38 million (-CHF 3.6 million or -8.7%).

Profitability, Efficiency and Financial Strength

BancaStato's profitability in terms of Return on Equity (ROE)¹⁷, which had improved in the 2010-2013 period from 5.5% in 2010 to 5.9% in 2011, 6% in 2012 and 6.1% in 2013, felt the effects of the above-mentioned non-recurring costs, and dropped to 5% in 2014. Net of these elements, profitability would have stood at 7.4%. Return on Risk Adjusted Capital (RORAC) also regressed, down from 9.3% in 2013 to 8.2% in the reporting year (although it does substantially improve and stands at 12.4% if non-recurring elements are not taken into account).

Against the backdrop of the improved results achieved during the past years (disregarding non-recurring expenses), there was a substantial growth in the Bank's base capital (increase of endowment capital by CHF 90 million at the end of 2013 and by another CHF 40 million at the end of 2014) in connection with more severe demands for capital put forward by supervisory authorities. On the one hand, these developments improve the Bank's capital adequacy. On the other, they unavoidably impact on its profitability in terms of ROE.

The favourable evolution of the efficiency indicator, a measure of the cost to income ratio, was already evidenced in the 2010-2013 period. It progressively decreased from 67.4% in 2010 to 62.4% in 2013, picking up speed in the reporting year and dropping to 59.1% (net of expenses for the early retirement plan). This was in large part attributable to the positive evolution of net revenues derived from the development of the Bank's business and by the cost containment policy that was implemented in the past year.

Staff levels dropped from 444.25 full time equivalents (FTEs) at 31 December 2013 to 421.95 FTEs at the end of 2014.

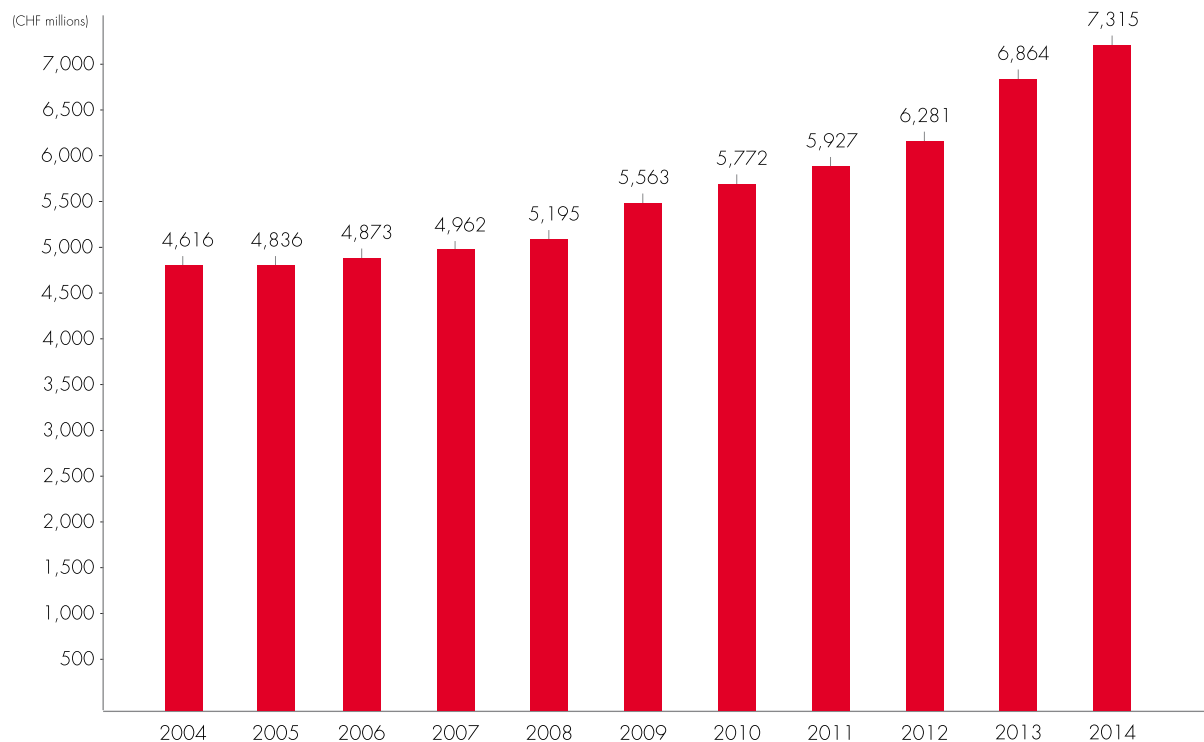
The Bank's capital adequacy, as determined by the ratio of required capital to available funds¹⁸ returned to a "comfortable" level, and stood at 190.9% after a phase of regression from 196% at the end of 2011 to 178.1% on 31.12.2013 as a result of stricter requirements on the part of surveillance authorities (in spite of the increase in endowment capital by the Canton). All adequacy indicators put into place by the Bank for International Settlements (BIS) showed a particularly positive evolution in the reporting year. This is a result of a further increase of CHF 40 million in endowment capital as well as of the AT1 perpetual subordinated loan (CHF 60 million) with PONV clause by the Canton.

¹⁶ For further information on the results of Axion SWISS Bank SA, refer to the company's Annual Report.

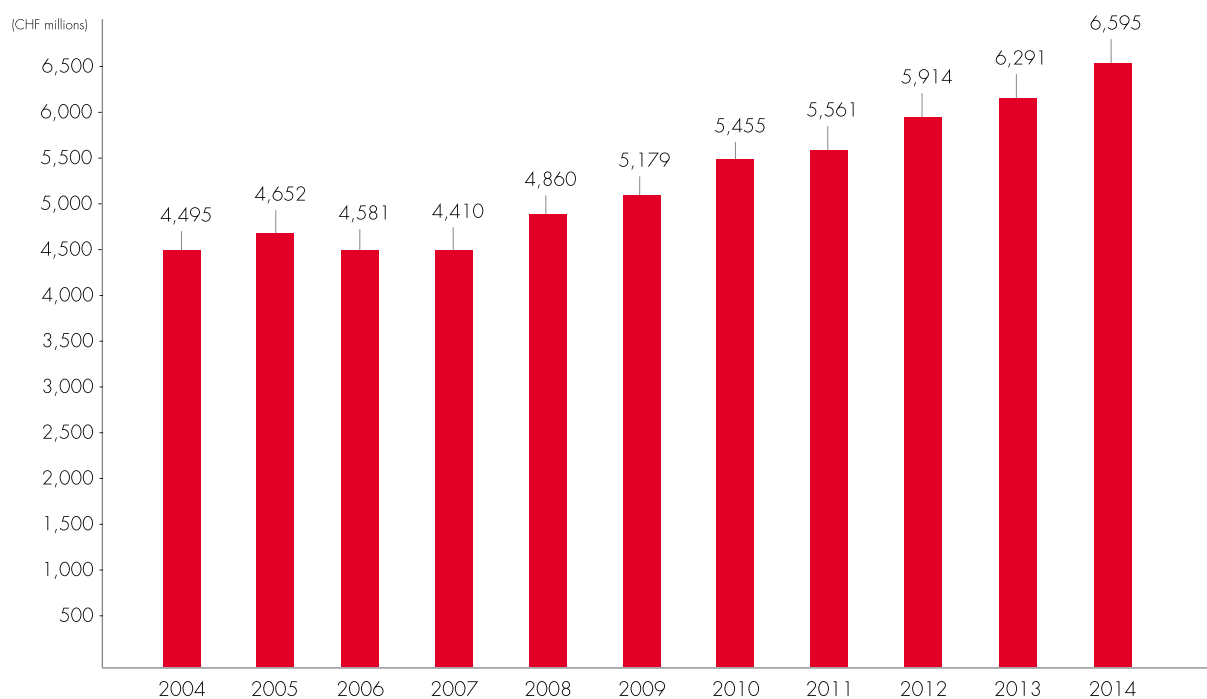
¹⁷ The reference capital used to calculate ROE is the average core capital in the reporting year.

¹⁸ Calculated on the basis of Basel III rules.

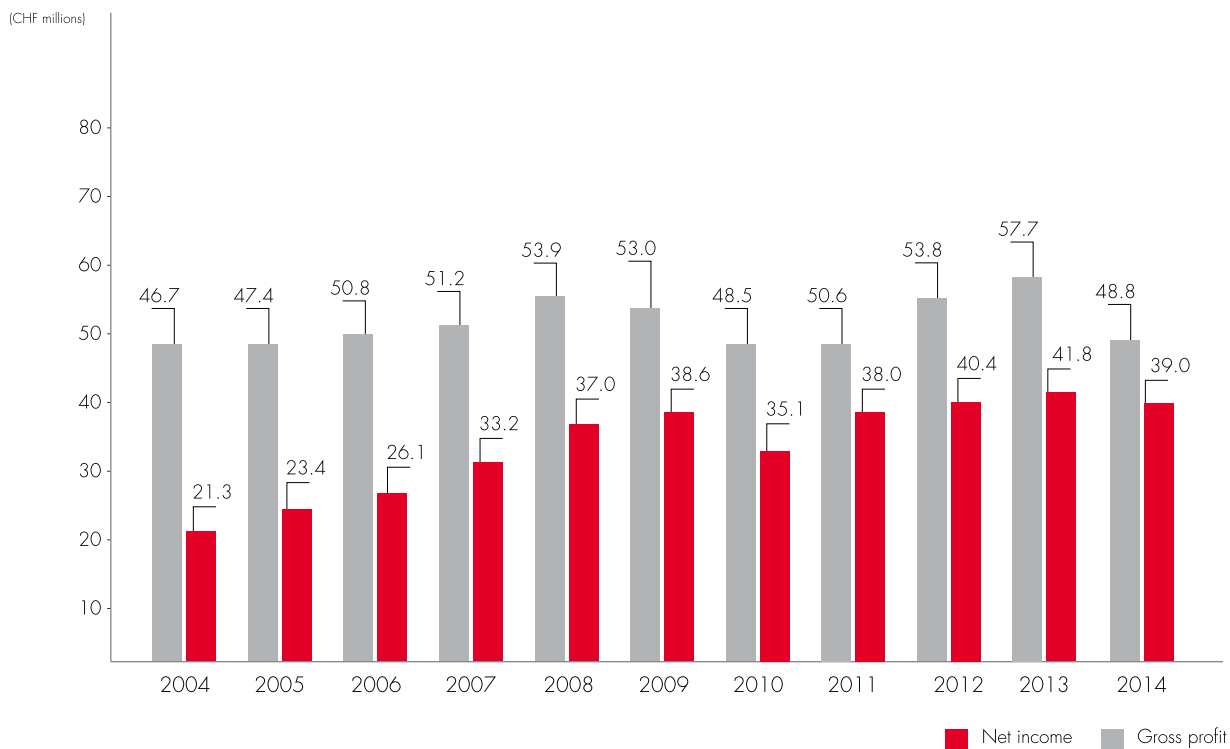
EVOLUTION OF MORTGAGE LENDING



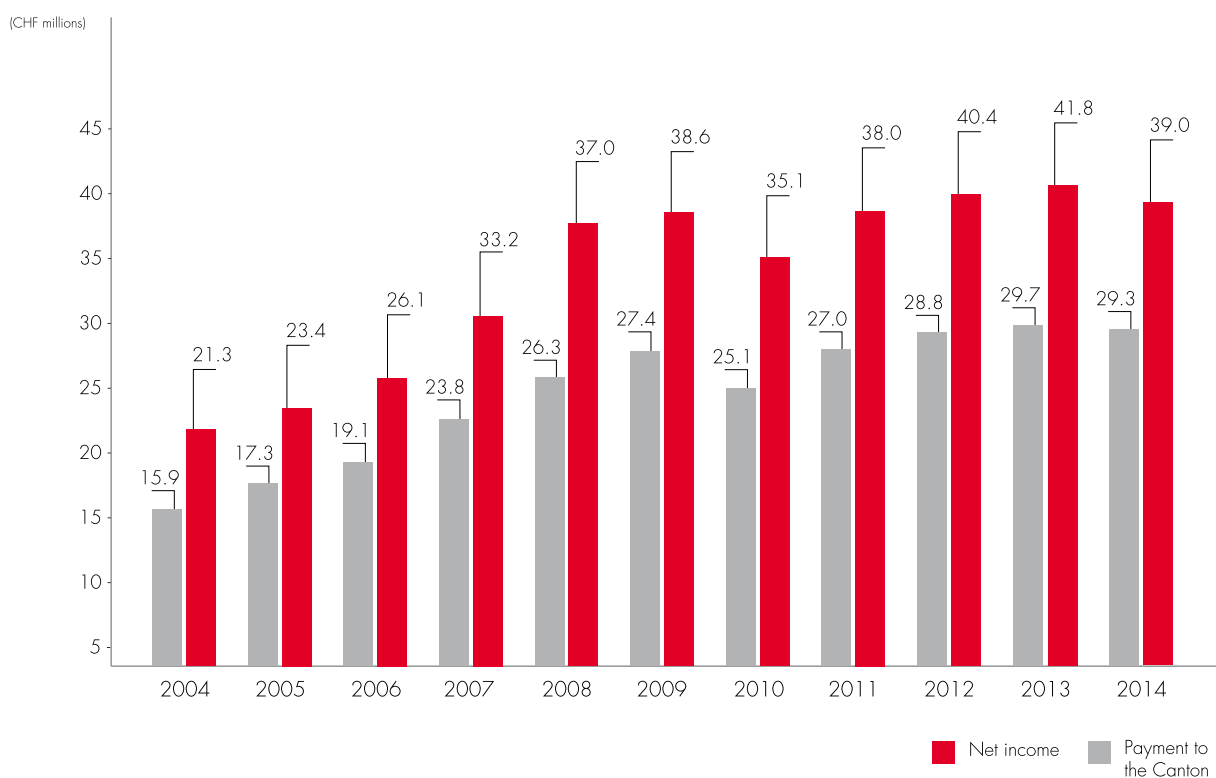
EVOLUTION OF TOTAL AMOUNTS DUE TO CUSTOMERS



EVOLUTION OF GROSS PROFIT AND NET INCOME



EVOLUTION OF THE PAYMENT TO THE CANTON





Taking into account the countercyclical capital buffer which was introduced by the Federal Council in 2013 and doubled in the reporting year, Core Tier 1 (CET1) evolved from 11.6% to 11.9% while Tier 1 was up from 11.6% to 12.9%, and Tier 2 rose from 14.3% at the end of 2013 to 15.3% at the end of 2014.

The consolidated capital adequacy rate fared slightly better with a coverage ratio of 189.1% at the end of 2013 and 199.3% at 31.12.2014. The indicators of the Bank for International Settlements were set at 12.7% (12.6% at the end of 2013) for Core Tier 1, at 13.7% for Tier 1 (12.6% at the end of 2013) and at 16% for Tier 2 (15.1% at the end of 2013).

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Consolidated Balance Sheet

(CHF thousands)	Notes	31.12.2014	31.12.2013	Change
Assets				
Liquid funds		948,681	923,275	25,406
Amounts due arising from money market papers		4,416	9,011	-4,595
Due from banks		443,253	632,717	-189,464
Due from customers	4.1	1,834,376	1,856,207	-21,831
Mortgages	4.1, 4.6	7,314,789	6,864,292	450,497
Securities and precious metals held for trading purposes	4.2	28,921	23,221	5,700
Financial investments	4.2, 4.6	356,245	401,839	-45,594
Non consolidated participations	4.3.2	7,071	6,674	397
Fixed assets	4.4	90,523	95,175	-4,652
Intangible assets	4.4	9,640	11,809	-2,169
Accrued income and prepaid expenses		21,893	18,264	3,629
Other assets	4.5	68,252	56,974	11,278
Total assets		11,128,060	10,899,458	228,602
Total subordinated assets		7,129	6,995	134
Total receivables from non-consolidated participations and from owners of significant holdings		144,353	139,100	5,253
<i>of which total amounts due from the Canton</i>		<i>130,318</i>	<i>110,125</i>	<i>20,193</i>
Liabilities				
Liabilities arising from money market papers		362	-	362
Due to banks		611,297	637,780	-26,483
Due to customers in savings and investment accounts		2,896,062	2,780,357	115,705
Other amounts due to customers		4,379,435	4,082,829	296,606
Cash Bonds		10,288	19,027	-8,739
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	4.6, 4.8	2,262,000	2,172,000	90,000
Accrued expenses and deferred income		36,426	28,846	7,580
Other liabilities	4.5	69,114	351,037	-281,923
Value adjustments and provisions	4.9	12,075	18,384	-6,309
Reserves for general banking risks	4.9, 4.10	365,886	372,386	-6,500
Corporate capital	4.10	240,000	200,000	40,000
Reserves and retained earnings	4.10	207,129	195,221	11,908
Group available earnings	4.10	37,986	41,591	-3,605
Total liabilities		11,128,060	10,899,458	228,602
Total subordinated liabilities		235,273	175,000	60,273
Total due to non-consolidated participations and to owners of significant holdings		162,634	102,769	59,865
<i>of which total amounts due to the Canton</i>		<i>149,426</i>	<i>99,307</i>	<i>50,119</i>
Off-balance sheet transactions				
Contingent liabilities	4.1, 5.1	158,349	150,542	7,807
Irrevocable commitments	4.1	85,338	85,246	92
Commitments for calls on shares and other equities	4.1	8,944	7,200	1,744
Outstanding derivative financial instruments (contracts volume)	5.2	2,522,934	2,271,250	251,684
Positive replacement values	5.2	40,420	35,143	5,277
Negative replacement values	5.2	44,062	35,028	9,034
Fiduciary transactions	5.3	195,653	225,875	-30,222

Consolidated Income Statement

(CHF thousands)	Notes	2014	2013	Change
Income and expenses from ordinary banking business				
Net interest income		120,101	111,254	8,847
Interest and discount income		179,428	175,843	3,585
Interest and dividend income from trading portfolio	6.1	44	133	-89
Interest and dividend income from financial investments		8,988	9,389	-401
Interest expenses		-68,359	-74,111	5,752
Net fees and commissions income		39,408	36,436	2,972
Commission income from lending activities		3,438	2,221	1,217
Commission income from securities and investment activities		36,595	34,148	2,447
Commission income from other service fee activities		8,577	7,459	1,118
Commission expenses		-9,202	-7,392	-1,810
Net trading income	6.2	14,520	13,264	1,256
Other ordinary results		3,104	2,534	570
Income on disposal of financial investments		847	415	432
Participation income		443	860	-417
<i>of which non-consolidated participations</i>		443	860	-417
Real estate income		383	195	188
Other ordinary income		1,857	1,529	328
Other ordinary expenses		-426	-465	39
Net revenue		177,133	163,488	13,645
Operating expenses		-127,574	-104,264	-23,310
Personnel expenses	2.11 and 6.3	-94,166	-74,685	-19,481
Other operating expenses	6.4	-33,408	-29,579	-3,829
Gross profit		49,559	59,224	-9,665
Depreciation of fixed assets	2.11 and 4.4	-20,802	-13,982	-6,820
Value adjustments, provisions and losses	4.9	-902	-4,095	3,193
Result before extraordinary items and taxes		27,855	41,147	-13,292
Extraordinary income	6.5	11,351	1,307	10,044
Extraordinary expenses	6.5	-339	-	-339
Taxes		-881	-863	-18
Group net income		37,986	41,591	-3,605

Consolidated Statement of Cash Flows

(CHF thousands)	2014		2013	
	Source	Application	Source	Application
Cash flow from operating activities (internal sources)		272,954	171,008	
Group result	37,986		41,591	
Depreciation of fixed assets	20,802		13,985	
Value adjustments and provisions		6,309	2,825	
Accrued income and prepaid expenses		3,629	3,490	
Accrued expenses and deferred income	7,580		2,058	
Other assets and liabilities		293,201	134,367	
Interest on endowment capital of the previous year		5,500		5,500
Previous financial year dividend		24,183		21,808
Reserve for general banking risks		6,500		
Cash flow resulting from capital transactions	40,000		88,543	
Increase in paid-in capital	40,000		90,000	
Changes in minority shares in investee companies				1,457
Cash flow from changes in fixed assets and participations		14,378		25,891
Participations	39	436	138	1,686
Fixed assets	112	13,093		15,029
Intangible assets		1,000		9,314
Cash flow from banking activities	272,738		30,326	
Medium- and long-term transactions (> 1 year)		336,907		253,584
Due to banks	10,000		25,000	
Other amounts due to customers		70,232		106,627
Cash bonds		8,739	475	11,330
Bonds and loans from the Swiss Cantonal Banks Central Mortgage Bond Issuing Body	347,000	257,000	579,000	261,000
Due to customers in savings and investment accounts	115,705		142,322	
Due from customers		68,738		94,251
Due from banks			20,000	
Mortgages		450,497		583,754
Financial investments	45,594		36,581	
Short-term transactions	609,645		283,910	
Due to banks		36,483	199,414	
Liabilities arising from money market papers	362			
Other amounts due to customers	366,838		694,787	
Amounts due arising from money market papers	4,595			363
Due from banks	189,464			363,858
Due from customers	90,569			239,115
Securities and precious metals held for trading purposes		5,700		6,955
Liquid funds		25,406		263,986
Liquidity variation		25,406		263,986
	312,738	312,738	289,877	289,877



Notes to the Group Financial Statements

1. GROUP ACTIVITIES AND PERSONNEL

1.1 Group Activities

Banca dello Stato del Cantone Ticino is an autonomous banking institution under public law which operates as a universal bank whose primary aim is to favour the development of the economy in Ticino.

Its activities have evolved over 100 years and comprise the full range of banking services provided by universal banks. These activities are geared towards facilitating access to capital for small and medium-sized companies as well as individuals.

In the last quarter of 2010, as part of a move to diversify its sources of revenue, BancaStato acquired a majority stake (80%) in the capital of AHSA Holding SA, Lugano, in order to gain indirect control over Axion Swiss Bank SA, Lugano. In 2013 BancaStato concluded the acquisition of the remaining 20% share in the capital of AHSA Holding SA.

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

BancaStato outsources a number of its business services as defined by the FINMA Circular 2008/7 "Outsourcing - Banks". 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 B-Source in Bioggio.

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

1.1.1 Balance sheet transactions

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

Interbank operations primarily consist of short-term transactions. In consideration of the current financial crisis, interbank exposure has been reduced by making ample use of swaps on currencies and favouring deposits at the Swiss National Bank. For medium- and long-term funding, BancaStato turns to the capital market. In addition, it is a member of the Central Mortgage Bond Issuing Body of the Swiss Cantonal Banks and therefore regularly utilises bond issues floated by this institution.

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

1.1.2 Trading operations

Banca dello Stato del Cantone Ticino 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 the Bank's own account are limited to a small number of currencies for which a liquid market exists.

1.1.3 Net fees and commissions income

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

1.2 Group personnel

As at 31 December 2014, the Group had a total of 487 employees on payroll, i.e. 448.25 full-time equivalents (FTEs) as determined by the parameters set at margin number 148 of the Guidelines concerning the provisions governing financial statements reporting (FINMA Circular 2008/2 "Accounting - Banks"), compared to 513 employees at the end of 2013 (470.35 FTEs).

2. 2 CONSOLIDATED FINANCIAL STATEMENTS

2.1 General principles

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

2.2 Consolidation perimeter

Banks 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 evaluated at their purchase value less appropriate depreciation. If the participation share is comprised between 20% and 50%, the evaluation is based on the equity method.

2.3 Consolidation method

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

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

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

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

2.4 Consolidation period

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

2.5 True and fair view principle

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

2.6 Recording of transactions

All transactions are entered at the time they are concluded.

2.7 Foreign currency translation

Assets and liabilities denominated in foreign currency are converted into Swiss francs at the rate of exchange at the balance sheet closing date.

Resulting gains or losses are taken to the income statement under "Net trading income".

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

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

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

EUR 1.2024 (2013: 1.2264)
USD 0.9935 (2013: 0.8906).

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

2.8.1 Cash, money market papers, amounts due from banks

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

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

2.8.2 Amounts due from customers and mortgage loans

Amounts due from customers and mortgage loans are entered at their nominal value.

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

Interest which is more than 90 days overdue is considered non-performing. Interest on non-performing loans is provisioned and directly offset by assets.

2.8.3 Securities and precious metals trading portfolio

The securities and precious metals trading portfolio is carried at the market value at the closing date, provided the securities are negotiated at a recognised stock exchange or within a representative market as defined by the banking legislation. Otherwise, the valuation is determined on the basis of purchase value less any necessary provisions.

Resulting gains and losses, as well as adjustments to the above-mentioned values and interest and dividend income, are recorded under "Net trading income".

2.8.4 Financial investments

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

Fixed-interest-bearing securities purchased to be held until maturity are entered in the financial statements at acquisition cost, with the allocation of premiums and discounts over the duration of the instrument. Any profit or loss resulting from early disposal of these securities is spread over their residual duration, i.e. until their original maturity. Value adjustments resulting from the deterioration of the debtor's solvency are booked to the income statement under "Value adjustments, provisions and losses".

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

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

2.8.5 Participations

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

These non-consolidated participations are accounted for on the balance sheet at cost less appropriate depreciation in the case of participations under 20%.

2.8.6 Fixed assets

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

Depreciation rates are calculated over the estimated useful life as follows:

• land	40 years
(up to the official estimated value)	
• buildings (masonry)	40 years
• equipment	15 years
• banking facilities	5 years
• hardware	5 years
• licenses and software	2 years
• furniture	5 years
• works of art	5 years
• vehicles	3 years

The evaluation of fixed assets is updated every half-year.

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

In 2014 BancaStato upgraded its informatics platform. The substantial investments incurred in relation to licenses and software depreciated over a period of 2 years. For this category of goods, a 2-year depreciation period will be applied from now on (up until now, depreciation was calculated over a 5-year period).

2.8.7 Intangible fixed assets

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

2.8.8 Method of depreciation

Fixed assets are valued at cost less appropriate depreciation.

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

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

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

2.8.10 Valuation adjustments and provisions

This item comprises value adjustments and provisions at the closing date in view of a prudent assessment of risks.

This item also includes a provision for deferred taxes resulting from consolidation activities and a social security deposit fund for BancaStato's personnel.

2.8.11 Reserves for general banking risks

In compliance with the FINMA guidelines on financial statement reporting (FINMA Circ. 2008/2 Accounting - Banks) the "Reserves for general banking risks" represent prudent reserves set aside to cover latent risks related to banking activities. As laid down in Art.21c of the Swiss Federal Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Traders (CAO) such reserves are considered as equity.

Any establishment or dissolution is booked in the income statement under "Extraordinary expenses" or "Extraordinary income", respectively.

2.8.12 Contingent liabilities, irrevocable commitments, fiduciary transactions

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

2.8.13 Derivative financial instruments

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

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

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

2.9 Principles for the calculation of capital

Detailed information on the approach adopted by the Group for the calculation of required capital, in compliance with Basel III and reporting requirements prescribed by the FINMA Circular 2008/22, are provided in Section 7 of the Notes to the financial statements.

2.10 Adjustment of the accounting principles for the presentation of financial statements

There were no changes in accounting principles or in the presentation of the financial statements in 2014.

2.11 Specificities of the 2014 financial year

In 2014 BancaStato announced an early retirement plan aimed at gradually bringing the Institution to its optimum size by 2017. The cost of this plan, CHF 19.8 million, is booked under personnel expenses.

Still in 2014, BancaStato implemented an important project which allowed the Bank to equip itself with a new informatics system, the B-Source Master, based on Avaloq.

The substantial investments incurred in relation to licenses and software depreciated over a 2-year use period. In previous years BancaStato depreciated this type of investment over a 5-year period. The added cost deriving from the shorter depreciation period, CHF 5.8 million, is booked in the income statement under "Depreciation expense on fixed assets".

3. RISK MANAGEMENT

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

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

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

Risk is identified, measured and monitored by 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 and of the Executive Board are updated regularly on the Bank's and the Group's asset and financial position, on the meeting of set targets, and on risks incurred.

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

3.1 Credit risks

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

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

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

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

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

Non-performing or impaired loans that have been granted by BancaStato are monitored by a designated unit of the Management and Credit Control Department specialising in recovery.

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

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

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

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

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

The Group's Rules and Regulations and the Organisation and Risk Management 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 diversification and quality limitations as established by the Board of Directors.

On a monthly basis, BancaStato's Financial & Risk Management Department provides the Executive Board with updated information on the risk profile of the loan portfolio in terms of exposure and major risks.

The Executive Board subsequently informs the Board of Directors.

3.2 Market risks

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

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

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

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

The limits for trading are defined in terms of position and loss limits.

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

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

At BancaStato these procedures are laid down in the Organisation and Risk Management Regulations as approved by the Board of Directors.

To cover or mitigate exposure to interest rate risks, the ALCO may use hedging derivative instruments (they are substantiated and designed to match the hedged item, and their effectiveness

is periodically monitored by the Risk Management unit).

The Group's exposure to other market risk arises from trading operations which are limited and mostly in relation to client requirements. In this respect, prudent limits of maximum exposure have been established based on the asset value at risk (position and loss). The limits for trading positions are verified daily. Liquidity risk is managed and monitored actively by setting a minimum reserve of liquidity and a system of limitation, as well as by diversifying refinancing and by implementing stress scenarios.

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

3.3 Operational risks

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

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

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

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

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

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

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

BancaStato established up a specific organization and defined processes and responsibilities in order to oversee the providers of outsourced services. In particular, the responsibility of overseeing service providers is entrusted to the Service Center.

Every month Risk Management, Internal Control, Security, Legal and Compliance and Service Center submit to the Risk Committee their findings resulting from the internal priority control system within the various Group entities along with the analyses performed.

A condensed analysis of information on the major operational risks and losses incurred during the month under review is forwarded to the Executive Board and the Board of Directors.

3.4 Other risks

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

3.5 Risk assessment

In its meeting of 7 April 2014, the Audit Committee of the Board of Directors of the Parent Bank and, subsequently, the Board of Directors of the Parent Bank in its meeting of 18 April 2014, assessed BancaStato's level of risk. Furthermore, both the Parent Bank's Board of Directors and its Audit Committee analyse the monthly information provided by the Executive Board on credit, market and operational risks, on a quarterly basis.

The principal elements which formed the basis of the Board of Directors' evaluation were, for credit risks, the evolution of BancaStato's exposure as regards products, collateral, geographic breakdown, concentration, rating and simulated stress scenarios. For market risks, these were the evolution of the balance sheet structure and its sensitivity to interest rate variation (including stress scenarios), as well as the exposure of the trading portfolio.

Operational risks and the measures implemented on the basis of results from internal controls also came under scrutiny. These analyses took into account aspects connected to the risk of compliance and the physical and logical security risks inherent in the banks' activities.

In this regard, the Board of Directors annually reviews the "level of accepted risk" laid down in BancaStato's Organisation and Risk Management Regulations. The observance of this limit is verified on a monthly basis.

Capital planning is prepared on a yearly basis for a minimum period of three years.



4. INFORMATION ON THE BALANCE SHEET

4.1 Overview of collateral for loans and off-balance sheet transaction at 31.12.2014

(CHF thousands)	Type of collateral			
	Mortgage	Other collateral	Unsecured	Total
Loans				
Due from customers	183,458	300,580	523,348 ¹	1,007,386
Due from public corporations	1,045	75	825,870	826,990
Mortgages	7,314,789	-	-	7,314,789
<i>Residential premises</i>	5,389,791			5,389,791
<i>Office and business premises</i>	871,698			871,698
<i>Crafts and industrial buildings</i>	422,822			422,822
<i>Other</i>	630,478			630,478
Total loans	7,499,292	300,655	1,349,218	9,149,165
Prior year	7,020,259	169,637	1,530,603	8,720,499
Off-balance sheet transactions				
Contingent liabilities	6,029	60,901	91,419	158,349
Irrevocable commitments	44,002	-	41,336 ²	85,338
Commitments for calls on shares and other equities	-	-	8,944	8,944
Total off-balance sheet transactions	50,031	60,901	141,699	252,631
Prior year	44,288	53,076	145,624	242,988

(CHF thousands)	Gross amount	Estimated collateral realization proceeds	Net amount	Specific allowance
Impaired loans³				
Year under review	161,386	103,876	57,510	57,510
Prior year	175,312	103,757	71,555	71,555

¹ Including loans to entities related to public institutions for CHF 158.5 million (2013: CHF 88.4 million).

² Including CHF 35.4 million (2013: CHF 33.3 million) as a deposit guarantee.

³ Impaired loans decreased as a result of the closing of positions with the use of provisions.

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

(CHF thousands)	31.12.2014	31.12.2013
Securities and precious metals held for trading purposes		
Debt securities	1,345	2,920
listed	438	1,620
unlisted	907	1,300
Equity-type securities	45	7,805
Share in investment funds	17,195	4,167
Precious metals	10,336	8,329
Total securities and precious metals held for trading purposes	28,921	23,221
<i>of which securities valid for repurchase agreements in accordance with liquidity regulatory requirements</i>	-	503

(CHF thousands)	Book Value		Fair value	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Financial investments				
Debt securities	326,517	385,618	340,519	396,990
<i>of which valued according to accrual method</i>	326,517	385,618	340,519	396,990
<i>of which carried at lower of cost or market</i>	-	-	-	-
Share in investment funds	21,032	6,470	21,323	6,583
Equity-type securities	164	171	245	251
<i>of which significant holdings</i>	-	-	-	-
Precious metals	367	230	367	230
Real estate*	8,165	9,350	8,165	9,350
Total financial investments portfolio	356,245	401,839		
<i>of which securities valid for repurchase agreements in accordance with liquidity regulatory requirements</i>	123,635	112,832		

* Insured value at 31.12.2014 CHF 15,236 (31.12.2013 CHF 16,088).

4.3 Participations

4.3.1 Consolidated participations

The following Group companies are entirely consolidated:

Company name	Head office	Activity	Capital (CHF thousands)	31.12.2014	31.12.2013
				Participating share in %	Participating share in %
AHSA Holding SA	Lugano	Financial company	7,500	100.00	100.00
Axion SWISS Bank SA	Lugano	Bank	43,000 ¹	100.00	100.00

¹ AHSA Holding SA detains 100% of the share capital of Axion SWISS Bank SA.

4.3.2 Other non-consolidated participations

(CHF thousands)	31.12.2014	31.12.2013
with quoted value	-	-
without quoted value	7,071	6,674
Total participations	7,071	6,674

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

Company name	Head office	Activity	Capital (CHF thousands)	31.12.2014	31.12.2013
				Participating share in %	Participating share in %
Financial and services companies held with cantonal banks					
Aduno Holding SA	Zurich	Financial company	25,000	0.40	0.40
Caleas SA	Zurich	Financial company	800	2.24	2.24
Centrale Mutui fondiari delle B.C.S. SA SCB,s Central Mortgage Bond Issuing Body	Zurich	Mortgage bond issuing institution	1,025,000	1.09	1.10
Swisscanto Holding AG	Bern	Service company	24,204	2.07	2.07
Financial and services companies held with Swiss banks					
SIX Group AG	Zurich	Service company	19,522	0.15	0.15
Swiss Bankers Prepaid Services SA	Grosshöchstetten	Financial company	10,000	0.20	0.20
Other participations					
Alloggi Ticino SA	Bioggio	Real estate company	15,200	2.11	2.11
Autosilo Piazza del Sole SA	Bellinzona	Autosilo Car park	2,000	10.00	10.00
Swiss Hotel Loan Company	Zurich	Financial company	26,561	1.40	1.40
Tecnopolo Lugano SA	Lugano	Service company		-	14.29
Teleticino SA	Melide	Radio and television productions	4,950	23.15	23.15

4.4 Breakdown of participation and fixed assets

(CHF thousands)	Purchase value	Accumulated depreciation	Book value 31.12.2013	2014			Book value 31.12.2014
				Investments	Disposal	Depreciation	
Participations, total	15,233	8,559	6,674	436	39	-	7,071
other participations	15,233	8,559	6,674	436	39	-	7,071
Fixed assets, total	357,464	262,289	95,175	13,093	112	17,633	90,523
of which Group premises	174,017	104,920	69,097	2,510	112	3,997	67,498
of which other buildings	16,116	11,765	4,351	-	-	360	3,991
of which other fixed assets	103,091	98,905	4,186	1,098	-	1,933	3,351
of which software	64,240	46,699	17,541	9,485	-	11,343	15,683
Intangible assets, total	16,575	4,766	11,809	1,000	-	3,169	9,640
of which goodwill	15,804	3,995	11,809	1,000	-	3,169	9,640
of which other intangible assets	771	771	-	-	-	-	-
Total	389,272	275,614	113,658	14,529	151	20,802	107,234
Fire insurance value of buildings			208,331				207,802
Fire insurance value of other fixed assets			43,094				34,517

4.5 Breakdown of other assets and liabilities

(CHF thousands)	31.12.2014	31.12.2013
Other assets		
Positive replacement value of derivative financial instruments	40,420	35,143
Compensation account	9,260	527
Indirect taxes	913	720
Various other assets	17,659	20,584
Other assets, total	68,252	56,974
Other liabilities		
Negative replacement value of derivative financial instruments	44,062	35,029
Direct/indirect taxes	10,617	9,599
Matured non-redeemed cash bonds	3,833	2,948
Various other liabilities	10,602	303,461
Other liabilities, total	69,114	351,037

4.6 Pledged assets

(CHF thousands)	31.12.2014	31.12.2013
Pledged or assigned assets delivered as collateral (excluding advances and repurchase agreements with securities)		
Book value of securities delivered as collateral in connection with Repo Light credit with SNB (unused)	23,913	17,633
Book value of securities delivered as collateral to SIX Group AG (unused)	1,057	9,126
Book value of mortgages set as collateral with the Swiss Cantonal Banks Central mortgage bond issuing body actual commitment with the SCB Central	2,372,689 1,887,000	2,337,660 1,797,000
Book value of assets pledged to secure own commitments	6,469	5,231
Advanced and repurchase agreements with securities		
Book value of receivables from cash deposits in securities borrowing and reverse-repurchase agreements	-	36,792
Book value of obligations from cash deposits in securities lending and repurchase agreements	-	-
Book value of securities lent in connection with securities lending or delivered as collateral in connection with borrowing as well as securities transferred in connection with repurchase agreements, at own disposal <i>of which with unlimited right to resell or pledge</i>	- -	39 -
Fair value of collateral in connection with securities lending or securities borrowed in connection with securities borrowing or received securities in connection with reverse-repurchase agreements, for which the right to resell or repledge is unlimited <i>of which fair value of resold or repledged securities in this context</i>	- -	36,856 -

4.7 Commitments to pension funds

The Group applies the principles laid down in the ARR 16. Contributions are paid to the insurance company. The employer's contributions are carried under "Personnel expenses". BancaStato has opted for affiliation to the Group Plan LPP Swiss Life, a legally independent pension fund. The pension plan is a defined-contribution scheme and provides the basic compulsory coverage as stated in the Swiss LPP (Federal Law on Occupational Benefits), as well as complementary coverage. Axion Swiss Bank provides coverage for all its employees through the Vita Joint Foundation from "Zurich".

At the end of the accounting period the Group had no obligation towards the pension funds. There are no contribution reserves on the part of the employers and the relationships between the Group's banks and their pension funds are based on global affiliation contracts.

The pension funds reinsure all pension risks by means of a comprehensive insurance contract. Within the framework of these contracts no possibility of under-coverage exists and, consequently, there are no obligations in this regard on the part of the employers.

4.8 Mortgage securities at the Swiss Cantonal Bank Central mortgage bond issuing body and bond issues (CHF millions)

Mortgage securities at the SCB Central mortgage bond issuing body	Maturity																
	Interest rate	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
0.250		25	25														50
0.280				24	15	15											54
0.375			65														65
0.500				40													40
0.530						25			50								75
0.780										68							68
0.875				2			20	43									65
1.000									6								6
1.030							23		15								38
1.125		73				25											98
1.155									22								22
1.250							34	2		13							49
1.375							43	50			16		169				278
1.500						50									100	25	175
1.530																67	67
1.625				13										10			23
1.655												23					23
1.750			83		30							52					165
2.000	30			50													80
2.500	20	190						15									225
2.625	9																9
2.750			15	50													65
3.000				30													30
3.125			19														19
3.250	9				39												48
3.500				50													50
Total mortgage securities at the SCB Central mortgage bond issuing body	68	288	220	246	84	115	120	110	93	81	16	75	169	110	92	1,887	

Bond issues		Scadenze															
Year of issue non subordinated loans	Interest rate	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
2007	3.000			200													200
Year of issue subordinated loans	Interest rate																
2011	3.750							175									175
Total bond issues		-	-	200	-	-	-	175	-	-	-	-	-	-	-	-	375
Grand total		68	288	420	246	84	115	295	110	93	81	16	75	169	110	92	2,262

4.9 Value adjustments and provisions / Reserves for general banking risks

(CHF thousands)	Balance at 31.12.2013	2014				Balance at 31.12.2014
		Usage in conformity to purpose	Recoveries, impaired interest, currency differences	Dissolution credited to income statement	New provisions charged to income	
Value adjustments and provisions for credit risks (counterparty and country risks)						
Individual	73,112	10,615	-492	13,331	10,365	59,039
Value adjustments and provisions for other operational risks	11,289	5,259	-	900	1,226	6,356
Other provisions						
additional pension provision	5,951	2,526	-	-	505	3,930
other provisions	462	149	-	-	305	618
provisions for deferred taxes	900	-	-	-	-	900
Total value adjustments and provisions	91,714	18,549	-492	14,231	12,401	70,843
Value adjustments directly offset by assets	-73,330					-58,726
Total value adjustments and provisions as per balance sheet	18,384					12,075
Total reserves for general banking risks	372,386	-	-	6,500	-	365,886

In compliance with FINMA directives, released surplus provisions for credit risks totalling CHF 3.9 million were entered under "Extraordinary income". (Refer to Notes to the Financial Statements 6.5)

4.10 Statement of equity

(CHF thousands)	
Own equity as at 31.12.2013	
Capital paid	200,000
Reserves and retained earnings	195,221
Reserves for general banking risks	372,386
Group available earnings	41,591
Total equity at 31.12.2013 (before appropriation of available earnings)	809,198
- 5% interest on endowment capital for financial year 2013	-5,500
- Additional payment to the Canton of Ticino for financial year 2013	-24,183
- Release of reserves for general banking risks	-6,500
+ Increase in endowment capital	40,000
+ Group net income of reporting year 2014	37,986
Total equity at 31.12.2014 (before appropriation of available earnings)	851,001
of which:	
Endowment capital paid	240,000
Reserves and retained earnings	207,129
Reserves for general banking risks	365,886
Group available earnings	37,986

4.11 Maturity structure of current assets, financial investments and third-party liabilities as at 31.12.2014

(CHF thousands)	at sight	callable	maturity				without maturity	Total
			within 3 months	within 3 to 12 months	within 1 to 5 years	more than 5 years		
Current assets								
Liquid funds	948,681	-	-	-	-	-	-	948,681
Amounts due arising from money market papers	3,416	-	1,000	-	-	-	-	4,416
Due from banks	262,565	-	180,688	-	-	-	-	443,253
Due from customers	11,327	367,477	402,234	265,979	433,607	353,752	-	1,834,376
Mortgages	5,892	233,588	954,530	649,232	3,920,493	1,551,054	-	7,314,789
Securities and precious metals held for trading purposes	28,921	-	-	-	-	-	-	28,921
Financial investments	21,563	-	46,501	127,452	116,516	36,048	8,165	356,245
Total current assets	1,282,365	601,065	1,584,953	1,042,663	4,470,616	1,940,854	8,165	10,930,681
Prior year	1,499,972	625,417	1,350,245	890,223	4,147,390	2,187,965	9,350	10,710,562
Third-party liabilities								
Liabilities arising from monetary market papers	362	-	-	-	-	-	-	362
Due to banks	305,829	-	211,409	60,059	4,000	30,000	-	611,297
Due to customers in savings and investment accounts	814,769	2,017,613	2,948	9,629	28,879	22,224	-	2,896,062
Other amounts due to customers	3,852,236	16,204	96,791	187,012	170,032	57,160	-	4,379,435
Cash bonds	-	-	2,033	2,460	5,345	450	-	10,288
Bonds and loans from the SCB Central mortgage bond issuing body	-	-	9,000	59,000	1,038,000	1,156,000	-	2,262,000
Total third-party liabilities	4,973,196	2,033,817	322,181	318,160	1,246,256	1,265,834	-	10,159,444
Prior year	4,392,655	2,075,126	368,819	447,107	1,381,814	1,026,472	-	9,691,993

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

(CHF thousands)	31.12.2014	31.12.2013
Due from companies / entities related to the Canton	16,833	15,006
Due to companies / entities related to the Canton	33,535	42,426
Due from the Group's governing bodies	80,273	67,956

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

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

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

4.13 Breakdown of assets and liabilities by domestic and foreign origin

(CHF thousands)	31.12.2014		31.12.2013	
	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid funds	948,137	544	915,952	7,323
Amounts due arising from money market papers	4,416	-	8,960	51
Due from banks	304,090	139,163	476,489	156,228
Due from customers	1,657,769	176,607	1,671,804	184,403
Mortgages	7,314,789	-	6,864,292	-
Securities and precious metals held for trading purposes	12,869	16,052	10,496	12,725
Financial investments	88,860	267,385	131,749	270,090
Non-consolidated participations	7,063	8	6,666	8
Fixed assets	90,523	-	95,175	-
Intangible assets	9,640	-	11,809	-
Accrued income and prepaid expenses	16,082	5,811	18,122	142
Other assets	65,806	2,446	56,134	840
Total assets	10,520,044	608,016	10,267,648	631,810
Liabilities				
Liabilities arising from money market papers	362	-	-	-
Due to banks	526,271	85,026	552,319	85,461
Due to customers in savings and investment accounts	2,595,428	300,634	2,498,862	281,495
Other amounts due to customers	2,794,280	1,585,155	2,676,596	1,406,233
Cash bonds	10,288	-	19,027	-
Bonds and loans from the Swiss Cantonal Bank Central mortgage bond issuing body	2,262,000	-	2,172,000	-
Accrued expenses and deferred income	36,199	227	28,846	-
Other liabilities	65,761	3,353	350,448	589
Value adjustments and provisions	12,075	-	18,384	-
Reserves for general banking risks	365,886	-	372,386	-
Corporate capital	240,000	-	200,000	-
Reserves and retained earnings	207,129	-	195,221	-
Group available earnings	37,986	-	41,591	-
Total liabilities	9,153,665	1,974,395	9,125,680	1,773,778

4.14 Geographic breakdown of assets

(CHF thousands)	31.12.2014		31.12.2013	
	Share in %	Share in %	Share in %	Share in %
Assets abroad				
Europe	386,106	3.47	415,023	3.81
North America	132,612	1.19	126,586	1.16
Other countries	89,298	0.80	90,201	0.83
Total assets abroad	608,016	5.46	631,810	5.80
Switzerland	10,520,044	94.54	10,267,648	94.20
Total assets	11,128,060	100.00	10,899,458	100.00

4.15 Breakdown of assets and liabilities by currencies

(CHF thousands)	Currency				Total
	CHF	USD	EUR	Other	
Assets					
Liquid funds	910,567	2,135	34,331	1,648	948,681
Amounts due arising from money market papers	4,416	-	-	-	4,416
Due from banks	12,830	289,272	62,667	78,484	443,253
Due from customers	1,530,835	76,044	210,641	16,856	1,834,376
Mortgages	7,314,789	-	-	-	7,314,789
Securities and precious metals held for trading purposes	6,576	-	12,009	10,336	28,921
Financial investments	134,798	42,091	178,989	367	356,245
Non-consolidated participations	7,063	-	8	-	7,071
Fixed assets	90,523	-	-	-	90,523
Intangible assets	9,640	-	-	-	9,640
Accrued income and prepaid expenses	16,225	528	5,131	9	21,893
Other assets	66,808	1,064	380	-	68,252
Total assets	10,105,070	411,134	504,156	107,700	11,128,060
Forward transactions and currency options	66,360	465,747	967,667	84,160	1,583,934
Total assets positions	10,171,430	876,881	1,471,823	191,860	12,711,994
Liabilities					
Liabilities arising from money market papers	136	36	190	-	362
Due to banks	298,979	8,478	301,163	2,677	611,297
Due to customers in savings and investment accounts	2,793,515	-	102,547	-	2,896,062
Other amounts due to customers	2,504,350	768,769	975,460	130,856	4,379,435
Cash bonds	10,288	-	-	-	10,288
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	2,262,000	-	-	-	2,262,000
Accrued expenses and deferred income	36,387	-	34	5	36,426
Other liabilities	67,587	284	1,216	27	69,114
Value adjustments and provisions	12,075	-	-	-	12,075
Reserves for general banking risks	365,886	-	-	-	365,886
Corporate capital	240,000	-	-	-	240,000
Reserves and retained earnings	207,129	-	-	-	207,129
Group available earnings	37,986	-	-	-	37,986
Total liabilities	8,836,318	777,567	1,380,610	133,565	11,128,060
Forward transactions and currency operations	1,337,837	99,666	83,862	56,206	1,577,571
Total liability positions	10,174,155	877,233	1,464,472	189,771	12,705,631
Net position per currency	-2,725	-352	7,351	2,089	6,363
Net position per currency (previous financial year)	431	8,319	-5,632	-892	2,226

5. INFORMATION ON OFF-BALANCE SHEET TRANSACTIONS

5.1 Contingent liabilities

(CHF thousands)	31.12.2014	31.12.2013
Credit guarantees	98,332	124,612
Irrevocable commitments under documentary credits	60,017	25,930
Total contingent liabilities	158,349	150,542

5.2 Derivative financial instruments open at year end

(CHF thousands)	Trading instruments			Hedging instruments		
	Replacement value		Contract volume	Replacement value		Contract volume
	positive	negative		positive	negative	
Interest rate instruments						
IRS	-	-	-	28,809	38,230	939,000
Total	-	-	-	28,809	38,230	939,000
Foreign exchange						
Forward contracts	1,302	1,650	76,097	-	-	-
Swaps	5,587	3,060	291,436	4,666	1,066	1,203,097
OTC Options	56	56	13,304	-	-	-
Total	6,945	4,766	380,837	4,666	1,066	1,203,097

Total open derivative financial instruments	6,945	4,766	380,837	33,475	39,296	2,142,097
Total prior year	1,651	1,221	350,343	33,492	33,807	1,920,907

At closing date there were no netting agreements.

5.3 Fiduciary transactions

(CHF thousands)	31.12.2014	31.12.2013
Fiduciary placements	168,243	201,027
Fiduciary loans	27,410	24,848
Total fiduciary transactions	195,653	225,875

6. INFORMATION ON THE INCOME STATEMENT

6.1 Income from refinancing under "Result from interest activities"

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

6.2 Breakdown of results from trading operations

(CHF thousands)	2014	2013
Foreign exchange trading	12,651	11,721
Trading in foreign banknotes	1,373	1,309
Trading in precious metals	414	-31
Trading in securities	82	265
Total	14,520	13,264

6.3 Breakdown of personnel expenses

(CHF thousands)	2014	2013
Salary and compensation	57,758	57,698
Contribution to pension institutions ¹	28,009	7,802
Other social benefits	6,016	6,879
Other personnel expenses	2,383	2,306
Total	94,166	74,685

6.4 Breakdown of other operating expenses

(CHF thousands)	2014	2013
Expenses for premises	6,206	5,962
Expenses for EDP, machines, furniture, vehicles and other facilities	13,248	9,309
Other operating expenses	13,954	14,308
Total	33,408	29,579

6.5 Other information on the income statement

(CHF thousands)	2014	2013
Extraordinary income		
Income from released credit risk provisions	3,906	561
Release of reserve for general banking risk	6,500	-
Income from disposal of permanent participations	117	24
Other extraordinary income	828	722
Total	11,351	1,307

¹ Including provisions totalling CHF 19.8 million for an early retirement plan over three years (2015, 2016 and 2017).

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

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

Credit Risks:

- Basis: international approach (SA-BRI)
- Value adjustments and provisions: exposures are risk-weighted net of specific provisions
- Derivatives: current exposure method
- Credit risk mitigation: simple approach
- External credit assessment: external credit assessment was not used; FiRE for some types of exposures, use of SERV ratings
- Lombard loans: simple approach
- Netting: the net exposure of loans and deposits was not used as the basis for capital adequacy calculation

Market Risks:

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

Operational Risks:

- Basis: Basic indicator approach (BIA)

Qualitative information required by the Ordinance on Capital Adequacy can be found in Section 3 Risk Management of the Notes to the Group Financial Statements.

The information on risk and capital in the following tables is based on the above methods and reflects the rules and approaches defined in Basel III. This information may differ from that presented in the previous tables due to these specific calculation rules.

7.1 Composition of regulatory capital

(CHF thousands)			
Balance Sheet	as per balance sheet closing	as per scope of consolidation	Notes
Assets			
Liquid funds	948,681	948,681	
Amounts due arising from money market papers	4,416	4,416	
Due from banks	443,253	443,253	
Due from customers	1,834,376	1,834,376	
Mortgages	7,314,789	7,314,789	
Securities and precious metals held for trading purposes	28,921	28,921	
Financial investments	356,245	356,245	
Non consolidated participations	7,071	7,071	
Fixed assets	90,523	90,523	
Intangible assets	9,640	9,640	7.1.1-4
<i>of which goodwill</i>	9,258	9,258	
<i>of which other intangible assets</i>	382	382	
Accrued income and prepaid expenses	21,893	21,893	
Other assets	68,252	68,252	
Total assets	11,128,060	11,128,060	
Third-party funds			
Liabilities arising from monetary market papers	362	362	
Due to banks	611,297	611,297	
Due to customers in savings and investment accounts	2,896,062	2,896,062	
Other amounts due to customers	4,379,435	4,379,435	
Cash bonds	10,288	10,288	
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	2,262,000	2,262,000	
Accrued expenses and deferred income	36,426	36,426	
Other liabilities	98,456	98,456	
Value adjustments and provisions	12,075	12,075	
Own funds (after appropriation of available earnings)			
Reserve for general banking risks	365,886	365,886	7.1.1-3
Authorised capital	240,000	240,000	7.1.1-1
<i>of which CET 1 quality</i>	240,000	240,000	7.1.1-1
Reserves and retained earnings	215,773	215,773	7.1.1-2
Total liabilities	11,128,060	11,128,060	
of which subordinated liabilities available as additional Tier 1 capital (AT 1)	60,000	60,000	7.1.1-5
of which subordinated liabilities available as complementary capital (T2)	140,000	140,000	7.1.1-5

7.1.1 Recognised regulatory capital

(CHF thousands)	Net figures	Impact of transitory arrangements	Notes
1 Authorised capital	240,000	-	7.1
2 Reserves and retained earnings	215,773	-	7.1
3 Reserve for general banking risks	365,886	-	7.1
= Eligible core capital	821,659	-	
4 - Other elements to be deducted from eligible core capital	-9,640	-	7.1
= Net common equity Tier 1 (net CET 1)	812,019	-	
5 Additional Tier 1 (AT 1)	60,000		7.1
= Net Tier 1	872,019		
6 + Tier 2 capital (T2)	140,000	-	7.1
= regulatory capital	1,012,019	-	
Total risk-weighted positions	6,084,793		

Ratios

(as a % of risk-weighted positions)	31.12.2014
CET 1 ratio	13.4%
T1 ratio	14.4%
Total regulatory capital ratio	16.7%
CET 1 requirements on the basis of transitional arrangements CAO	4.7%
Of which capital buffer	0.0%
Of which countercyclical capital buffer (% of risk-weighted positions)	0.7%
CET 1 available for the coverage of minimum requirements and buffers, after deduction of AT1 and AT2 requirements covered by CET 1	12.7%
CET 1 objective based on FINMA Circular 11/2 plus countercyclical capital buffer	8.1%
Available CET 1	12.8%
Objective of own T1 funds based on FINMA Circular 11/2 plus countercyclical capital buffer	9.7%
Available T1	14.4%
Objective of regulatory capital based on FINMA Circular 11/2 plus countercyclical capital buffer	11.9%
Available regulatory capital	16.7%

7.2 Required capital

(CHF thousands)	31.12.2014	31.12.2013
Credit risks	449,549	427,589
<i>of which price risk related to equity-type securities in the banking book</i>	2,546	1,550
<i>of which requirements for credit valuation adjustments</i>	2,285	1,034
Non-counterparty-related risks	7,898	30,049
Market risks	4,650	8,088
<i>of which on interest rate instruments (general and specific market risk)</i>	141	51
<i>of which on equity securities</i>	2,758	1,594
<i>of which on currencies and precious metals</i>	1,318	5,996
<i>of which on commodities</i>	401	447
<i>of which on options</i>	32	-
Operational risks	24,687	23,690
Other capital requirements	-	600
Required capital - gross	486,784	490,016
Value adjustments and global provisions ¹	-	-452
Required capital - net	486,784	489,564
Capital requirement covering ratio based on Swiss legislation²	199.1%	189.1%
Countercyclical capital buffer³	42,870	20,307
BIS Ratio	16.6%	15.1%
BIS Ratio in consideration of requirements of the countercyclical capital buffer⁴	15.9%	14.8%

¹ Under the international approach for credit risk (AS-BRI), value adjustments and provisions are offset individually on single positions.

² Eligible capital as a percentage of required capital (net).

³ The countercyclical capital buffer aims to bolster the banking sector's and the national economy's resilience with regard to risks entailed in exceeding credit growth. This buffer amounts to 2% (2013: 1%) of weighted credit positions in terms of risk (and limited to credit positions directly or indirectly secured by mortgage for housing buildings in Switzerland).

⁴ BIS ratio is calculated on the basis of available capital net of the requirements for the countercyclical capital buffer.

7.3 Credit exposure by counterparty

(CHF thousands)	Central governments and central banks	Banks and securities traders	Public authorities and institutions	Companies	Private clients and small businesses	Equity securities	Exposure without counterparty	Other exposures	Total
Loan commitments									
Balance sheet transactions									
Due from banks	-	156,738	286,515	-	-	-	-	-	443,253
Due from customers	6,196	35,420	838,691	410,161	528,272	-	-	15,636	1,834,376
Mortgages	11,112	2,731	27,965	258,338	7,014,643	-	-	-	7,314,789
Financial fixed assets / Debt securities	-	26,872	27,508	272,136	-	28,267	-	-	354,783
Other assets / Positive replacement values	124	22,073	28,858	6,581	1,913	-	-	-	59,549
Off-balance sheet transactions									
Contingent liabilities	15	26,174	209	19,818	31,383	-	-	-	77,599
Irrevocable commitments	-	142	17,815	-	21,100	-	-	-	39,057
Commitments for calls on shares and other equity	-	8,944	-	-	-	-	-	-	8,944
Forward foreign exchange and options transactions (add-on)	20	11,932	6,839	-135	894	-	-	-	19,550
Total current year	17,467	291,026	1,234,400	966,899	7,598,205	28,267	-	15,636	10,151,900
Total prior year	15,593	849,462	1,009,873	867,042	7,262,155	10,319	14,668	-	10,029,112

7.4 Regulatory credit risk mitigation

(in CHF thousands)	Recognised financial instruments or REPO	Guarantees and credit derivatives	Real collateral	Other collateral	Without collateral	Total
Loan commitments						
Balance sheet transactions						
Due from banks	-	284,125	-	-	159,128	443,253
Due from customers	201,287	28,090	176,130	11,964	1,416,905	1,834,376
Mortgages	30,043	17,114	6,687,208	4,017	576,407	7,314,789
Financial assets / Debt securities	-	-	-	-	354,783	354,783
Other assets / Positive replacement values	2,037	25,084	255	-	32,173	59,549
Off-balance sheet						
Contingent liabilities	10,771	1,500	3,365	270	61,693	77,599
Irrevocable commitments	-	-	1,261	-	37,796	39,057
Commitments for calls on shares and other equities	-	-	-	-	8,944	8,944
Forward foreign exchange transactions and options (add - on)	1,276	6,825	-	-	11,449	19,550
Total year under review	245,414	362,738	6,868,219	16,251	2,659,278	10,151,900
Total preceding year	158,521	462,050	7,061,990	-	2,726,691	10,409,252

7.5 Credit exposure by risk weighting category

(in CHF thousands)	0%	20%	35%	50%	75%	100%	150%	≥ 250%	Totale
Loan commitments									
Balance sheet transactions									
Due from banks	-	443,130	-	-	-	123	-	-	443,253
Due from customers	82,626	192,746	105,613	713,576	105,642	615,977	18,196	-	1,834,376
Mortgages	27,061	38,966	4,877,157	8,168	596,423	1,735,960	31,054	-	7,314,789
Financial assets / Debt securities	10,000	73,114	-	20,107	-	244,453	7,109	-	354,783
Other assets / Positive replacement values	734	39,674	178	11,400	4	7,559	-	-	59,549
Off-balance sheet transactions									
Contingent liabilities	5,967	20,365	1,144	8,106	119	41,898	-	-	77,599
Irrevocable commitments	-	17,507	797	450	19	20,284	-	-	39,057
Commitments for calls on shares and other equities	-	-	-	-	-	8,944	-	-	8,944
Forward foreign exchange transactions (add - on)	75	13,939	-	5,160	7	369	-	-	19,550
Total current year	126,463	839,441	4,984,889	766,967	702,214	2,675,567	56,359	-	10,151,900
Total prior year	73,793	1,052,103	4,832,914	734,157	1,495,946	1,761,567	76,791	1,842	10,029,113

7.6 Presentation of the principal characteristics of regulatory capital instruments

(in CHF thousands)	T2 ¹ - Loan	AT1 ² - Loan
1 Issuer	Banca dello Stato del Cantone Ticino	Canton Ticino
2 ISIN number	CH0144075386	n/a
3 Competent court	Zurich	Lugano
Regulatory treatment		
4 Calculated in the transitional arrangement of Basel III (CET 1 /AT1 / T2)	Tier 2 Capital	Additional Tier 1
5 Considered at individual / group / individual and group levels	Individual and group	Individual and group
6 Equity-type security / debt instrument / hybrid instrument / other	Lower Tier 2 bond	Subordinated loan
7 Amount recognised in the regulatory capital (refer to the last report sent to the BNS)	140,000	60,000
8 Product nominal value	175,000	60,000
9 Balance sheet item	Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	Other amounts due to clients
10 Issuing date	15.12.2011	31.12.2014
11 Perpetual / with maturity	With maturity	Perpetual
12 Maturity date	15.12.2021	-
13 Callable on issuer's decision	Possible ³	Possible ³
Coupons		
14 Fixed /variable / initially fixed then variable / initially variable then fixed	Fixed	Variable
15 Remuneration rate	4%	3%
17 Payment of interest totally discretionary / partially discretionary / compulsory	Compulsory	Partially discretionary
18 Step up or reimbursement incentives	No	No
19 Non cumulative / cumulative	Non cumulative	Non cumulative
20 Non convertible / convertible	Non convertible	Non convertible
22 Subordination hierarchy in case of liquidation	Subordinated claims	Subordinated claims
23 Characteristics preventing full recognition according to Basel III	n/a	n/a

¹ Tier 2 Capital

² Additional Tier 1 Capital

³ Only at specific conditions

7.7 Geographic breakdown of credit risks

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

7.8 Geographic breakdown of impaired loans

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

7.9 Credit derivatives transactions

At 31 December 2014 the Group did not have any position on credit derivatives.

7.10 Interest rate risk in the balance sheet

At 31 December 2014, a sudden 100 basis point parallel shift in the yield curve would have an impact of 2.4% on the net present value of equities (value effect).

At the same date, year-end, the impact of a sudden 100 basis point parallel shift in the yield curve (1 basis point floor) would cause a CHF 1 million impact on net interest income for the next 12 months (income effect).



Report of the statutory Auditor
To the Council and
To the Cantonal Parliament of the Republic
and Canton of Ticino
Bellinzona

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Banca dello Stato del Cantone Ticino, which comprise the balance sheet, income statement, cash flow statement and notes (pages 34-65), for the year ended 31 December 2014.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with accounting rules for banks and comply with Swiss law.

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Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (art. 728 CO and art. 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

PricewaterhouseCoopers SA



Beresford Caloia
Audit expert
Auditor in charge



Francesco Camarca
Audit expert

Lugano, 31 March 2015



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Balance Sheet (before appropriation of available earnings)

(CHF thousands)	Notes	31.12.2014	31.12.2013	Change
Assets				
Liquid funds		860,686	836,792	23,894
Amounts due arising from money market papers		4,416	9,011	-4,595
Due from banks		312,876	586,547	-273,671
Due from customers		1,734,201	1,763,941	-29,740
Mortgages	4.2	7,314,789	6,864,292	450,497
Securities and precious metals held for trading purposes		25,579	18,294	7,285
Financial investments		350,959	396,140	-45,181
Participations		65,071	64,674	397
Fixed assets		90,385	94,934	-4,549
Intangible assets		8,977	10,101	-1,124
Accrued income and prepaid expenses		21,322	17,604	3,718
Other assets	4.1	64,893	43,789	21,104
Total assets		10,854,154	10,706,119	148,035
Total subordinated loans		7,129	6,995	134
Total amounts due from the Canton of Ticino		130,318	110,125	20,193
Total amount due from Group entities		1,147	769	378
Liabilities				
Liabilities arising from money market papers		362	-	362
Due to banks		1,031,964	1,039,074	-7,110
Due to customers in savings and investment accounts		2,896,062	2,780,357	115,705
Other amounts due to customers		3,688,370	3,491,520	196,850
Cash Bonds		10,288	19,027	-8,739
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	4.2	2,262,000	2,172,000	90,000
Accrued expenses and deferred income		34,509	26,652	7,857
Other liabilities	4.1	66,721	350,132	-283,411
Value adjustments and provisions	4.3	10,960	17,269	-6,309
Reserves for general banking risks	4.3, 4.4	365,886	372,386	-6,500
Endowment capital	4.4	240,000	200,000	40,000
General legal reserve	4.4	208,019	195,928	12,091
Net income	4.4	39,013	41,774	-2,761
Total liabilities		10,854,154	10,706,119	148,035
Total subordinated liabilities		235,273	175,000	60,273
Total amounts due to the Canton of Ticino		149,426	99,307	50,119
Total amounts due to Group entities		433,505	418,821	14,684
Off-balance sheet transactions				
Contingent liabilities		155,082	151,105	3,977
Irrevocable commitments		84,626	84,620	6
Commitments for calls on shares and other equities		8,944	7,200	1,744
Outstanding derivative financial instruments (contracts volume)		2,427,068	2,174,162	252,906
Positive replacement value		38,208	34,609	3,599
Negative replacement value		43,972	34,840	9,132
Fiduciary transactions	5.1	18,809	22,867	-4,058

Income Statement

(CHF thousands)	Notes	2014	2013	Change
Costs and expenses from ordinary banking business				
Net interest income		117,946	109,319	8,627
Interest and discount income		176,903	174,105	2,798
Interest and dividend income from trading portfolio			65	-65
Interest and dividend income from financial investments		8,817	9,227	-410
Interest expense		-67,774	-74,078	6,304
Net fees and commissions income		30,681	27,761	2,920
Commission income from lending activities		3,354	2,123	1,231
Commission income from securities and investment activities		27,549	25,058	2,491
Other fees and commission income		7,607	6,632	975
Commission expenses		-7,829	-6,052	-1,777
Net trading income	6.1	13,666	12,367	1,299
Other ordinary results		5,422	4,008	1,414
Income on disposal of financial investments		826	395	431
Participation income		2,292	1,858	434
Real estate income		383	195	188
Other ordinary income		2,347	2,025	322
Other ordinary expenses		-426	-465	39
Net revenues		167,715	153,455	14,260
Operating expenses		-118,927	-95,728	-23,199
Personnel expenses	2.4	-88,276	-68,739	-19,537
Other operating expenses		-30,651	-26,989	-3,662
Gross profit		48,788	57,727	-8,939
Depreciation of fixed assets	2.4	-19,608	-12,761	-6,847
Value adjustments, provisions and losses	4.3	-897	-4,058	3,161
Result before extraordinary items and taxes		28,283	40,908	-12,625
Extraordinary income	6.2	11,336	1,148	10,188
Extraordinary expenses		-339	-	-339
Taxes		-267	-282	15
Net income		39,013	41,774	-2,761

Proposed Appropriation of Available Earnings

(CHF thousands)	31.12.2014	31.12.2013	Change
Proposed appropriation of available earnings			
Net income	39,013	41,774	-2,761
Retained earnings	-	-	-
Balance sheet profit	39,013	41,774	-2,761
Proposal of the Board of Directors			
Allocation to the general legal reserve	9,671	12,091	-2,420
5% interest on endowment capital	10,000	5,500	4,500
Additional payment to the Canton	19,342	24,183	-4,841
Retained earnings brought forward	-	-	-



Notes to the Individual Financial Statements

1. ACTIVITIES OF THE BANK

1.1 In general

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

The Canton is responsible for all the Bank's liabilities that are not covered by its equity (Art. 4 LBSCT). Pursuant to Art. 12 LBSCT, Banca dello Stato del Cantone Ticino is a full service bank and conducts its business primarily within the Canton of Ticino. The development of the Bank's operating activities in 2014 is described in the report drawn up by the Board of Directors.

The Bank outsources a number of its business services as defined by the FINMA Circular 2008/7 "Outsourcing – Banks"; in particular, payment transaction services, 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 IT service provider B-Source in Bioggio.

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

1.2 Personnel

As at 31 December 2014, the Bank had a total of 460 employees on payroll (421.95 FTEs) as determined by the parameters set at margin number 148 of the Guidelines concerning the provisions governing financial statements reporting (FINMA Circular 2008/2 "Accounting – Banks"), compared to 486 staff at the end of 2013 (444.25 FTEs).

2. ACCOUNTING AND EVALUATION PRINCIPLES

2.1 General principles

The financial statements of Banca dello Stato del Cantone Ticino as at 31 December 2014 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 and the Swiss listing rules. All business transactions are recorded at the time they are closed.

2.2 Accounting and evaluation principles for individual financial statements

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

2.2.1 Participations

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

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

2.3 Foreign currency translation

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

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

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

EUR 1.2024 (2013: 1.2264)

USD 0.9935 (2013: 0.8906)

2.4 Adjustment of the accounting principles for the presentation of financial statements

There were no changes in accounting principles or in the presentation of the financial statements in 2014. For specificities of the 2014 financial year, refer to Section 2.11 of the Notes to the Group Financial Statements.

3. RISK MANAGEMENT

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

4. 4. INFORMATION ON THE BALANCE SHEET

4.1 Breakdown of other assets and liabilities

(CHF thousands)	31.12.2014	31.12.2013
Other assets		
Positive replacement value of derivative financial instruments	38,208	34,609
Compensation account	9,260	527
Indirect taxes	846	635
Various other assets	16,579	8,018
Other assets, total	64,893	43,789
Other liabilities		
Negative replacement value of derivative financial instruments	43,972	34,840
Indirect taxes	9,618	8,919
Matured non-redeemed cash bonds	3,833	2,948
Various other liabilities	9,298	303,425
Other liabilities, total	66,721	350,132

4.2 Pledged assets

(CHF thousands)	31.12.2014	31.12.2013
Pledged or assigned assets to secure own commitments (excluding advances and repurchase agreements with securities)		
Book value of securities delivered as collateral in connection with Repo Light credit with the SNB (unused)	23,913	17,633
Book value of securities delivered as collateral to SIX Group AG (unused)	1,057	9,126
Book value of mortgages set as collateral with the Swiss Cantonal Banks Central mortgage bond issuing body	2,372,689	2,337,660
commitment with the Swiss Cantonal Banks Central mortgage bond issuing body	1,887,000	1,797,000

4.3 Value adjustments and provisions / Reserves for general banking risks

(CHF thousands)	Balance at 31.12.2013	2014				Balance at 31.12.2014
		Usage in conformity to purpose	Recoveries, impaired interest currency differences	Release credited to income statement	New provisions charged to income statement	
Value adjustments and provisions for credit risks (counterparty and country risks)						
individual	73,035	10,587	-505	13,331	10,344	58,956
Value adjustments and provisions for other operational risks	11,289	5,259	-	900	1,226	6,356
Other provisions						
additional pension provision	5,951	2,526	-	-	505	3,930
other provisions	247	149	-	-	305	403
Total value adjustment and provisions	90,522	18,521	-505	14,231	12,380	69,645
Value adjustments directly offset by assets	-73,253					-58,685
Total value adjustments and provisions as per balance sheet	17,269					10,960
Total reserves for general banking risks	372,386	-	-	6,500	-	365,886

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

In compliance with FINMA provisions, released excess provisions for credit risks (CHF 3.9 million) were booked under "Extraordinary income" (refer to Section 6.2 of the Notes to the Financial Statements).

4.4 Statement of changes in equity

(CHF thousands)	
Equity at 31.12.2013	
Endowment capital paid	200,000
General legal reserve	195,928
Reserves for general banking risks	372,386
Balance sheet net income	41,774
Total equity at 31.12.2013 (before appropriation of available earnings)	810,088
- 5% interest on endowment capital for financial year 2013	-5,500
- Additional payment to Canton Ticino for financial year 2013	-24,183
- Release of reserve for general banking risks	-6,500
+ Net income of reporting year 2014	39,013
+ Increase in endowment capital	40,000
Total equity at 31.12.2014 (before appropriation of available earnings)	852,918
of which:	
Endowment capital paid	240,000
General legal reserve	208,019
Reserves for general banking risks	365,886
Balance sheet profit	39,013

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

(CHF thousands)	31.12.2014	31.12.2013
Due from companies/entities related to the Canton	16,833	15,006
Due to companies/entities related to the Canton	33,595	42,426
Due from the Bank's governing bodies	80,273	67,956

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

5. INFORMATION ON OFF-BALANCE SHEET TRANSACTIONS

5.1 Fiduciary transactions

(CHF thousands)	31.12.2014	31.12.2013
Fiduciary placements	18,809	22,867
Total fiduciary transactions	18,809	22,867

6. INFORMATION ON THE INCOME STATEMENT

6.1 Breakdown of results from trading operations

(CHF thousands)	2014	2013
Foreign exchange trading	11,823	10,863
Trading in foreign banknotes	1,347	1,280
Trading in precious metals	362	-23
Trading in securities	134	247
Total	13,666	12,367

6.2 Other information on the income statement

(CHF thousands)	2014	2013
Extraordinary income		
Income from released provisions for credit risks ¹	3,906	561
Release of reserve for general banking risks	6,500	-
Gains from permanent holdings	117	24
Income from the disposal of fixed assets	614	-
Other extraordinary income	199	563
Total	11,336	1,148
Extraordinary expenses		
Other extraordinary expenses	339	-
Allocation to the reserve for general banking risks	-	-
Total	339	-

¹ Surplus from released provisions for credit risks (capital and interest) as compared to the new requirements for provisions.



Report of the statutory Auditor
To the State Council and
To the Cantonal Parliament of the Republic
and Canton of Ticino
Bellinzona

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Banca dello Stato del Cantone Ticino, which comprise the balance sheet, income statement and notes (pages 70-77), for the year ended 31 December 2014.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the company's articles of incorporation.

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Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (art. 728 CO and art. 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with art. 728a para. 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 SA



Beresford Caloia
Audit expert
Auditor in charge



Francesco Camarca
Audit expert

Lugano, 31 March 2015



Board of Directors

Chairman

Dott. Fulvio Pelli¹

Deputy Chairman

Dott. Roberto Grassi^{1,2}

Secretary

Carlo Danzi^{1,2}

Members

Marco Fantoni¹

Giovanni Jelmini¹

Michele Morisoli^{1,2}

Raoul Paglia¹

Public Mandate Control Commission

Chairman

Raffaele De Rosa

Deputy Chairman

Marco Chiesa

Members

Elena Bacchetta

Daniele Caverzasio

Pelin Kandemir Bordoli

Christian Vitta

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

PricewaterhouseCoopers SA

Internal Auditors

Chief Auditor

Gabriele Guglielmini

Deputy

Guido Gianetti

¹ Independent members as specified in FINMA Circular 08/24

² Members of the Audit Committee

Executive Board

President of the Executive Board

Bernardino Bulla

Members of the Executive Board

Daniele Albisetti

Renato Arrigoni

Fabrizio Cieslakiewicz

Claudio Genasci

Members of the Management

Bellinzona Head Office

Domenico Albertoni

Romano Bär

Adrian Baumberger

Mauro Bazzotti

Lucamaria Beeler

Renzo Beffa

Mary Bernardasci

Enrico Bertozzi

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Dario Caramanica

Medardo Caretti

Curzio De Gottardi

Maurizio Derada

Giovanni Duca

Adolfo Genzoli

Luca Ghiringhelli

Manuel Giambonini

Giancarlo Jemini

Patrick Lafranchi

Mauro Locatelli

Donato Lucchini

Marco Molteni

Fabio Pedrazzini

Massimo Pedrini

Massimo Penzavalli

Ivo Pini

Giulio Ruggeri

Michele Schandroch

Lorenzo Squellati

Norman Stampanoni

Fabrizio Stöckli

Carlo Tomasini

Ferruccio Unternährer

Mirko Zoppi

Lugano Branch

Roberto Barbera

Attilio Buttà (until 30.09.2014)

Luigi Campagna (until 30.11.2014)

Roberto Danzi

Andrea Ferrari

Claudio Frigo (until 30.09.2014)

Daniela Lepori Moresi

(until 15.07.2014)

Gabriele Mantegazzi

Alberto Pedrazzi

Carlo Ruggia

Luca Todesco

Tiziana Zanchi-Temperelli

Locarno Branch

Boris Ceschi

Fabrizio Conti-Rossini

Claudio Gnesa

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Marco Pellanda

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Via Pretorio 3
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