



Annual Report

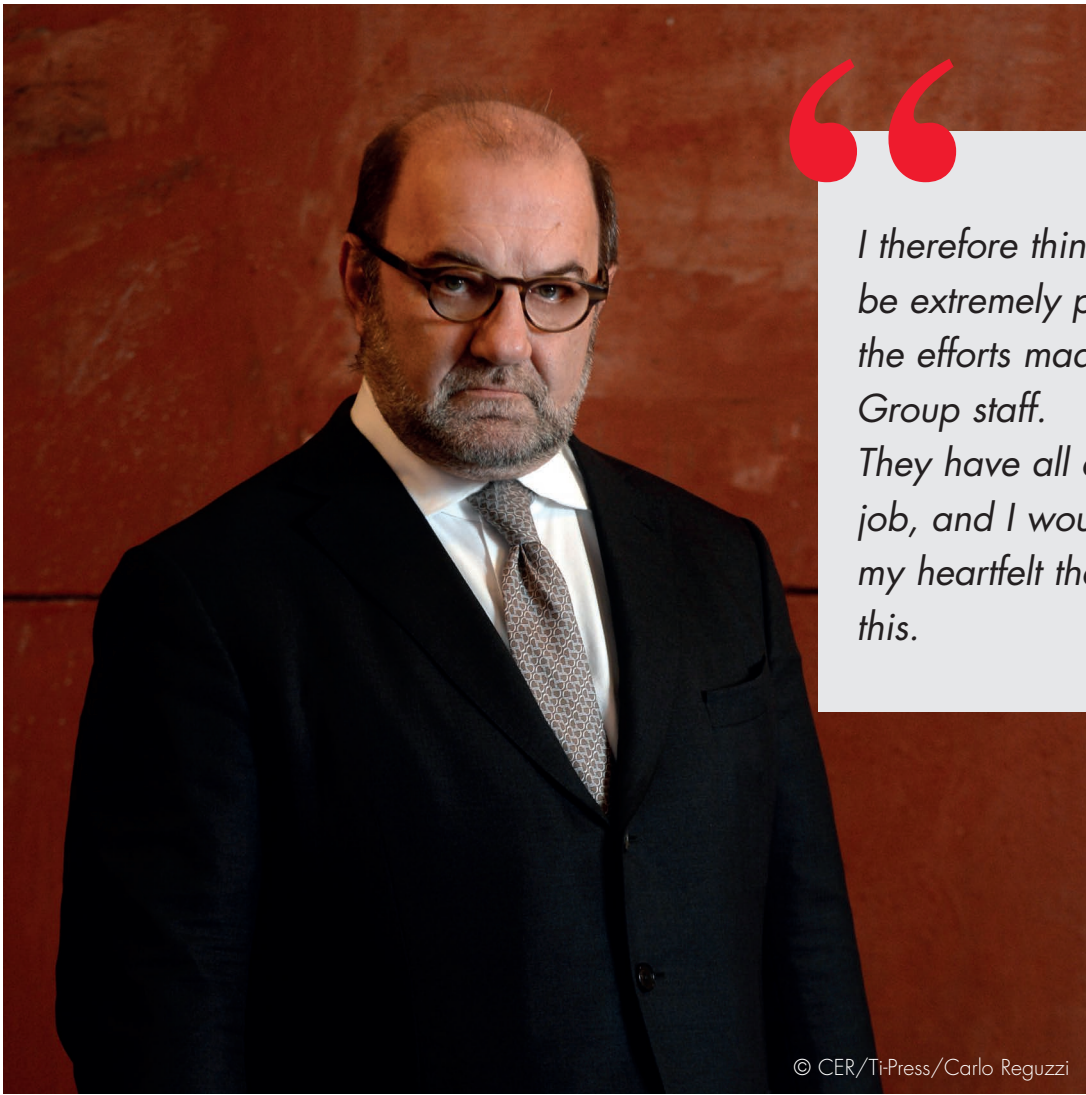
2021



Pictures: Pista Valascia, Quinto.

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I therefore think that we can be extremely proud of all of the efforts made by BancaStato Group staff. They have all done an excellent job, and I would like to extend my heartfelt thanks to them for this.

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Bernardino Bulla

Chairman of the Board of Directors

Message from the Chairman of the Board of Directors

Dear Citizens of Ticino,

I would actually like to start by mentioning the conclusions of this message of mine.

I am extremely satisfied with the major targets achieved by the BancaStato Group in 2021.

The financial results achieved are already significant in themselves. However, when placed in perspective they take on even greater importance, coming on the back of a growth trajectory over a number of years. These results have been made possible by the implementation of important strategic projects, as well as the choice of a business model that has met with increasing success at the front line. All of this is in my view testament to the fact that BancaStato is increasingly perceived throughout the Canton as what it seeks to be – and in fact what it must be: the reference bank for Ticino.

These results have been achieved following two difficult pandemic years. It has been an intense period full of unknowns, within a context that was moreover already proving to be difficult for the entire banking sector due to the application of negative interest rates.

I therefore think that we can be extremely proud of all of the efforts made by BancaStato Group staff. They have all done an excellent job, and I would like to extend my heartfelt thanks to them for this.

As is customary, I would like to use this message to comment briefly on the results.

All revenue items have increased, resulting in an excellent overall growth. Group net income rose to over 55.2 million.

This represents a remarkable operational performance, leading to an enhanced contribution to the Shareholder of 43.3 million.

These results have enabled the Bank to make a one-off adjustment to its staff pension plan with a view to mitigating the continuous falls in the conversion rate for pension assets, whilst at the same time helping to increase the Bank's solidity by making a further allocation to the reserves for general banking risks.

The accounts for the period in question include Covid-19 loans, which were paid out promptly at the start of the pandemic also by BancaStato in order to ensure that businesses had access to the necessary liquidity, as well as the costs of the second round of the project "Vivi il tuo Ticino" ("Experience your Ticino"), which pursued the aim, also in 2021, of supporting the Ticino hospitality and accommodation sectors, which were amongst those most heavily affected during the healthcare emergency.

However, this year too I would like to recall some things that do not come across in the figures published in this Annual Report. I am thinking in particular of the hundreds of grants and sponsorship contributions that BancaStato gives to entities, associations or projects active in the cultural, social or sporting scenes in Ticino.

We were an important point of reference for them also in 2021. Our commitment towards them can be felt both in an extremely tangible form – as is the case for some of the larger grants, such as for instance those paid to the Orchestra della Svizzera italiana (CHF 350,000) or Ticino Ticket (CHF 100,000) – and also, above all, through hundreds of smaller grants. We have chosen to pursue a full-spectrum approach precisely in order to reach the greatest possible number of beneficiaries. The figures clearly show this: in 2021 the Bank distributed over CHF 2 million in support to more than 600 recipients, of which almost CHF 500,000 was allocated to youth sports. BancaStato thus has a well-developed and widespread presence throughout Ticino, in keeping with our nature as a Bank that works hand in hand with the Canton's people.

This commitment of ours towards the public at large is obviously reported under costs, although for us it represents an investment in both the present and the future of Ticino and its residents. Essentially, it is one of the various ways in which we intend to fulfil the public mandate that has been vested in us. In order to better understand the various aspects to this concept of the public mandate, I would invite you to consult the Social and Environmental Report, which we publish in June of each year and which illustrates the various facets to "how" we achieve our goals.

Before concluding, I would like to focus in on the future. We are living through what is undoubtedly a turbulent phase of history. We have been impatiently waiting for the last two years for the pandemic to end, and it was precisely when we were starting to leave it behind us that war broke out in Ukraine. The geopolitical situation may have a negative effect also on the Swiss economy, and by extension on the cantonal economy, holding back growth. It is difficult to make any predictions. One thing that is certain though is that BancaStato will always continue to work for Ticino and its residents in accordance with the public mandate vested in it.

I thank you all for the trust that you continue to place in BancaStato.

Bernardino Bulla
Chairman of the Board of Directors

Corporate Governance

Corporate governance covers all rules and relationships that govern the management of a business: it is therefore intended to provide those essential elements to better understand how Banca dello Stato del Cantone Ticino is administered, as well as who is in charge of specific executive functions, and the basic principles which determine its operations.

Introduction

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

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

All data herein are at 31 December 2021 or refer to the entire 2021 financial year.

Corporate Name, Legal Status, Duration and Head Office

Banca dello Stato del Cantone Ticino, founded in 1915, is an autonomous institution operating under public law. The Republic and Canton of Ticino owns 100% of the Bank's equity. The Bank's statute is that of a cantonal bank, in accordance with the Swiss Federal Law on Banks and Savings Banks³.

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

Purpose and Activities

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

investment of their savings.

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

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

1. acceptance of deposits in all forms allowed by the banking legislation;
2. granting of collateralised and non-collateralised loans and credits;
3. processing transactions with letters of credit and standby letters of credit, in particular in Commodity Trade Finance;
4. issuing guarantees, sureties and guarantee commitments;
5. securities trading for third parties and on own account;
6. trading in derivative financial instruments both for third parties and on own account;
7. issuing and participating in the issuance of shares, bonds and other securities, for both Swiss and foreign debtors;
8. spot or forward trading of currency and securities in foreign currency, precious metals and monetary market papers, both for third parties and on own account;
9. trading with professional banknote dealers as per Art. 2e of the FINMA Anti-Money Laundering Ordinance (AMLO-FINMA; RS 955.033.0);
10. setting up and distributing investment funds in Switzerland and abroad;
11. advisory, intermediation and asset management, as well as custody and administration of securities and valuables;

¹ <https://www.finma.ch/en/~media/finma/dokumente/rundschreiben-archiv/2016/rs-16-01/rs-2016-01-leitende-aenderung-20170921.pdf?la=en>

² Any amendment or addition to this Circular in 2022 will be communicated on www.bancastato.ch, under "Media, novità ed eventi". The directive is available at: <https://www.serag.com/dam/downloads/regulation/listing/directives/DCG-en.pdf>

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

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

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

Supervision

The Bank is subject to the supervision of the Swiss Financial Market Supervisory Authority (FINMA) pursuant to the provisions of the banking legislation. As of 30 September 2021, BancaStato moved to supervisory category 3 ("Large and complex market participants – Significant risk")⁵.

1. BANK STRUCTURE AND OWNERSHIP

1.1 Group operational structure

BancaStato is a Group. As at 31 December 2021 the Bank held 100% of the share capital of the Lugano-based Axion SWISS Bank SA (nominal capital CHF 43 million).

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

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

The Human Resources Department and the Support and Communications Organisational Unit report to the President of the Executive Board.

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

1.2 Ownership

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

1.3 Cross-shareholdings

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

2. CAPITAL STRUCTURE

2.1 Capital

By law, the State assigns the Bank an endowment capital and the Bank is authorised to issue participation certificates⁶. To this date, the Bank has not made use of the latter source of capital, and its capital solely consists of the endowment capital provided by the State, that is CHF 500 million. The interest paid out on endowment capital is fixed by the Bank's Board of Directors and by the State Council. A 5% interest was paid out on endowment capital in 2021.

2.2 Specifications concerning capital

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

2.3 Changes in capital

There were no changes in capital in 2021.

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

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

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

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

2.4 Shares and participation certificates

The Bank's endowment capital is not divided up into shares. According to Art. 6 of the Law on Banca dello Stato del Cantone Ticino, the Bank is authorised to increase its participation capital by issuing participation certificates not exceeding 50% of its endowment capital. As at 31 December 2021, just as at the end of 2020, there was no participation capital.

2.5 Bonus certificates

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

2.6 Limitations on transferability and nominee registrations

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

2.7 Convertible bonds and options

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

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

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

Finally, we note that the subordinated bond ("Tier 2 Capital") for CHF 175 million issued on the market in 2011 matured in December 2021.

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, as well as the supervision and control over 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), executive officers, directors and employees of other credit institutions (with the exception of members of the Swiss National Bank governing bodies), cannot be appointed to the Board of Directors. Relatives and next of kin, spouses, registered partners or cohabiting partners, siblings or siblings-in-law, business partners and employees of the same company may not be members of the Board of Directors simultaneously.

The members of the Board of Directors fulfil all of the requirements of independence laid down in FINMA Circular 2017/01⁷ as well as the provisions of Articles 19 and 20 of the Law on Banca dello Stato del Cantone Ticino, cited above.

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

Hereunder is a brief presentation of the members of the Board in office as at 31 December 2021⁸, their function, education, professional background and the other activities in which they are involved.

BERNARDINO BULLA

Function

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

Education and professional background

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

⁷ As Chairman of the Board of Directors since July 2017, and having formerly served as President of the Executive Board, Bernardino Bulla has fully complied with FINMA independence rules since July 2019. <https://www.finma.ch/en/~media/finma/dokumente/rundschreiben-archiv/2017/rs-17-01/finma-rs-2017-01-20160922.pdf?la=en>.

⁸ The composition of the Board of Directors changed in 2021: the terms in office of the Marco Fantoni, the Secretary, and Michele Morisoli expired at the end of June. For details concerning the function, educational and professional background and activities of Marco Fantoni and Michele Morisoli, refer to the 2020 Annual Report.

April 2007 to 31 December 2011, he was Head of the Risk Control Division, after which he served as President of the Executive Board from January 2012 to June 2017.

Other activities

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

RAOUL PAGLIA

Function

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

Education and professional background

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

Other activities

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

MICHELA FERRARI-TESTA

Function

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

Education and professional background

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

Other activities

- » Member of the Board of Directors of Gruppo Coop Società Cooperativa SA, Basel, and its subsidiary companies;
- » Member of the Board of Directors of Mobiliare Svizzera Società Cooperativa, Bern;
- » Member of the Foundation Council of "Fondazione Sana", Bern;
- » Deputy Chairman of the Board of Directors of Helsana SA, Dübendorf, and its subsidiary companies.

DANIEL JOSS

Function

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

Education and professional background

Degree in Civil Engineering from ETH Zurich in 1990. In the same year he started his own business. He is the owner of the business Daniel Joss ingegneria e amministrazione. Member of the Order of Engineers and Architects of Canton Ticino and of the Swiss Society of Engineers and Architects, as well as working

as a real estate fiduciary active in the area of construction and civil engineering as a specialist and project manager. A promoter and developer of real estate projects, he also manages real estate companies and rental properties.

Other activities

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

GIOVANNI JELMINI

Function

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

Education and professional background

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

Other activities

- » Chairman of the Board of Directors of Axion SWISS Bank SA, Lugano;
- » Member of the Board of Directors of TEAMLEGAL SA;
- » President of the Civic Philharmonic of Mendrisio, Mendrisio;
- » Member of the Board of Directors of HJImmobiliare SA, Porza;
- » Chairman of the Board of Directors of Modultech SA, Gambarogno;
- » Chairman of the "Fondazione Portico di Salomone", Lugano.

STEFANO SANTINELLI

Function

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

Education and professional background

Degree in Computer Engineering from ETH Zurich in 1995. He is currently the delegate appointed by the CEO of Swisscom

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

Other activities

- » Member and managing director of Digitale Transformation Sagl, Uster⁹;
- » Chairman of the Board of Directors of Innovative Web AG, Svitto¹⁰.

LUCA SONCINI

Function

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

Education and professional background

Degree in Economics from the University of Fribourg in 1981. He currently works as a self-employed corporate consultant and lecturer in the Faculty of Economics of the University of Lugano (where he coordinates the course "Banking strategies & Wealth Management" for Master's students). After graduating he became a researcher at the Office for Economic Research of Canton Ticino. In 1982 he joined the Corriere del Ticino as a journalist, subsequently taking on responsibility for the economics section; throughout the 1980s he also worked with RSI – Radiotelevisione svizzera di lingua italiana, again working as an economics journalist. In 1987, he was employed by

⁹ As of January 2022.

¹⁰ As of January 2022.

Banca del Gottardo and, in 1998, was appointed member of the Executive Board, Head of Private Banking. In 2007 he entered the PKB Privatbank group as a member of the Executive Board responsible for Finances and Risks. He was a member of the National Committee of the Swiss Bank Employers Association, the Executive Committee of the Ticino Bank Association, the Foundation Council of the Swiss Institute in Rome, the Board of Directors of Banca del Gottardo Italia SpA, Bergamo, the Board of Directors of Gestivalor-Gestione fondi SA, Lugano, the Board of Directors of Compagnia Finanziaria Mobiliare SIM SpA, Milan, and the Board of Directors of Banca Intermobiliare SpA, Turin.

Other activities

- » Member of the Foundation Council of the Swiss Finance, Zurich;
- » Member of the Board of Directors of Enterra SA, Lugano;
- » Chairman of the Board of Directors of SPP Cost Control SA, Torricella-Taverne;
- » Chairman of the Board of Directors of TIVENIx SA, Lugano;
- » Member of the Committee of the Research Fund EOC-USI of the Foundation for research and development (FRoS) of the University of Lugano;
- » Member of the Foundation Council of Conservatorio della Svizzera Italiana.

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

This information is included in Section 3.1.

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

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

3.4 Elections and terms of office

The members of the Board of Directors are appointed by the State Council. Their education, competence and professional history are decisive criteria for their appointment. They remain in office for 3 years, until 30 June. Retiring members may be re-elected. On an annual basis, the State Council renews two, two and three mandates respectively. The maximum term of office is 12 years (Articles 21 and 22 of the Law on Banca dello Stato del Cantone Ticino).

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

- » Bernardino Bulla, Chairman: 1 July 2017 / 30 June 2023,
- » Raoul Paglia, Deputy Chairman: 10 July 2012/30 June 2024,
- » Michela Ferrari-Testa: 1 July 2021/ 30 June 2024,
- » Giovanni Jelmini: 1 December 2011 / 30 June 2022,
- » Daniel Joss: 1 July 2019 / 30 June 2022,
- » Stefano Santinelli: 1 July 2021/30 June 2024
- » Luca Soncini: 16 October 2017/30 June 2023.

3.5 Internal organisational structure

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

The Board of Directors reaches a quorum when at least five of its members are present in person. Participation by telephone or remotely is permitted under exceptional circumstances. Decisions are determined by a simple majority of those present, and abstention is not permitted.

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

Every member of the Board of Directors must inform the other members of possible conflicts of interest and/or conflicts in personal business or that of relatives. In such cases it is not permitted to attend, participate in discussions or vote on the respective matter.

Minutes are taken at each meeting.

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

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

Directors with all information they require.

In 2021, the Board of Directors convened 14 times. The meetings of the Board of Directors as well as those of the Chairman's Office and its committees lasted on average between two and six hours.

3.6 Powers

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

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

Regulatory duties

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

Organisational duties

- establishment of the Bank's organisation;
- definition of the Bank's organisational chart;
- ensuring the allocation of appropriate resources within the Bank in terms of personnel, infrastructure and IT;
- appointment, suspension, revoking of functions or rank, or dismissal of the President of the Executive Board, members of the Executive Board, members of Management, and internal auditors. It conducts periodic assessment of the Chief Internal Auditors and members of the Executive Board, and plans their succession accordingly;
- compensation and adoption of disciplinary measures as

regards the Executive Board, the Chief Auditor and the Deputy Chief Auditor;

- organisation of accounting, internal controlling system and financial planning;
- establishment and closing of branches and agencies;
- appointment and dismissal of External Auditors;
- granting or revoking power to sign as laid down in Art. 23 and 24 of the Operating Rules and Regulations;
- authorisation 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;
- approval of budgets, accounts, semi-annual and annual financial reports and all other elements subject to disclosure requirements;
- approval of capital and liquidity planning;
- definition of the policy in matters of staff and remuneration. This policy must not generate incentives leading to conflicts of interest for the supervisory organs;
- approval of the section on Corporate Governance of the Annual Report;
- decision on the issuance of participation certificates as per regulations and the annual setting of the base dividend on participation capital;
- decision-making, upon notice from the Executive Board, on requests for loans, credits or advances and on operations which engage Bank funds or its pecuniary responsibility and which are not part of delegated responsibilities as laid down in the Operating Rules and Regulations;
- approval of loans to the members of the Executive Board and the Chief Internal Auditor;

- submitting, for cognisance and at the earliest meeting, the loans granted to members of the Board of Directors by the Executive Board or by its subordinate offices within the framework of their delegated responsibilities;
- 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;
- setting, 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;
- providing the Grand Council by 31 March of each year with the Auditors' report in compliance with Art. 37a of the Law on Banca dello Stato del Cantone Ticino;
- establishment of reference rates and oversight to ensure that the individual rates set by the Executive Board are in conformity with Art. 3 of the Law on Banca dello Stato del Cantone Ticino;
- reporting to the FINMA in the event that capital or liquidity requirements are not met, or maximum limits on major risks have been exceeded;
- current operating expenses and investments in infrastructure which are not specifically delegated to the Executive Board.

Supervision and control duties

- determining the control procedures to undertake in line with current applicable external regulatory provisions;
- oversight on compliance with banking regulatory provisions with respect to risks;
- supervision of the work of the Executive Board, including assessment of the Executive Board in terms of meeting its objectives and its work procedures;
- supervision of the work performed by the Internal Auditors;
- annual appraisal and assessment of the Bank's framework strategy for risk management, implementing any necessary adjustments, as well as undertaking its own risk analysis;
- review of the reports of the External Auditors;

- review of the reports of the Internal Auditors;
- analysis of the summary prepared by the Head of the Risk Division on the results of various reports on activities and risk evaluation of the Legal and Compliance, Human Resources, Risk Management, Group Internal Control Units and Security.

Moreover, the Board of Directors makes decisions, in accordance with Art. 24 of the Law on Banca dello Stato del Cantone Ticino, on any other matter that the said Law or the Bank's Rules and Regulations do not explicitly assign to another Bank body or authority. With respect to consolidated supervision, the Board of Directors exercises its competences on the basis of the Group Rules and Regulations which is drawn up on the principles mentioned above (Art. 24 of the Law on Banca dello Stato del Cantone Ticino and Art. 12 of the Operating Rules and Regulations).

In compliance with Art. 25 of the Law on Banca dello Stato del Cantone Ticino, the Board of Directors may delegate part of its duties, to the exclusion of those inalienable on the analogy of Art. 716a of the Swiss Code of Obligations¹¹, to permanent or ad hoc committees composed of members of the Board of Directors or as regards the management of business to the Executive Board.

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

Minutes are taken at every meeting of the Committees.

With respect to the delegation of duties to the Executive Board, refer to the corresponding paragraph under Executive Board.

The functions and organisation of the Chairman's Office and the Board of Directors' Committees as at the end of 2021, are described hereunder.

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

Chairman's Office

The Chairman's Office represents the Bank vis-a-vis its owner as well as political institutions and public opinion. It is responsible, either directly or by delegating a spokesperson, for any form

¹¹ https://www.fedlex.admin.ch/eli/cc/27/317_321_377/en

of communication, internal or external, concerning decisions, official stance, or any other information emanating from the Board of Directors.

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

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

The Chairman's Office is composed of the Chairman, Bernardino Bulla, the Deputy Chairman, Raoul Paglia, and the Secretary, Daniel Joss. In 2021, the Chairman's Office met three times.

Audit and Risk Committee

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

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

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

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

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

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

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

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

The Chairman of the Board of Directors may not be a member of the Audit and Risk Committee. This Committee is composed of the Chairman, Raoul Paglia, and Giovanni Jelmini and Luca Soncini. In 2021 the Committee convened eight times.

Projects Committee

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

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

The Projects Committee is comprised of the Chairman Daniel Joss and the members Michela Ferrari-Testa and Stefano Santinelli. In 2021 the Committee met six times.

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

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

On a monthly basis

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

On a semi-annual basis

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

On an annual basis

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

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

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

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

The Internal Auditors' Office is independent from the Executive Board and is directly subordinated to the Board of Directors (functional reporting). At the end of 2021, it was composed of five staff, including the Chief Internal Auditor (Mr. Gabriele Guglielmini, Chartered Accountant - Federal Accounting Diploma). The Chairman of the Audit and Risk Committee of the Board of Directors acts as the direct superior for the Chief Internal Auditor (administrative subordinate).

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

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

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

The members of the Board of Directors all receive reports concerning ordinary audits; these documents also include statements made by the Executive Board concerning individual recommendations made by the Internal Auditors. The members of the Board of Directors also receive the semi-annual summary reports and the annual report. The Internal Audit reports are discussed by the Internal Auditors with the Audit and Risk Committee of the Board of Directors and, when needed, also with the Board of Directors.

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

4. EXECUTIVE BOARD

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

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

Regulatory duties

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

Management and organisational duties

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

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

Financial duties

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

- determination of individual interest rates, in accordance with the provisions of Art. 3 of the Law on Banca dello Stato del Cantone Ticino;
- preparation of capital planning and liquidity planning;
- reporting to the Board of Directors in the event capital requirements are not met or of major risks or liquidity;
- decision-making on the acquisition and disposal of participations not exceeding 1.5% of the subsidiary's capital or CHF 2 million;

Supervision and control duties

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

Credit duties

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

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

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

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

Risk Committee

The Risk Committee is responsible for ensuring adequate supervision of overall risk and, in particular, operational risks. It is responsible for risk management, subject to the risk management framework strategy and the respective risk

tolerances and limits set by the Board of Directors, as well as for approving individual operating losses not exceeding the monetary threshold specified in the Committee's Regulations. It ensures the existence of an adequate internal control system as well as the provision of adequate infrastructure and resources for controlling and supervising risks.

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

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) and carries out a preliminary examination of and refers to the Board of Directors any matters requiring a decision or that need to be reported. The Committee may delegate the powers vested in it.

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

Assets and Liabilities Committee (ALCO)

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

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

4.1 Members of the Executive Board

The Executive Board comprises the President of the Executive Board and members who are Heads of Divisions. The members remain in office on an open-ended basis. According to old-age and survivors' insurance rules, the ordinary retirement age is currently 65 for men and 64 for women. This does not apply to employees born before 1967, subject to the parameters set out in the respective pension schemes. No member of the Executive Board was ever a member of the Bank's Board of Directors or worked for the Internal Auditors.

A brief introduction is provided below for the six members in office as at 31 December 2021 along with their functions on the Executive Board, their educational background, their professional record of accomplishments and their other principal activities.

FABRIZIO CIESLAKIEWICZ

Function

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

Education and professional background

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

Other activities

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

- » Member of the Foundation Council of the Carlo and Albina Cavargna Foundation, Biasca;
- » Member of the Board of Governors of the Ticino Cancer League, Bellinzona;
- » Member of the Board of Governors of the Ticino Cancer League, Bellinzona;
- » Member of the Foundation Council of the Oncological Research Institute (IOR), Bellinzona;
- » Member and Treasurer of the Foundation Council of the Ticino Cancer Research Foundation, Bellinzona;
- » Member of the Committee of Associazione TicinoEnergia, Bellinzona.

DANIELE ALBISETTI

Function

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

Education and professional background

Degree in Economics with a major in Corporate Management from the University of Lausanne in 1985. He began his professional career in the internal audit division of Banca del Gottardo where he was team leader and was promoted to Bank Officer in 1988 and then to Assistant Vice-President in 1989. In 1990, he was entrusted with several projects pertaining to organisation, management control and risk management control within the Financial and Risk Management Department. In 1996, he was promoted to Member of the Management and in 1999 became Head of Controlling at Group level. He joined BancaStato on 1 February 2003 as Head of the Financial and Risk Management Department, taking on de facto the position of Chief Financial Officer. On 1 April 2014, he became a member of the Executive Board and Head of Financial Services and Operations Division which was in charge of financial management and risk supervision, as well as for providing organisational, IT and operational support to various Bank processes. Since 2020, risk control activities have been centralised in the Risk Division. At the beginning of 2021, Daniele Albisetti was entrusted with heading the newly constituted Finance Division in which the operations of the Financial market (Treasury, Trading and Asset management) as well as the Accounting units have been channelled.

Other activities

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



From left:

Patrick Lafranchi, Head of the Risk Division

Gabriele Zanzi, Head of the Retail and Corporate Clients Division

Nicola Guscelli, Head of the Private Banking and EAM Division

Curzio De Gottardi, Head of the Products and Services Division

Fabrizio Cieslakiewicz, President of the Executive Board

Daniele Albisetti, Head of the Finance Division

CURZIO DE GOTTARDI

Function

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

Education and professional background

Degree in Political Economics from the University of Fribourg in 1994, where he was an Assistant Professor before obtaining his PhD in Political Economics in 2000. In 2001, he became an assistant to the Executive Board at BancaStato. In 2004, he was entrusted with heading the Strategic planning and

Communications Division, which was directly subordinated to the Executive Board. In 2006, he was nominated member of the Management and, in 2020, member of the Executive Board and, since January 2021, Head of the new Products and Services Division.

NICOLA GUSCELLI¹²

Function

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

¹² Nicola Guscelli replaced Claudio Genasci on the Executive Board as Head of Private Banking Division and EAM following the latter's retirement at the end of June 2021. Until Nicola Guscelli took up office, the Division was managed on an interim basis by Fabrizio Cieslakiewicz, President of the Executive Board. For details concerning his function and educational and professional background and activities, refer to the 2020 Annual Report.

Education and professional background

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

PATRICK LAFRANCHI

Function

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

Education and professional background

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

GABRIELE ZANZI

Function

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

Education and professional background

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

Other activities

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

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

This information is included in Section 4.1.

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

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

5. COMPENSATION, PARTICIPATIONS AND LOANS

5.1 Content and procedure for determining remuneration and employee participation schemes¹³

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

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

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

¹³ The Directive on Information Relating to Corporate Governance adopted by SIX Swiss Exchange is applied on a voluntary basis; the level of detail contained in this section differs in part from this standard.

5.1.1 Personnel

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

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

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

Since the start of 2022, variable remuneration has also been pensionable with the pension scheme¹⁴.

5.1.2 Executive Board

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

The overall remuneration of the Executive Board is likewise comprised of fixed remuneration and variable remuneration, both of which are set with reference to the criteria applied also to staff as a whole. Since 2021, BancaStato has applied to the Executive Board the criteria for establishing the remuneration as regards the variable salary element and incidental benefits, which were adopted by the council of State on 22 January 2020. We note in particular the following two criteria:

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

In addition, in order to promote a better alignment between medium-term objectives and remuneration, since 2022

BancaStato has deferred the payment of one third of the variable remuneration due to members of the Executive Board and heads of department for three years.

The social security coverage of the members of the Executive Board is calculated using the same parameters as used for calculating the compensation to Members of the Management. Guaranteed coverage exceeds minimum legal requirements. Moreover, they benefit from the family allowances granted to all staff.

Overall remuneration in 2021 paid to the six¹⁵ members of the Executive Board, including the fixed element, the variable element and payment of allowances for representation expenses, amounts to CHF 3,156,050. The highest pay package is worth CHF 708,000.

5.1.3 Board of Directors

Present compensations of the Members of the Board of Directors are established on the basis of a Resolution of the State Council dated 7 December 2016, effective 1 January 2017.

Overall remuneration for 2021 paid to the Board of Directors, including the basic annual allowance, the meeting allowance, reimbursement of expenses and travel costs, amounts to CHF 530,617. The highest pay package is worth CHF 111,491.

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

The members of the Board of Directors and the members of the Executive Board benefit from mortgage loans and other banking services under the same conditions as the Bank staff.

At the end of 2021, loans to Bank governing bodies totalled CHF 17.7 million and amounts due CHF 8.2 million (see also the corresponding table of the Annex to the Financial Statements).

6. SHAREHOLDERS' PARTICIPATION RIGHTS

Relations with owner

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

¹⁴ See Section 5.6.8.2 of the individual financial statements.

¹⁵ This figure also includes the remuneration of Claudio Genasci, who retired at the end of June 2021, and who was replaced by Nicola Guscelli on 1 November 2021 (see section 4.1).

The members of the Board of Directors are appointed by the State Council. As laid down in Art. 33 of the Law on Banca dello Stato del Cantone Ticino, the Grand Council and the State Council ensure that the law is adhered to and that the general policy of the Bank is in line with the objectives laid down in the Law.

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

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

By 30 April, the State Council transmits the documentation to the Grand Council for approval of the annual accounts, the proposed appropriation of available earnings and the discharge of the Bank's governing bodies. In conformity with Art. 34 of the Law on Banca dello Stato del Cantone Ticino, the Grand Council exercises a supervisory duty as regards the fulfilment of the public mandate by way of the Public Mandate Control Commission. This Commission is made up of one member per parliamentary group each of whom is appointed by the Grand Council for a period corresponding to one legislative session. In compliance with the provisions of Art. 35 of the Law on Banca dello Stato del Cantone Ticino, the Public Mandate Control Commission verifies the correct fulfilment of the public mandate and draws up a special report for the attention of the Management and Finance Commission on the achievement of the public mandate.

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

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

As at 31 December 2021 the Commission included: Fabrizio Garbani Nerini (Chairman since May 2021), Omar Balli (Deputy Chairman since May 2021), Samantha Bourgoïn, Tiziano Galeazzi, Giacomo Garzoli and Marco Passalia.

7. CONTROL AND DEFENCE MEASURES

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

8. AUDITORS

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

The appointment of the Auditors falls under the authority of the Board of Directors (Art. 37 of the Law on Banca dello Stato del Cantone Ticino). In 2005, the Board of Directors entrusted the External Auditor mandate to PricewaterhouseCoopers SA in accordance with the Banking Law. For the 2021 financial year, Mr. Beresford Caloia, partner at PricewaterhouseCoopers SA, assumed the function of Lead Auditor for the second time. This mandate is annual.

PricewaterhouseCoopers SA also audits Axion SWISS Bank SA.

8.2 Fees

The fees payable to PricewaterhouseCoopers SA for the ordinary audit amount to CHF 385,054. At consolidated level, the fees amount to CHF 641,840¹⁶.

8.3 Additional fees

During 2021, PricewaterhouseCoopers SA was paid an amount totalling CHF 124,655 for checks carried out in relation to QI and FATCA compliance, the transfer to FINMA supervisory category 3, as well as Equal Salary certification¹⁷ for BancaStato. No supplementary fees were charged to Axion SWISS Bank.

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

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

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

The Board of Directors meets at least once a year with the External Auditors. The full report of the External Auditors (including Group audits) on the financial statements as well as the report on the basic audit are presented by the External

¹⁶ Please refer Table 5.12.26 of the Annex to the Group Financial Statements as well as to Table 5.8.18 of the Annex to the Individual Financial Statements.

¹⁷ See the previous note.

Auditors to the Board of Directors. Representatives of the External Auditors take part in the meetings of the Audit and Risk Committee of the Board of Directors.

9. INFORMATION POLICY

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

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

Financial results are published twice a year and communicated to the Ticinese media (radio, television and newspapers as well as on the internet), to press agencies, as well as to the press offices of all Cantonal Banks and the Association of Swiss Cantonal Banks. The annual financial report is presented during the first quarter at a press conference held at BancaStato's Head Office. The annual report is sent to the FINMA, the State Council, the Grand Council, the Public Mandate Control Commission, the Swiss National Bank, all Cantonal Banks, the Association of Swiss Cantonal Banks, as well as to correspondent banks, and Swiss and foreign clients upon request. Annual reports, in Italian and in English, can be accessed via the BancaStato website at www.bancastato.ch¹⁸ and are available at any BancaStato counter.

For the 2021 financial year, the Bank published once again its Social and Environmental Report¹⁹. BancaStato information can be accessed externally on the website www.bancastato.ch: the website provides easy access for the general public to information concerning the Bank's products, services and communications. The Bank is present in various daily newspapers, broadcasts and publications which deal with financial issues with interviews, presentations and financial articles²⁰. These articles also appear on the website and, whenever possible, on the Bank's other communication channels in order to provide information on the diversified world of the

Bank. BancaStato also posts its news on social media.

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

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

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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Vice-President

Head of Support and Communications

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10. LOCK-UP PERIOD

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

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

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

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

Ticino's Economy in 2021 and Outlook for 2022

Davide Arioldi
Head of the PanelCODE (www.panelcode.ch)
Economic Research Institute, University of Lugano
February 2022

The International Overview

The largest economies in the world recovered strongly during the first quarter of 2021 thanks to progress in vaccination campaigns and the positive impact of the major support packages put in place by the various governments in order to deal with the emergency caused by the Covid-19 pandemic. Economic forecasts were repeatedly revised upwards until the end of the first quarter of 2021 against a backdrop of general optimism over the possibility of containing the pandemic as well as the effects on growth of economic stimulus packages. However, the picture started to feature some increasingly risky aspects during the second quarter.

The emergence of the more contagious Delta variant slowed down the return to normality, exacerbating critical issues already present within global production and supply chains, and further fuelling the already significant inflationary pressure initially caused by steep increases in prices on the energy markets. This changed scenario resulted in a moderate adjustment of growth forecasts for some countries, including in particular emerging and developing economies, due to low vaccine coverage rates and greater uncertainty concerning future trends in the prices of certain commodities. According to current IMF estimates, global growth is forecast at +5.9% in 2021, followed by growth of +4.4% in 2022, which is around -0.5 percentage points lower than previous estimates. The fall in global growth is due to more pessimistic growth forecasts for the two main world economies, the USA and China. The US has slashed its own growth forecast by around -1.2 percent on the back of the strong rise in inflation, and expansive monetary policy is now expected to be ended earlier than previously planned. GDP growth for the USA in 2022 is forecast at +4%, as against +5.6% in 2021. In China on the other hand, projected growth for 2022 has been lowered by -0.8 percent due to the extremely strict approach to the containment of Covid-19 adopted by the Chinese Government, which has been – and still is – causing a significant slowdown in economic activity, and in some cases even an outright shutdown. The Chinese economy is set to grow by +4.8% in 2022, on the back of expected growth of +8.1% in 2021. Against this backdrop, Europe has by contrast been less affected by the downward adjustments of growth figures. However, it also suffered the most negative effects of the pandemic – Eurozone GDP fell by -6.4% in 2020 – and

GDP is only expected to return to pre-Covid levels in 2022. The Eurozone is in fact projected to grow by +5.2% in 2021, and by +4% in 2022. Amongst the major economies, only Japan has performed worse; following a -4.5% fall in GDP in 2020, its economy is expected to grow by around +1.6% in 2021, and by +3.3% in 2022. As regards Switzerland's main trading partners, the United Kingdom is forecast to achieve growth of +7.2% in 2021, with 2022 estimates projecting +4.7% growth. GDP growth forecasts for Germany and Italy in 2021 are +2.7% and +6.2% respectively, followed by +3.8% for both in 2022. The high levels of inflation recorded around the world towards the end of 2021 are expected to persist also into 2022 due to high energy prices and global production and distribution supply chain bottlenecks. This inflationary pressure should fall at the end of the year thanks to increases in production levels and more restrictive monetary policies. Against this backdrop, interest rate rises could cause greater financial instability in particular for emerging and developing economies, as well as exerting pressure on exchange rates and deficit sustainability for the most indebted countries. Finally, the high levels of inflation coupled with strong price volatility on energy markets will increase the likelihood of further downward adjustments of global growth figures for 2022.

The National Overview

Within the European Economic Area, the Swiss economy has recorded the highest growth compared to pre-pandemic levels. According to figures released by the State Secretariat for Economic Affairs (SECO), gross domestic product (not adjusted for the effects of sporting events) rose by +3.5% in 2021, following a fall in GDP by only -2.5% in 2020. Swiss GDP had already returned to pre-pandemic levels during the second quarter of 2021. All of the major components of the national economy contributed to the strong performance in 2021, with practically all exceeding pre-pandemic levels. Only consumer spending has not yet returned to pre-crisis levels, although is following a positive trajectory; following a fall of -3.7% in 2020, it bounced back by +2.6% in 2021. Consumer spending is forecast to rise above the pre-pandemic level during the course of 2022, with projected growth of +3.8%. On the other hand, all of the other major figures have returned to pre-pandemic levels. Spending by governmental and executive bodies rose by

+6.3%, investments in construction by +1.3%, and investments in plant and machinery by +3.7%. The balance of trade made a positive contribution to GDP, with exports of goods increasing by +7.7% and imports of goods by only +4%. Within this context, employment levels have also risen. Full-time equivalent (FTE) positions increased by +0.5%, whereas the unemployment rate calculated by the SECO fell slightly (-0.1%) compared to 2020 to 3%. Moreover, inflation remained extremely contained compared to European and global levels. Consumer prices rose in 2021 by +0.6%, above all due to the increase in the value of the Swiss franc against the euro, which made it possible to keep a lid on imported inflation. Economic growth forecasts are still quite positive for 2022, although must be contextualised against the backdrop of an international scenario featuring increasing risks, above all due to inflationary dynamics and the global production and supply chain bottlenecks described above. However, inflation in Switzerland should remain quite low in 2022, with SECO forecasts indicating an average rate of +1.1%. As such, it is possible that the Swiss franc may gain further in value compared to other currencies. The largest contribution to growth in 2022 is forecast to arrive from consumer spending (+3.2%) as well as investments in plant and machinery (+4%). Spending by governmental and executive bodies is forecast to fall (-1.5%), whilst investments in construction should remain stable (+0%). On the other hand, the balance of trade is set to make a negative contribution to GDP. Exports of goods are expected to increase by +3.8%, as against a rise in imports by +4.3%. As far as employment is concerned, FTE positions are forecast to increase by +1.5%, with the SECO unemployment rate falling to 2.4%.

The Overview for Canton Ticino

According to BakBasel estimates, Ticino was affected by the pandemic slightly more than the country as a whole. At the same time, however, it experienced a stronger recovery. Annual GDP growth for the canton is estimated at +3.7% for 2021 (as against national growth of +3.5%), following a fall of -2.8% in 2020 (with a -2.5% fall nationally). In terms of timescales, an analysis of data provided by Panelcode (IRE) has established that the Ticino economy took a couple of months more than the rest of Switzerland to return to pre-pandemic levels. During the summer, however, the cantonal economy appears to have

grown faster than the national economy. Growth then continued into the fourth quarter of 2021. According to the information provided by the businesses monitored by Panelcode, the sectors that benefited most from the recovery in 2021 were logistics and tourism-hospitality, and within these sectors some businesses even comfortably made up for the fall in 2020. Financial sector performance was also particularly positive, with revenues rising compared to the previous year. The construction sector also posted better results in 2021 than in 2020, albeit with growth rates below the national average. On the other hand, the industrial and manufacturing sector was unable to return to pre-pandemic revenue levels, despite the ground made up in 2021. In terms of business demographics, the net number of businesses operating in Ticino grew consistently throughout 2021. Around 600 more businesses were registered with the Commercial Register of Canton Ticino compared to 2020. During the same period, bankruptcies fell by around -8%. On the labour market, the SECO unemployment rate fell from 3.6% in 2020 to 3.1% in 2021, whilst the number of FTE positions fell by -1.3% (year-on-year) during Q3 of 2021. The downward trajectory of FTE positions has been ongoing without interruption since 2020, and could be a result of demographic declines recorded in recent years. Finally, economic growth forecasts for 2022 are positive, with cantonal GDP set to increase by +2.2%.

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

Banca dello Stato del Cantone Ticino and the Economy in Ticino and Switzerland in 2021

2021 was a year of economic recovery for Switzerland following the significant downturn in 2020 due to the Coronavirus emergency. The significant support packages for the economy implemented in 2020 by the Federal Government, cantons, municipalities and banks made it possible to mitigate as far as possible the adverse economic effects of the pandemic – also thanks to the precious support from businesses themselves; in 2021, the rollout of vaccines coupled with the gradual loosening of health-related restrictions enabled Switzerland to achieve better growth compared to pre-pandemic levels than EU Member States. Also on the inflation front, our country is experiencing lower levels compared to other countries in Europe and around the world.

There were no significant developments in the monetary policy of the Swiss National Bank and the negative headline rate continued to affect the market on which banks are operating. As mentioned last year, banks whose core business is geared towards local markets are continuing to face obvious difficulties in applying negative rates to their clients, and predominantly to small individual accounts.

In Ticino the real estate sector experienced another year in which the number and value of transactions increased significantly. The increase in the rate of unoccupied properties – which is rising, in contrast to falls in the rest of the country – continues to suggest that the market is saturated.

The results achieved by BancaStato in 2021 were excellent and are in keeping with the multi-year growth trend.

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

Once again, BancaStato experienced strong growth in terms of its core business, i.e. the granting of mortgage loans to private individuals and businesses present in the canton. Accordingly, the total volume of mortgage loans reported in the balance sheet grew by more than 8% to just under CHF 11.1 billion. That growth can be attributed in almost equal shares to organic growth as well as the asset deal concluded with EFG. As

interest rates remain at historically very low levels, the loan portfolio continues to be primarily structured along the lines of fixed rate mortgages. In this regard, it must be stated that BancaStato maintains a lending policy that reflects a cautious approach. As a result, the quality of its lending portfolio has steadily improved. An analysis of the stratification of mortgage loans at year-end shows that 94.1% of them are ranked in first position and 72.9% are for housing. Mortgage loans for amounts under CHF 0.5 million are just below 68%, which confirms that the Bank continues to be a valuable resource for those Ticinese people wishing to buy their own home.

Amounts due from customers also rose significantly (CHF +91.1 million, equal to 4.9%), reaching CHF 1.94 billion on 31 December 2021; of this figure, CHF 680.6 million concerned loans to public corporations, which was slightly up on the figure of CHF 671.5 million at the end of 2020.

BancaStato maintains its dominant position in Ticino in this market segment, even though the current market climate with negative interest rates has driven some institutional investors (including first and foremost pension funds) to enter into this market offering extremely competitive terms.

Loans to private individuals and businesses grew from CHF 1.18 billion at the end of 2020 to CHF 1.26 billion on 31 December 2021 (+7.0%). This increase of CHF 82 million offered a tangible sign of BancaStato's contribution to the economic development of the canton in a difficult year still marked by the ongoing pandemic. As regards COVID-19 and COVID-19 Plus loans granted in 2020, initially with an overall limit of CHF 210.4 million, some of these were declined or partially repaid in 2021 resulting in a closing figure on 31 December 2021 of CHF 177.7 million, of which 75% had been drawn down (63% at the end of 2020) thus amounting to CHF 132.6 million (CHF 133.5 million at the end of 2020).

Amounts due in respect of customer deposits rose by 15.3%, or slightly less than CHF 1.5 billion (around CHF 320 million of which as a result of the asset deal concluded in April 2021 with EFG), which took that balance sheet entry from CHF 9.7 billion at the end of 2020 to almost CHF 11.2 billion on 31 December 2021, as confirmation of the solid trust placed

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

by Ticino's residents in their cantonal bank and the "safe haven" role that all clients attribute to BancaStato. Within that entry, the strongest growth (CHF 1.28 billion, equal to 25.7%) was achieved on transaction and investment accounts, which rose to slightly under CHF 6.25 billion 31 December 2021, and also on a slightly more limited scale by savings products, which reached CHF 4.9 billion at the end of 2021, growing by 200 million (+4.2%) compared to the end of 2020.

In order to satisfy its medium to long-term financing needs – and with the aim of soundly managing its exposure to the interest rate risk – as in previous years the Bank turned to issues of the Cantonal Banks' mortgage refinancing institution (rated AAA). This source of refinancing enabled it to attract CHF 346 million in new medium to long-term loans at particularly contained costs, as against the total of CHF 120 million maturing during the year. On the other hand, the Bank did not have recourse to the capital market with any issues of its own in 2021, and the end of the year saw the maturity of the subordinated bond (*Tier 2 old style*) issued around 10 years ago at a rate of 3.75%. The overall amount of funding from the capital market stood just over CHF 3 billion at the end of 2021, a 1.7% rise with respect to the previous year (+ CHF 51 million).

As a result of the above-mentioned figures, the Bank's balance sheet total grew by CHF 1,230 million or 7.8%, from just under CHF 15.83 billion at the end of 2020 to CHF 17.06 billion at 31 December 2021. Over a timeframe of 10 years (2011-2021), the Bank's total balance sheet has almost doubled (+92.3%).

As regards off-balance sheet transactions, contingent liabilities rose by CHF 55.6 million to CHF 212.5 million; within this context it is noted that the total value of guarantees provided by the Bank increased to CHF 144.9 million from CHF 133.9 million in the previous year. In addition, commitments arising from documentary letters of credit partly connected to Commodity & Trade Finance rose significantly, up from CHF 23 million at the end of 2020 to CHF 67.6 million on 31 December 2021. On the other hand, irrevocable commitments fell by CHF 60 million to 341 million, mainly due to the reduction in unused portions of approved credit limits (of which approximately CHF 45 million for COVID-19 and

COVID-19 Plus loans which were, respectively, fully guaranteed and 85% secured by the Swiss Federal Government).

Evolution of Assets under Management

Assets under management at the BancaStato Group exhibited yet another major progression during 2021 (CHF +2.3 billion, equal to 12.4%), up from CHF 18.4 billion at the end of 2020 to CHF 20.7 billion as at 31 December 2021.

The volume of assets under management at BancaStato increased by CHF 1.7 billion (+ 12.9%), levelling off at CHF 15 billion. Net new money of CHF 1.5 billion in 2021 was once again particularly encouraging with around CHF 1 billion attributable to organic growth, and the remaining CHF 0.5 billion coming from inorganic growth (asset deal with EFG), in addition to positive performance of CHF 175 million resulting from changes in the value of assets due to the performance of stock and foreign exchange markets. By the end of 2021, assets under custody totalled CHF 988 million, up CHF 425 million at the end of 2020.

A similar trend was recorded for assets under management by Axion SWISS Bank SA which increased from CHF 5.1 billion at the end of 2020 to just under CHF 5.7 billion at 31 December 2021 (+11.1%). 2021 saw once again a gratifying influx of net new money of CHF 370 million (previous year CHF 341 million), in addition to the positive performance of slightly under CHF 195 million (as a result of financial market effects on client assets), which contributed to an overall increase of assets under management of just over CHF 564 million in 2021.

Comment on the Evolution of the Main Revenue Items

2021 was another year characterised by excellent financial results for BancaStato, thus confirming the positive trend from previous years. The excellent improvement in sources of revenue (CHF +14.8 million, equal to 7.3%) enabled the Board of Directors to allocate CHF 23.1 million to reserves for general banking risks, to make an extraordinary payment into the staff pension fund of CHF 15.9 million in order to offset the

reduction in the conversion rate for pension income and to achieve a net profit of CHF 52.5 million, which was more than CHF 2 million higher than in 2020 (+4.0%). BancaStato was thus able to guarantee a payment to the canton of CHF 43.35 million in 2021, which was CHF 1.68 million higher than in 2020 (+4.0%).

All revenue items increased in 2021 compared to the previous year, some more markedly than others, which resulted in net revenues rising from CHF 201.9 million in 2020 to CHF 216.7 million in 2021 (CHF +14.8 million or +7.3%).

The net result from interest activities - traditionally the principal revenue item for BancaStato - resumed its significant upward trend (CHF +5.7 million or 3.9%) and stood at CHF 154.0 million in 2021. This was supported on the one hand by an increase in balance sheet mortgage volumes in recent years as well as related commercial margins and, on the other, by opportunities being offered in the current market environment for lower-cost financing. However, ongoing negative market rates have reduced margins on client deposits to a minimum. Despite the ongoing pandemic-related crisis, additional requirements net of value adjustments for default risk on loans during 2021 remained contained at CHF 1.4 million (down from CHF 3 million in 2020). In this context, BancaStato nonetheless achieved gratifying results by maintaining its cautious policy in managing its balance sheet structure as well as interest rate and liquidity risks, as well as by turning to issues of the Cantonal Banks' mortgage refinancing institution in order to ensure appropriate financing with good value for money for its existing outstanding loans.

The result from commission business and services rose significantly in 2021 (CHF +6.9 million, equal to 21.9%) from CHF 31.4 million in 2020 to CHF 38.3 million in 2021. This encouraging result was due above all to the strategic action taken by the Bank since 2020, which led to an increase in assets under management, the value of the group's investment funds as well as the amount of client assets invested in securities, which guarantee a steady basis for commission income (CHF +4.2 million, equal to 26.9%). The strong performance of the financial markets throughout most of 2021 also enabled an increase in revenues relating to the execution of stock exchange transactions for clients (CHF +0.3 million, equal to 4.7%). Finally, the positive trend apparent in previous years was also confirmed within lending business, with growth of CHF 1.1 million in commission income from the issue of guarantees and documentary letters of credit (+28.0%). On the other hand, commissions on other services offered to clients registered varying performance, in part also due to changes

in client behaviour during the pandemic. The position is also similar for commissions paid by the Bank to third parties for the provision of services (commission expenses), which increased overall by CHF 0.4 million (+5.7%).

The result from trading activities and the fair value option grew extremely satisfactorily in 2021, returning to levels higher than those prevailing before the start of the pandemic. The result achieved in 2021 of CHF 15.3 million was CHF 2.2 million higher (+16.4%) than the 2020 result, which had initially suffered from the effects of the first wave of the pandemic on the financial markets, and consequently on the securities held in the trading portfolio. The result for 2021 was achieved mainly from trading activities in foreign exchange and precious metals, both for clients (CHF 11.3 million) and in the Bank's own right (CHF 4 million).

The other results from ordinary activities from 2021 are largely in line with the previous year (+0.1% to CHF 9.1 million), although the various elements comprising this profit item performed differently. Whereas a capital gain was earned on the sale of securities held by the Bank within its own investment portfolio (CHF 2.6 million in 2021), which marked a net improvement compared to 2020 (with the figure almost tripling compared to the 2020 result), there was a fall in the dividends distributed by the companies in which the Bank holds stock (CHF 3.4 million or CHF 1 million less compared to 2020), primarily attributable to the affiliate Axion SWISS Bank SA. The other sub-items of other results from ordinary activities, such as the management of real estate not for bank use, the charging of expenses to clients for the postal costs, etc. were subject to minor changes.

Following the low point reached in 2019 of CHF 105.6 million and the increase to CHF 107.1 million in 2020, operating expenses increased by more than CHF 21.7 million in 2021 (+20.3%) to CHF 128.8 million. This increase was largely due to the one-off extraordinary payment of CHF 15.9 million into the staff pension fund, which the Board of Directors decided to make in order to modernise the BancaStato staff pension fund and to offset the effects of the reduction in the rate for converting accumulated pension assets into annuities. Without that extraordinary item, operating expenses in 2021 would have amounted to CHF 112.9 million, up by CHF 5.8 million (+5.4%) compared to 2020.

As far as personnel expenses are concerned, after accounting for the extraordinary item mentioned above, these grew by CHF 1.8 million (+2.6% compared to 2020) as a result of the increase in 2021 in the number of staff on the Bank's payroll by around twenty full-time equivalent positions.

Other operating expenses – which rose by CHF 4.0 million to CHF 41.6 million – featured significant changes in spending on information and communications technology (CHF +2.2 million), advertising and communication expenses (CHF +1.0 million, of which CHF 0.7 million for the second “Vivi il tuo Ticino” (“Experience your Ticino”) campaign promoted on the initiative of the Department for Finance and the Economy (DFE) in conjunction with Agenzia Turistica Ticinese), and expenses for financial and other information (CHF +0.5 million), which were however offset by a fall in office space expenses (CHF -0.5 million).

Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets changed from CHF 8.5 million in 2020 to CHF 12.0 million in 2021, with an increase by 41.3% of amortisation charges (CHF 3.5 million) primarily as a result of the goodwill associated with the asset deal concluded with EFG and the costs of adapting IT systems in order to give effect to that operation, as well as several computer programs which came on stream in 2021 and will be amortised over a period of two years.

Changes to provisions and other value adjustments, and losses²² fell by a further CHF 0.2 million (-65.3%) compared to the previous year, and now total CHF 0.1 million.

The operating result for 2021, equal to CHF 75.7 million, fell by CHF 10.3 million from the excellent figure reported in 2020 (CHF 86 million). If the extraordinary expenses for adjusting the staff pension plan are factored out, the operating result would have been higher than CHF 91.6 million (+6.6%), which is by far the best result achieved by the Bank in its more than one hundred years of history.

The items extraordinary income (CHF 0.5 million) and extraordinary expenses (CHF 0.1 million) have returned to pre-pandemic levels, following the financing provided during the acute phase of the pandemic for the project “Vivi il tuo Ticino” (total of CHF 4.1 million) with the aim of supporting the local tourism and hotel sector, which have been amongst the most affected by the economic effects of the pandemic.

With the aim of further boosting the level of equity capital and accordingly the Bank’s solidity, the Board of Directors decided to allocate a sum of CHF 23.1 million to reserves for general banking risks (down from the figure of CHF 31 million in 2020).

This left a net profit of CHF 52.5 million, up 4% on the previous year, which enabled a payment to be made to the Canton of CHF 43.35 million, thus CHF 1.68 million higher than the previous year (+4%).

For the public body, this payment is a valuable source of income which has increased substantially over the past decade (+60.5% compared to the CHF 27 million paid in 2011). In the same ten-year period, BancaStato paid out over CHF 357.8 million to the Canton. Considering that the endowment capital was progressively increased from CHF 300 million at the end of 2017 to CHF 500 million at the end of 2020, it can be said that, over the past decade, the Bank provided a substantial income with respect to the Canton’s initial investment.

Axion SWISS Bank SA²³ reports performance similar to that of BancaStato: the affiliate achieved significant growth in net revenues (+ CHF 2.0 million or +6.1%) from CHF 32.3 million in 2020 to CHF 34.2 million in 2021, in parallel with rising operating expenses (CHF +1.5 million), which totalled CHF 25.9 million in 2021 (+6.3%).

Among the individual revenue items, again in 2021 Axion’s net result from interest operations was affected by the adverse operational environment in which the expansive policies of the SNB and other central banks led to negative interest rates on the Swiss franc and other major currencies, including assets deposited with the same central banks. This market contingency, coupled with substantial amounts deposited, and inflow of new money on current accounts owned by clients on which it is difficult for the Bank to apply negative interest rates, account for a further decline in 2021 results from interest operations (CHF -1.3 million or -24.5%) down from CHF 5.2 million in 2020 to CHF 4 million in 2021.

Results from commission business and services, the principal source of revenue for a private-banking-oriented bank, experienced a more than gratifying evolution growing by 11.2% (CHF +2.5 million) to CHF 24.7 million. In this context, commissions on group investment funds (CHF 3.3 million in 2021, +85.6%) and income from asset management (CHF 10.2 million in 2021, +16.7%) are the major revenue items.

Also the result from trading activities and the fair value option increased markedly from CHF 4.8 million in 2020 to CHF 5.5 million in 2021 (+15.7%), mainly as a result of trading in foreign exchange and precious metals with clients.

As for operating expenses, there were increases both for personnel expenses (CHF +0.5 million, equal to 3.2%) to CHF 17.9 million as well as for other operating expenses by CHF 1 million (+14.2%) to CHF 8 million.

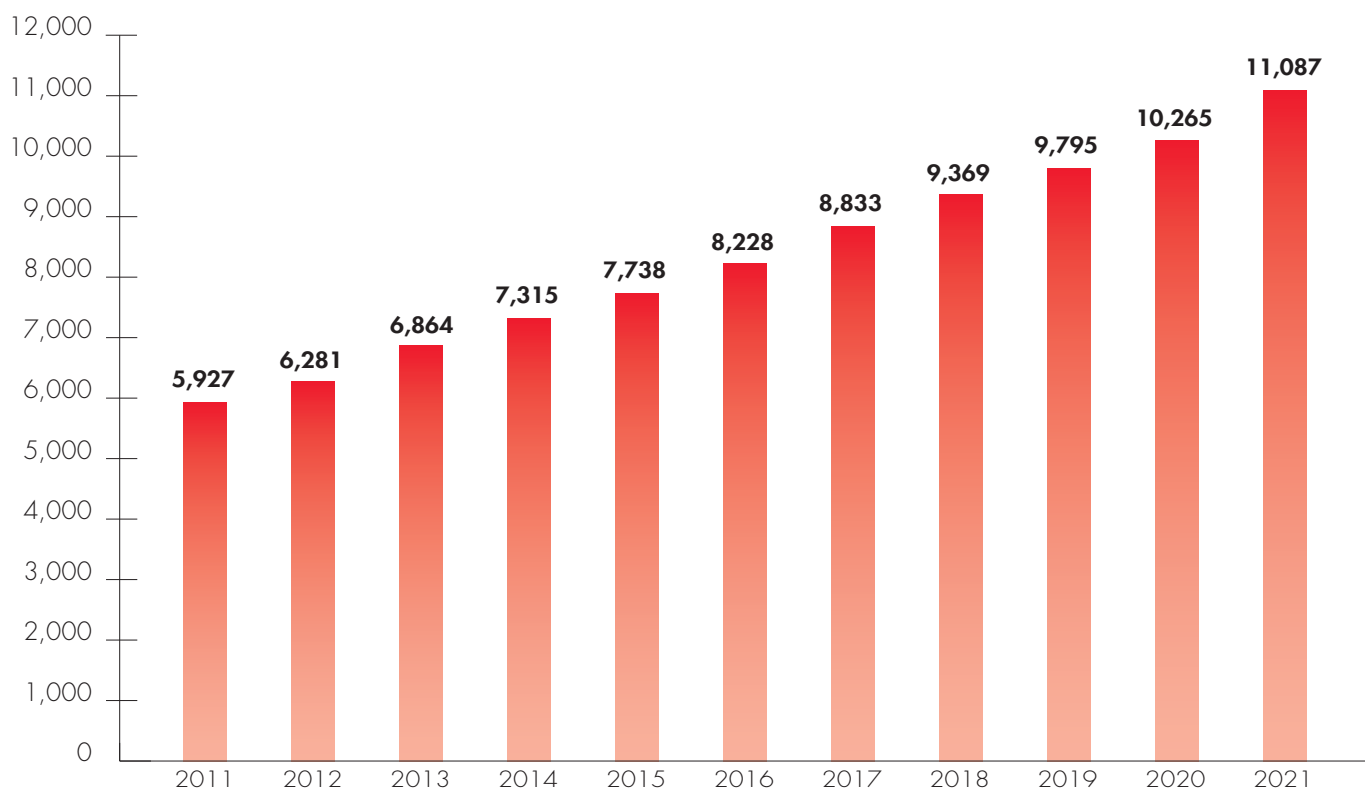
With the completion in March 2021 of the amortisation of goodwill in relation to the acquisition of clients from Société

²² Since 2015, in accordance with FINMA Circular 2015/01 “Banks”, this item shows only operating losses relative to operational events and no longer shows provisions and losses from lending activities.

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

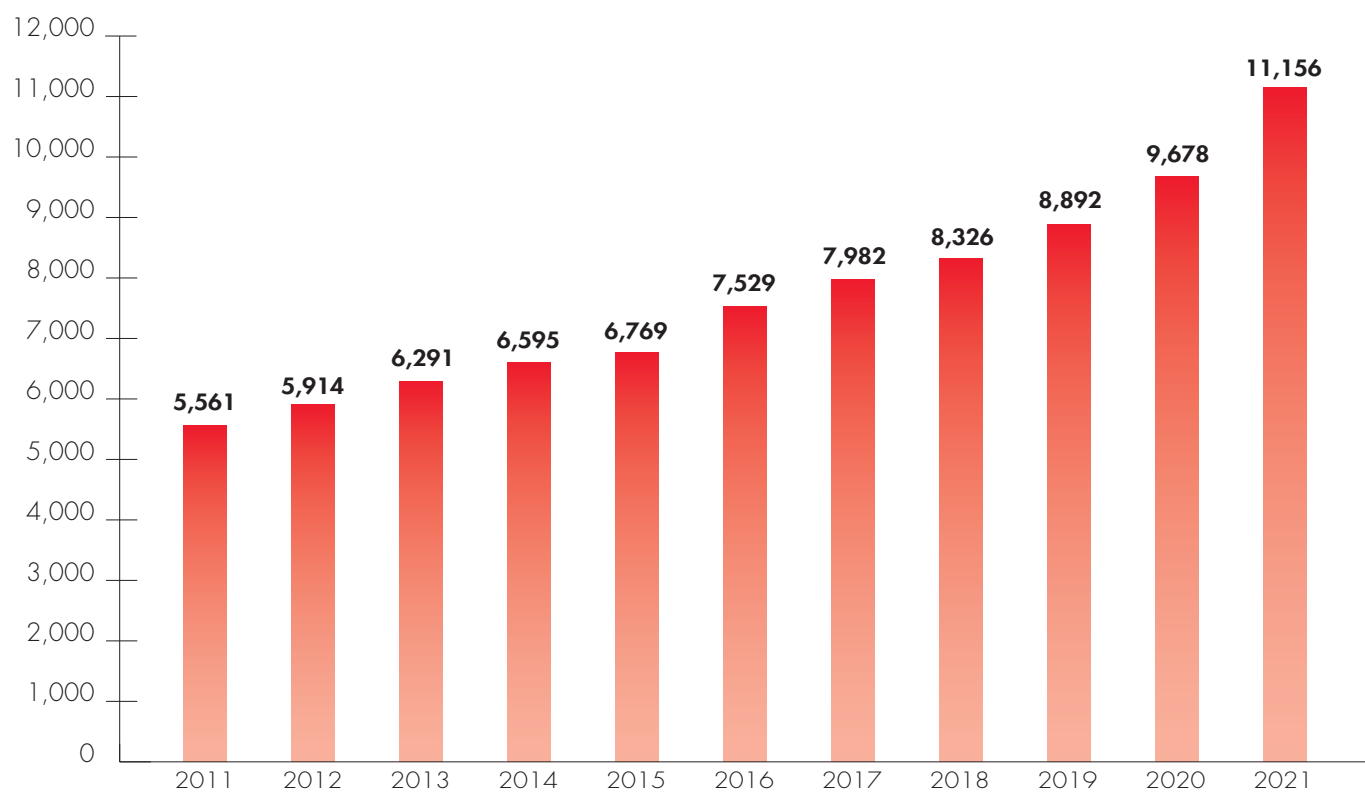
EVOLUTION OF MORTGAGE LENDING

(CHF millions)



EVOLUTION OF TOTAL AMOUNTS DUE TO CUSTOMERS

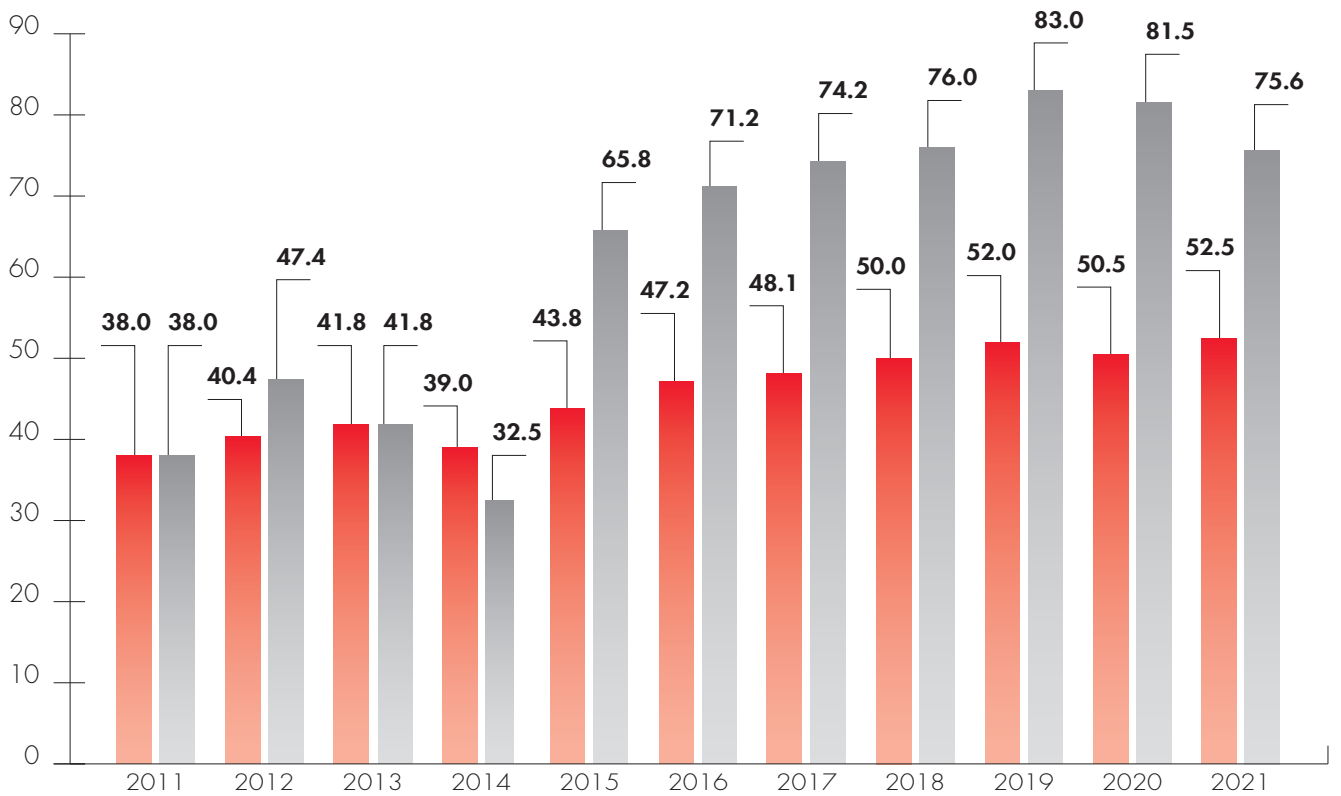
(CHF millions)



EVOLUTION OF NET INCOME

(CHF millions)

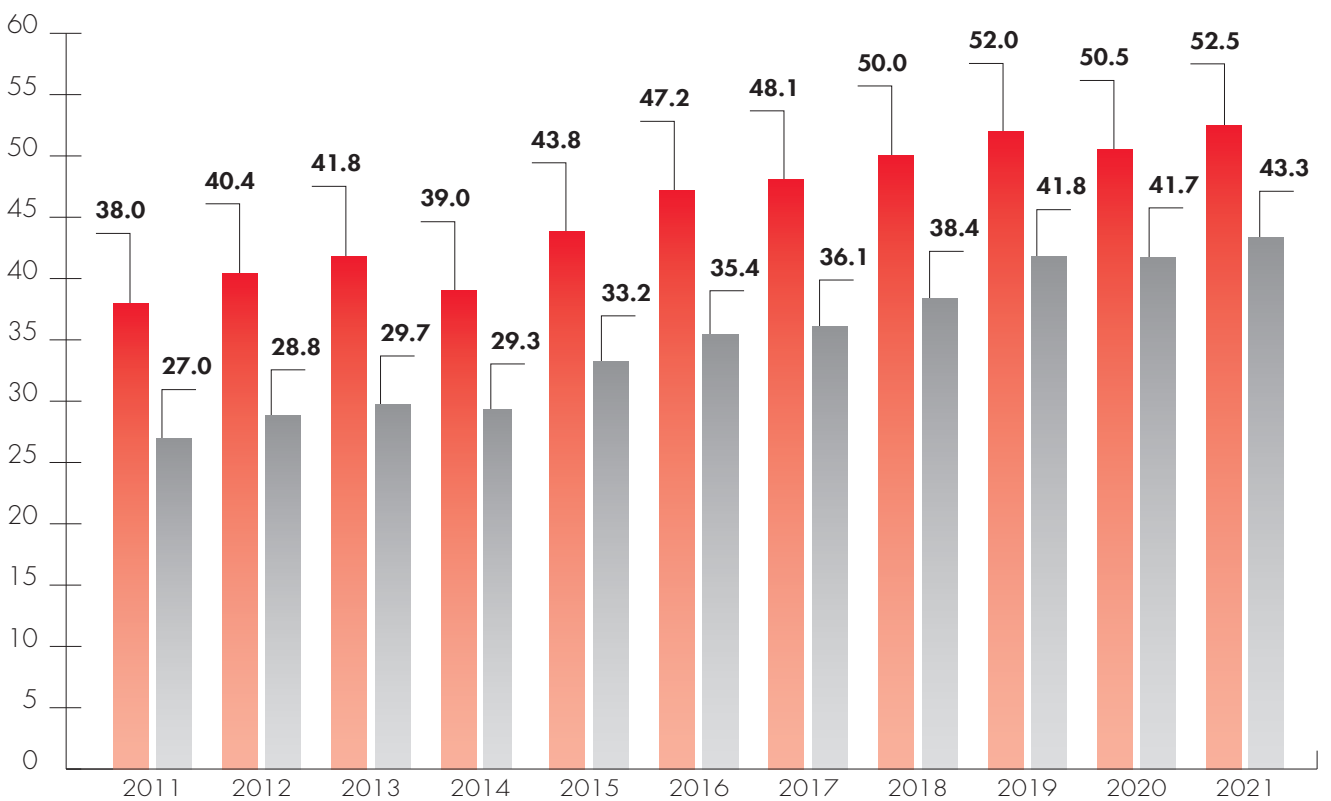
Net income Net income before the allocation to reserves for general banking risks



EVOLUTION OF THE PAYMENT TO THE CANTON

(CHF millions)

Net income Payment to the Canton





Générale Private Banking SA (Lugano) dating back to 2016, the item valuation adjustments on participations and depreciation and amortisation of fixed assets and intangible assets fell significantly from CHF 4 million in 2020 to CHF 1.6 million in 2021 (-60.7%). The item value adjustments, provisions and losses increased by around CHF 0.6 million compared to 2020.

The operating result and the net profit for the period improved respectively by CHF 2.2 million (+54.7%) and CHF 1.9 million (+60.1%) compared to the previous year's result, reaching respectively CHF 6.3 million and CHF 5.1 million, thereby enabling a distribution to the parent company of CHF 4.61 million, which was up by CHF 1.66 million on the distribution made in 2020.

From a consolidated perspective, the Group's profit improved from CHF 50.5 million in 2020 to CHF 55.2 million in 2022, up 9.3%.

Profitability, Efficiency and Financial Strength

The profitability of BancaStato in terms of Return on Equity (ROE)²⁴ fell from 6.5% in 2020 to 5.8% in 2021; if the extraordinary cost of adjusting the staff pension plan are factored out is factored out, this figure would have been as high as 7.3%, which is indicative of strong growth despite the large rise in the Bank's level of capitalisation. In this regard, it should be mentioned that in 2010 this profitability indicator stood at 5.5%, with own equity representing less than half its 2021 amount. The Return on Risk Adjusted Capital (RORAC) also

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

decreased from 13.8% in 2020 to 11.9% in 2021 (whereas has the extraordinary cost been factored out it would by contrast have risen to 15%).

As regards efficiency indicators (Cost / Income I and II), defined as the ratio of operating expenses (respectively excluding and including depreciation and provisions for other operational risks) to net income, the Bank further consolidated the progressive positive trend it has demonstrated since 2010. The Cost / Income I ratio (which does not consider depreciation and provisions for other operational risks during the year) increased from 53% in 2020 to 59.4% in 2021 (as against a figure of 67.3% in 2010); had the extraordinary payment to the pension fund been disregarded, the figure would have been 52.1%. The Cost / Income II ratio (which considers all costs, including depreciation and provisions during the year) increased from 57.4% in 2020 to 65.1% in 2021 (or respectively to 57.7% if the extraordinary payment to the pension fund is disregarded, as against a figure of 76.4% in 2010). The strategic action taken by the Bank over the last ten years has made it possible to increase the Bank's profitability and stabilise it at around twice the level it was 10 years ago (consider that the operating result of CHF 37.2 million in 2011 increased to CHF 86 million in 2020, and would have been as high as CHF 91.6 million without the extraordinary measures to modernise the staff pension fund).

As at 31 December 2021, the Bank had a total of 432 employees on payroll (391.4 FTEs) with apprentices calculated at 50%, compared to 411 staff at the end of 2020 (372.7 FTEs). On that date the Group had 499 employees (457.1 FTEs) as against 477 employees at the end of 2020 (438.2 FTEs).

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

to reserves decided by the Bank in light of the increasingly excellent financial results achieved. From a capital requirement covering ratio of 155.7%, with CHF 365.6 million required capital against CHF 569.3 million eligible capital (12.5% ratio of total regulatory capital) at the end of 2010, BancaStato's present individual capital adequacy is 225.7% with required capital standing at CHF 664.9 million, and available funds at CHF 1,500.5 million (18.1% ratio of total regulatory capital).

We recall that, based on its risk profile and following the significant growth in its business (balance sheet figure in excess of CHF 15 billion, and now also AuM above CHF 20 billion at Group level), BancaStato has been transferred to a higher supervisory category, moving from IV (average-sized banks) to category III (medium-large banks). This change in category is associated with enhanced regulatory requirements in terms of equity capital: a category III bank is required to have an equity capital cover ratio of at least 150% (12% ratio of total regulatory capital, plus the countercyclical buffer), whereas for a category IV bank the requirement was 140% or respectively 11.2%. For the sake of completeness, we also note that in addition to the more stringent equity capital requirements, the change in supervisory category has also entailed closer interaction between the bank and the supervisory authority involving more frequent and detailed reports and discussions.

Since over this timeframe, the banking supervisory authority, FINMA, gradually introduced and raised a number of requirements particularly with regard to the countercyclical buffer (which was introduced by the Federal Council in 2013 as a means of restraining an overheated real estate market), although has since dispensed with its application since the end of March 2020 within the context of the support packages adopted following the Coronavirus crisis, the following table reports (on both individual and consolidated basis) changes in adequacy indicators at the end of 2021 compared to the previous year, without taking into account the need for that buffer (which is not currently required):

BIS adequacy indicators	Prerequisite FINMA minimum	Individual Basis		Group Basis	
		31.12.2021	31.12.2020	31.12.2021	31.12.2020
Core Tier 1 (CET1) ²⁶	7.8%	14.5%	16.0%	15.2%	16.7%
Tier 1 (T1) ²⁷	9.6%	15.1%	16.0%	15.8%	16.7%
Total regulatory capital ²⁸	12.0%	18.1%	16.0%	18.7%	16.7%

²⁵ Calculated on the basis of Basel III rules set by the Bank for International Settlements.

²⁶ Common Equity Core Tier 1 – CET1.

²⁷ Additional Tier 1 – T1.

²⁸ Capital adequacy indicators.



Outlook for 2022

The global economy has recovered surprisingly quickly from the COVID-19 crisis, so much so that share prices on the financial markets had returned to, and even exceeded, pre-pandemic levels at the end of 2021. The Swiss economy has benefited from the action taken by the Federal Government and the cantons in order to mitigate the effects of the pandemic, which has enabled it to maintain its solidity and to return to growth once again.

BancaStato has so far been saved from the potentially negative consequences of the pandemic, which has been ongoing for two years now, and the quality of its loan portfolio is still high.

Concerns remain for 2022 in relation to the prices of commodities, which have been driven up even further by the consequences of the conflict in Ukraine, manifesting itself through a clear uptick in inflation in the United States and the Eurozone. Switzerland is also experiencing the same trends, albeit to a less marked extent. It is thus expected that the main central banks will start to pursue less expansive policies by gradually raising interest rates, initially in the USA and later also in Europe and Switzerland. Whilst this dynamic is already

in underway in the USA, no interest rate rises are expected by central banks in Europe and above all in Switzerland until the last quarter of 2022.

On the basis of these scenarios, we consider that persisting negative rates on the market will continue to affect margins on client deposits and, as a consequence, the result from interest operations. We have not identified any new negative signs on the real estate market in Ticino and Switzerland in general that could have a significant negative impact on the Bank's mortgage portfolio. As far as lending to businesses is concerned, much will depend on how they react to the winding down of Federal Government and cantonal support packages (we note for instance that COVID-19 loans will have to start being repaid from the end of March 2022) as well as the evolution of the Ukraine crisis and its effects on the economy.

Overall – assuming there is no return to the acute phase of the pandemic and/or that the Ukraine conflict does not have any major negative impacts – the Board of Directors still considers that it will be possible to achieve the targets set for 2022.

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1. Consolidated Balance Sheet

(in CHF thousands)	Annex	31.12.2021	31.12.2020	Change
Assets				
Liquid assets		3,434,270	3,054,436	379,834
Due from banks		349,440	354,439	-4,999
Due from clients	5.10.2	2,329,499	2,170,596	158,903
Mortgage loans	5.10.2	11,087,141	10,264,672	822,469
Trading activities	5.10.3	32,557	22,080	10,477
Positive replacement values of derivative financial instruments	5.10.4	10,303	19,174	-8,871
Financial investments	5.10.5	405,506	386,351	19,155
Prepaid expenses and deferred income		14,084	11,511	2,573
Non-consolidated participations	5.10.6 and 5.10.7	8,099	6,546	1,553
Tangible fixed assets	5.10.8	80,994	78,502	2,492
Intangible assets	5.10.9	6,694	455	6,239
Other assets	5.10.10	187,318	117,171	70,147
Total assets		17,945,905	16,485,933	1,459,972
Total subordinated loans		8,613	9,161	-548
<i>of which subject to mandatory conversion and/or debt waiver</i>		8,613	8,652	-39
Liabilities				
Due to banks		617,652	813,117	-195,465
Liabilities from securities financing transactions	5.10.1	270,000	250,000	20,000
Amounts due in respect of customer deposits		12,544,245	11,028,957	1,515,288
Negative replacement values of derivative financial instruments	5.10.4	88,627	29,861	58,766
Bond issues and central mortgage institution loans	5.10.11 and 5.10.13	3,014,000	2,963,000	51,000
Prepaid expenses and deferred income		43,991	41,570	2,421
Other liabilities	5.10.10	11,690	8,859	2,831
Provisions	5.10.14	19,741	8,603	11,138
Reserves for general banking risks	4 and 5.10.14	506,500	526,000	-19,500
Endowment capital	4	500,000	500,000	-
Retained earnings reserves	4	274,297	265,512	8,785
Group's profit	4	55,162	50,454	4,708
Total liabilities		17,945,905	16,485,933	1,459,972
Total subordinated liabilities		250,654	175,273	75,381
<i>of which subject to mandatory conversion and/or debt waiver</i>		250,654	-	250,654
Off-balance sheet transactions				
Contingent liabilities	5.10.2 and 5.11.21	218,942	165,309	53,633
Irrevocable commitments	5.10.2	375,481	422,234	-46,753
Commitments for calls on shares and other equities	5.10.2	19,416	14,180	5,236

2. Consolidated Income Statement

(in CHF thousands)				
	Annex	2021	2020	Change
Income and expenses from ordinary banking operations				
Result from interest operations				
Interest and discount income		180,808	181,799	-991
Interest and dividend income from financial investments		1,667	2,638	-971
Interest expense		-23,148	-27,917	4,769
Gross result from interest operations		159,327	156,520	2,807
Changes in value adjustments for default risks and losses from interest operations		-1,371	-3,007	1,636
Net result from interest operations		157,956	153,513	4,443
Result from commission business and services				
Commission income from securities trading and investment activities		59,353	51,919	7,434
Commission income from lending activities		5,335	4,172	1,163
Commission income from other services		11,678	10,738	940
Commission expense		-12,603	-12,425	-178
Result from trading activities and fair value option	5.12.23	20,810	17,910	2,900
Other results from ordinary activities				
Result from the disposal of financial investments		2,624	891	1,733
Participation income		407	508	-101
<i>of which from participations valued using the equity method</i>		-	-	-
<i>of which non-consolidated participations</i>		407	508	-101
Real estate income		-86	-167	81
Other ordinary income		1,880	1,657	223
Other ordinary expenses		-1,133	-76	-1,057
Net revenues		246,221	228,640	17,581
Operating expenses				
Personnel expenses ¹	5.12.25	-105,010	-86,719	-18,291
Other operating expenses	5.12.26	-47,929	-42,972	-4,957
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	5.10.6, 5.10.8 and 5.10.9	-13,144	-11,923	-1,221
Changes to provisions and other value adjustments, and losses		-640	-248	-392
Operating result		79,498	86,778	-7,280
Extraordinary income	5.12.27.02	537	2,211	-1,674
Extraordinary expenses	5.12.27.02	-81	-6,200	6,119
Changes in reserves for general banking risks	5.12.27.04	-23,116	-31,000	7,884
Taxes	5.12.28	-1,676	-1,335	-341
Group's profit		55,162	50,454	4,708

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

3. Cash Flow Statement

(in CHF thousands)	2021		2020	
	Source	Application	Source	Application
Cash flow from operating activities (internal financing)	28,968	-	16,012	-
Group's profit	55,162	-	50,454	-
Change in reserves for general banking risks	-	19,500	31,000	-
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	13,144	-	11,923	-
Provisions	11,138	-	-	3,187
Prepaid expenses and deferred income	-	2,573	-	781
Deferred expenses and prepaid income	2,421	-	-	1,790
Other assets and liabilities	10,846	-	-	29,758
Interest on endowment capital from the previous year	-	24,000	-	21,500
Additional payment to the Canton for the previous year	-	17,670	-	20,349
Cash flow from endowment capital transactions	-	-	20,000	-
Endowment capital	-	-	20,000	-
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets	-	23,428	-	10,394
Non-consolidated participations	-	1,558	-	250
Real estate	54	3,154	-	1,744
Other tangible fixed assets	-	10,640	55	8,455
Intangible assets	-	8,130	-	-
Cash flow from banking activities	374,294	-	722,262	-
Medium and long-term transactions (> 1 year)	-	614,250	-	552,238
Due to banks	-	416	-	29,641
Amounts due in respect of customer deposits	247,921	-	-	34,869
Cash bonds	-	-	-	450
Bond issues and central mortgage institution loans	346,000	120,000	61,000	183,000
Bonds	-	175,000	50,000	-
Due from banks	-	-	969	-
Due from clients	-	71,131	49,756	-
Mortgage loans	-	822,469	-	469,598
Financial investments	-	19,155	3,595	-
Current assets	988,544	-	1,274,500	-
Due to banks	-	195,048	556,151	-
Liabilities from securities financing transactions	20,000	-	20,000	-
Negative replacement values of derivative financial instruments	58,766	-	-	12,126
Amounts due in respect of customer deposits	1,267,367	-	1,171,582	-
Trading activities	-	10,477	2,015	-
Positive replacement values of derivative financial instruments	8,871	-	-	10,606
Due from banks	4,999	-	-	139,418
Due from clients	-	87,772	-	236,476
Other assets and liabilities	-	78,162	-	76,622
Liquid assets	-	379,834	-	747,880
Change in liquid assets	-	379,834	-	747,880
Total	403,262	403,262	758,274	758,274

4. Statement of Changes in Equity

(in CHF thousands)	Endowment capital paid up	Retained earnings reserves	Reserves for general banking risks	Result of the period	Total
Equity at 1.1.2021	500,000	265,512	526,000	50,454	1,341,966
Appropriation of retained earnings 2020					
<i>Assignment to statutory retained earnings reserve</i>	-	+8,785	-	-8,785	-
<i>5% interest on endowment capital</i>	-	-	-	-24,000	-24,000
<i>Additional payment to the Canton</i>	-	-	-	-17,670	-17,670
Increase in endowment capital	-	-	-	-	-
Changes in the reserves for general banking risks	-	-	-19,500	-	-19,500
Alignment	-	-	-	+1	1
Group's profit	-	-	-	+55,162	55,162
Total equity at 31.12.2021	500,000	274,297	506,500	55,162	1,335,959

5. Annex

5.1 GROUP - ACTIVITIES AND PERSONNEL

5.1.1 Group activities

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

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

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

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

5.1.1.1 Balance sheet transactions

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

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

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

5.1.1.2 Trading activities

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

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

5.1.1.3 Commission business and services

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

5.1.2 Group personnel

As at 31 December 2021, the Group had a total of 499 employees on payroll, i.e. 457.10 full-time equivalents (FTEs) with apprentices calculated at 50%, compared to 477 employees at the end of 2020 (438.2 FTEs).

5.1.3 Outsourcing

The Group outsources a number of its business services as defined by the FINMA Circular 2018/3 "Outsourcing". This includes payment transaction services, securities administration, the printing and sending out of banking documents and the management of IT systems (central informatics) which are performed by the service provider Avaloq Sourcing (Switzerland & Liechtenstein) SA, Bioggio. In November 2021, Swisscom AG, based in Zurich, took over responsibility for managing all IT hardware (PCs, laptops and printers) from Avaloq Sourcing (Switzerland & Liechtenstein) SA, based in Bioggio.

The expenses related to payment transactions, securities administration and *back office* stock exchange/currency/treasury, are reported under the item "Commission expenses" and amount to CHF 3,666,000 in 2021 (CHF 3,298,000 in 2020). We also note two applications, the management of which has been outsourced (Sherpany and TiHome), which are subject to the criteria set out in the above circular.

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

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

5.2 ACCOUNTING AND VALUATION PRINCIPLES

5.2.1 In general

The accounting principles referred to by the Group and its various entities comply with the provisions of the Swiss Code of Obligations (CO), the Swiss Federal Law on Banks and Savings Banks (Banking Act), the Ordinance on Banks and Savings Banks (Banking Ordinance) and the guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA), in particular the FINMA Accounting Ordinance and the FINMA Circular 2020/1 "Accounting - Banks".

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

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

5.2.2 General valuation principles

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

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

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

Receivables and payables are offset only in the following cases:

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

Expenses and revenues are offset only in the following cases:

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

5.2.3 Financial instruments

5.2.3.1 Liquid assets

Liquid assets are recognised at their nominal value.

5.2.3.2 Amounts due to and from securities financing transactions

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

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

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

These are entered at their nominal value.

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

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

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

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

5.2.3.4 Trading activities

Trading activities are securities and precious metals managed actively in order to take advantage of market price fluctuations or held in view of an arbitrage gain. Trading activities are valued and booked in the balance sheet at fair value. Fair value is the price set by an efficient and liquid market, in the

absence of which the price is set at the lower of their cost or market value. Gains and losses, as well as adjustments to the abovementioned rate changes and the revenue from interest and dividends, are booked under "Result from trading activities and fair value option".

5.2.3.5 Positive and negative replacement values of derivative financial instruments

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

Trading activities

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

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

Hedging operations

For the management of its balance sheet, the Group makes use of derivative financial instruments in order to hedge interest rate risk and currency risk. Hedging operations have the same valuation as the hedged operation. The result from hedging transactions is booked under the same item of the income statement as the result from the underlying transaction. To the extent that any value adjustment for the underlying was booked, the result of the valuation of hedging instruments is recognised in the compensation account. The net balance on the compensation account is reported under "Other assets" or respectively "Other liabilities". The Bank documents the hedging operation as well as the goals and strategies of those transactions at the time they are concluded and periodically verifies the efficacy of the hedging arrangement. For aspects relating to hedging operations as well as the goals and strategies of hedging operations, see section 5.7 "Business policy regarding the use of derivative financial instruments and hedge accounting".

Netting

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

Transactions on client account

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

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

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

5.2.3.6 Financial investments

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

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

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

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

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

5.2.3.7 Non-consolidated participations

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

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

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

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

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

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

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

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

5.2.3.9 Loans from central mortgage bond and loan issuing bodies

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

5.2.4 Tangible fixed assets

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

Fixed assets are valued at cost less appropriate depreciation.

Depreciation has been calculated according to the straight line method and reported under "Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets". The depreciation period starts when the items are first utilised. Depreciation rates are calculated over the useful life, estimated on a prudential basis:

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

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

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

5.2.5 Intangible fixed assets

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

The Bank establishes the realisation value for each intangible fixed asset on the balance sheet closing date and examines

whether the value reported needs to be written down. The value of the asset is accordingly reduced if the book value exceeds the realisation value, and a corresponding charge is recognised under "Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets".

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

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

5.2.6 Provisions

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

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

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

5.2.7 Reserves for general banking risks

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

The usage of "Reserves for general banking risks" to make initial value adjustments for default risks on non-impaired loans without any effect on the income statement is described in section 5.3 "Changes in financial statements and presentation of accounts" and in section 5.5 "Methods used for identifying default risks and determining the need for value adjustments".

5.2.8 Off-balance-sheet

Off-balance-sheet operations are reported at their nominal value.

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

5.2.9 Foreign currency translation

The Group accounts are in Swiss francs.

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

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

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

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

EUR/CHF 1.0371 (2020: 1.0821)

USD/CHF 0.9117 (2020: 0.8848)

5.2.10 Interest and discount income

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

5.2.11 Treatment of the refinancing of trading positions

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

5.2.12 Consolidation principles

5.2.12.1 Consolidation perimeter

Banks and 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% of voting rights, the evaluation is based on the equity method.

5.2.12.2 Consolidation method

Capital is consolidated following the purchase method.

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

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

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

5.2.12.3 Consolidation period

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

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

There were no changes in accounting principles in 2021, with the following exception:

The new rules issued by the Swiss Financial Market Supervisory Authority, which came into force on 1 January 2020 (FINMA Ordinance on Accounts, OAPC-FINMA, and the new circular 2020/1 Accounting - Banks), provide that category 3 banks the gross result from interest operations of which accounts for at least one third of net revenues must apply value adjustments for default risk inherent to non-impaired loans by the end of 2021.

The methods for identifying inherent default risk and for quantifying the respective need for value adjustments and provisions are explained in section 5.5 "Methods used for

identifying default risks and determining the need for value adjustments". The need for value adjustments and provisions for default risk inherent to non-impaired loans as at 31.12.2021 has been estimated at CHF 42.616 million. This need, determined on the basis of the criteria set out in section 5.5.2, will be reviewed on a quarterly basis.

The full initial amount of the need for value adjustments and provisions for inherent default risk has been created from the "Reserves for general banking risks" without any impact on the income statement. Value adjustments and provisions for non-impaired loans as at 31 December 2021 are reported under item 5.10.14 "Presentation of value adjustments, provisions and reserves for general banking risks and changes therein during the current year".

5.4 RISK MANAGEMENT

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

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

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

The key elements of risk management are:

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

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

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

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

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

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

In its meeting of 16 April 2021, the Audit and Risk Committee of the Board of Directors of the Parent Bank and, subsequently, the Board of Directors of the Parent Bank in its meeting of 26 April 2021, assessed the Group's risk profile.

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

5.4.1 Credit risks

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

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

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

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

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

The Board of Directors is responsible for approving large credit exposures as well as loans to members of the Executive Board and to the Chief Internal Auditor. At BancaStato, other loan granting competencies are entrusted to the Credit Risk Committee, and at Axion to the Executive Board who may delegate a limited part ad personam. The Credit Risk Committee is composed of three members of the Executive Board, the Head of Credit Management and Analysis Department or a Credit Officer. This Committee deals with all credit matters delegated to it and draws up notices to the Board of Director for decisions falling within the Board's competence. In addition, at BancaStato, competencies are delegated to the Head of the Credit Management and Analysis Department and to the staff of the Credit Office which is independent of client advisory units. Still at BancaStato, the specific authority to grant loans involving low risk profiles is delegated ad personam to client advisers. However, such loans may be granted only within the limits of the predefined parameters. An internal control system ensures loan granting processes and competency delegation rules are complied with. Loans reviewed and approved by the competent authorities are managed by the Credit Administration unit which is independent of client advisors and credit officers.

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

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

Credit exposure to counterparties are restricted by credit limits. Sustainability calculation procedures are regulated by internal rules and regulations. The maximum loan amount granted to businesses is determined on the basis of a calculation of

their financing potential which, in turn, is closely linked to the durable income (cash flow) that the business is able to generate to remunerate debt capital. This same sustainability principle is applied to calculate loans to private clients. In particular, sustainability calculations for mortgage loans are performed by comparing available income over the long term with expenses associated with the property (i.e. interests, loan amortisation and ancillary expenses relating to the building).

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

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

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

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

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

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

5.4.2 Market risks

5.4.2.1 Interest rate risk

As the Group is heavily involved in balance sheet transactions, interest rate risk may have a significant impact on the principal sources of income, and therefore on the interest margin. The Group's exposure to rate risk is primarily caused by the time lapse between fundraising and application. The measurement and control of risk resulting from this imbalance are of primary importance to any bank, and form part of the assets & liabilities

management (ALM) function which lies within the competence of BancaStato's ALCO, comprised (with voting rights) of the members of the Executive Board, the Head of the Financial Markets Department and the Head of the Risk Management Department. At Axion this function is the responsibility of the Risk Committee.

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

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

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

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

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

5.4.2.2 Currency risk

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

5.4.2.3 Trading activities

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

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

5.4.3 Liquidity risk

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

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

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

5.4.4 Operational risks

Risks directly related to banking operations include the possibility of direct or indirect losses resulting from inadequate or incorrect internal processes, inappropriate business conduct

on the part of individuals, system malfunctions or external events. Operational risks include legal and compliance risks.

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

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

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

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

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

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

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

5.4.5 Required capital and other risk indicators

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

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

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

5.5.1 Impaired loans

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

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

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

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

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

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

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

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

5.5.2 Non-impaired loans

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

Significant credit exposure

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

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

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

- Contingent liabilities;
- Irrevocable commitments.

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

General valuation principles

Value adjustments and provisions for inherent default risk are established or released according to a calculation model based on the anticipated loss. The anticipated loss on individual credit exposure items or on off-balance sheet transactions is determined with reference to the probability of default for different categories of rating, multiplied by a default rate (loss given default), calculated with reference to available collateral.

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

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

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

where considered necessary – are themselves updated.

Reporting method

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

Initial entries

The reporting of the initial amount determined at the time value adjustments were introduced and the provisions for default risk inherent to non-impaired loans is described in section 5.3 “Changes in financial statements and presentation of accounts”.

Constitution and release

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

Usage

Where there is any need to make significant individual value adjustments (for balance sheet items) or respectively provisions (for off-balance-sheet items) for insolvency risks on impaired loans, the Group assesses whether to use value adjustments or provisions for default risk inherent to non-impaired items in full or in part, and if so documents such usage.

Reconstitution

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

Insufficient cover

As at 31 December 2021, the need for value adjustments and provisions for default risk inherent to non-impaired loans is covered in full by the amounts reported in the accounts.

5.6 VALUATION OF COLLATERAL

5.6.1 Mortgage-based loans

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

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

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

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

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

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

5.6.2 Securities-based loans

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

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

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

Derivative financial instruments are used for trading and hedging purposes.

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

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

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

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

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

Treasury swaps are used within the framework of the structural management of the balance sheet in order to manage currency risk resulting from the conversion of the available liquidity in foreign currency into Swiss francs or from the need to refinance loans in foreign currency. These instruments are used as an alternative to either an interbank investment in foreign currency

of excess liquidity, particularly in the case of uncertainty with regard to the quality of foreign counterparts, or interbank refinancing in foreign currency. With treasury swaps, the Bank can transform excess liquidity in foreign currency into Swiss francs, for a fixed period, thus enabling its placement in domestic currency without incurring an exchange rate risk, or convert excess liquidity in domestic currency into foreign currency in order to finance loans in foreign currency. The result from swap operations is booked in the income statement under "Interest and discount income". An independent risk-management unit supervises the correct utilisation of treasury swaps.

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

5.8 EXPLANATIONS OF SIGNIFICANT EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No significant event occurred after the closing of the balance sheet date that could have led to changes in the balance sheet or the income statement at 31 December 2021.

5.9 REASONS WHICH LED TO EARLY RESIGNATION OF THE EXTERNAL AUDITOR

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



5.10 INFORMATION ON THE BALANCE SHEET

5.10.1 Breakdown of securities financing transactions (assets and liabilities)

(in CHF thousands)	31.12.2021	31.12.2020
Securities lending, securities borrowing and repurchase agreements		
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions ¹	-	-
Book value of obligations from cash collateral received in connection with securities lending and repurchase agreements ¹	270,000	250,000
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements.	267,703	243,431
<i>of which with unrestricted right to resell or repledge</i>	267,703	243,431
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	-	-
<i>of which repledged securities</i>	-	-
<i>of which resold securities</i>	-	-

¹ Before any netting agreement.

5.10.2 Presentation of collateral for loans / receivables and off-balance sheet transactions, as well as impaired loans/receivables at 31.12.2021

(in CHF thousands)	Type of collateral			
	Collateral mortgage	Other collateral	Without collateral	Total
Loans (before netting with value adjustments)				
Due from clients	156,776	752,189	777,411	1,686,376 ¹
Due from public corporations	2,122	2,013	676,476 ²	680,611
Mortgage loans	11,123,967 ¹	-	3,135	11,127,102
<i>Residential premises</i>	8,133,580	-	532	8,134,112
<i>Office and business premises</i>	1,708,931	-	1,809	1,710,740
<i>Crafts and industrial premises</i>	611,737	-	794	612,531
<i>Other</i>	669,719	-	-	669,719
Total loans (before netting with value adjustments)	11,282,865	754,202	1,457,022	13,494,089
Previous year	10,428,466	702,281	1,346,888	12,477,635
Total loans (after netting with value adjustments)	11,242,904	737,679	1,436,057	13,416,640
Previous year	10,417,856	693,856	1,323,556	12,435,268
Off-balance sheet transactions				
Contingent liabilities	8,232	87,093	123,617	218,942
Irrevocable commitments	11,184	78,874	285,423 ³	375,481
Commitments for calls on shares and other equities	-	-	19,416	19,416
Total off-balance sheet transactions	19,416	165,967	428,456	613,839
Previous year	20,997	149,745	430,981	601,723

(in CHF thousands)	Gross debt amount	Estimated liquidation value	Net debt amount	Individual value adjustments
Impaired loans				
Year under review	108,241	70,685	37,556	37,556
Previous year	139,280	96,913	42,367	42,367

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

(in CHF thousands)	31.12.2021	31.12.2020
Trading portfolio (assets)		
Debt securities, money market securities	2,144	3,113
<i>of which listed</i>	2,144	3,113
Equity securities	526	146
Shares in investment funds	3,672	3,400
Precious metals and commodities	23,386	13,072
Structured products	2,829	2,349
Total trading portfolio assets	32,557	22,080
<i>of which determined using a valuation model</i>	-	-
<i>of which securities eligible for repurchase agreements, in accordance with liquidity requirements</i>	-	-

¹ Including CHF 132.6 million in COVID-19 and COVID-19 Plus loans (2020: 133.5 million), secured almost entirely by a guarantee provided by the federal government.

² Including loans to entities related to public institutions for CHF 95.4 million (2020: 104.2 million).

³ Including CHF 40.6 million (2020: CHF 40 million) as a required share for deposit guarantee purposes.

5.10.4 Presentation of derivative financial instruments (assets and liabilities)

(in CHF thousands)	Trading instruments			Hedging instruments		
	Replacement values		Volume of contracts	Replacement values		Volume of contracts
	positive	negative		positive	negative	
Interest rate instruments						
Swaps	-	-	-	-	7,810	400,000
OTC Options	-	-	-	-	-	-
Total interest rate instruments	-	-	-	-	7,810	400,000
Foreign currencies / precious metals						
Forward contracts	2,155	3,659	365,499	-	-	-
Swaps (interest rate/currency)	6,550	4,785	916,512	1,191	71,984	3,230,199
OTC Options	407	389	112,080	-	-	-
Total foreign currencies / precious metals	9,112	8,833	1,394,091	1,191	71,984	3,230,199
Total derivative financial instruments	9,112	8,833	1,394,091	1,191	79,794	3,630,199
<i>of which determined using a valuation model</i>	<i>9,112</i>	<i>8,833</i>	<i>-</i>	<i>1,191</i>	<i>79,794</i>	<i>-</i>
Total previous year	5,596	5,379	879,811	13,578	24,482	3,355,148
<i>of which determined using a valuation model</i>	<i>5,596</i>	<i>5,379</i>	<i>-</i>	<i>13,578</i>	<i>24,482</i>	<i>-</i>

Recapitalisation

(in CHF thousands)	Positive replacement values (cumulated)	Negative replacement values (cumulated)	Contract volume
Trading instruments	9,112	8,833	1,394,091
Hedging instruments	1,191	79,794	3,630,199
Total before netting agreements	10,303	88,627	5,024,290
Total previous year	19,174	29,861	4,234,959
Total after netting agreements	10,303	88,627	5,024,290
Total previous year	19,174	29,861	4,234,959

Breakdown by counterparty

(in CHF thousands)	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	-	7,105	3,198

5.10.5 Breakdown of financial investments

(in CHF thousands)	Book value		Fair value	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Debt securities	338,937	339,072	341,748	349,215
<i>of which intended to be held to maturity</i>	327,060	334,862	329,791	344,912
<i>of which not intended to be held to maturity (available for sale)</i>	11,877	4,210	11,957	4,303
Shares in investment funds	35,221	27,492	29,765	28,902
Equity securities	17,560	10,634	25,272	11,919
<i>of which qualified participations (at least 10% capital stake or voting rights)</i>	-	-	-	-
Structured products	100	-	102	-
Precious metals	101	94	101	94
Real estate	13,587	9,059	13,587	9,059
Total financial investments	405,506	386,351	410,575	399,189
<i>of which securities eligible for repurchase agreements in accordance with liquidity requirements</i>	295,854	284,169	298,330	293,622

Breakdown of counterparties by rating

(in CHF thousands)	AAA or higher AA- or lower	A+ or higher A- or lower	BBB+ or higher BBB- or lower	BB+ or higher B- or lower	Below B-	Unrated
Book value of debt securities	306,476	21,512	8,350	1,362	-	1,237

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

5.10.6 Presentation of non-consolidated participations

(in CHF thousands)	Value of acquisition	Corrections of value and/or adjustments of value equity method to date accumulated	Book value 31.12.2020	2021				Book value 31.12.2021	Market value
				Investments	Disposals	Corrections of value	Adjustments of value of the participations valued according to the equity method / appreciation		
Other participations									
listed	-	-	-	-	-	-	-	-	
unlisted	15,236	8,690	6,546	1,558	-	5	8,099	-	
Total non-consolidated participations	15,236	8,690	6,546	1,558	-	5	8,099	-	

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

Companies are recognised on the basis of the full consolidation method

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

Other significant permanent non-consolidated participations

Company name	Head office	Activity	Company capital (CHF thousands)	Share of		Held	
				capital in %	votes in %	direct	indirect
Autosilo Piazza del Sole SA	Bellinzona	Car park	2,000	10.00%	10.00%	10.00%	-
Billte AG	Adliswil	Software development	128	14.19%	14.19%	14.19%	-
Centro Sci Nordico Campra SA	Blenio	Management of Nordic Ski Centre	2,000	5.00%	5.00%	5.00%	-
NNH Holding AG	Zurich	Real estate market promotion	100	5.71%	5.71%	5.71%	-
Teleticino SA	Melide	Radio and television productions	4,950	23.01%	17.24%	17.24%	-

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

5.10.8 Presentation of tangible fixed assets

(in CHF thousands)	Value of acquisition	Depreciation to date accumulated	Book value 31.12.2020	2021					Book value 31.12.2021
				Transfers	Investments	Disposals	Depreciation	/Appreciation	
Bank buildings	183,779	133,423	50,356	-	2,934	54	3,682	-	49,554
Other real estate	26,861	14,979	11,882	-	220	-	517	-	11,585
Acquired software	96,712	90,796	5,916	-	6,315	-	4,913	-	7,318
Other tangible fixed assets	119,844	109,496	10,348	-	4,325	-	2,136	-	12,537
Total tangible fixed assets	427,196	348,694	78,502	-	13,794	54	11,248	-	80,994

Operating lease

(in CHF thousands)	31.12.2021	31.12.2020
Leasing commitments not recognised in the balance sheet		
Expiry within 1 year	123	-
Expiry between 1 and 5 years	369	-
Expiry in more than 5 years	-	-
Total leasing commitments not recognised in the balance sheet	492	-
<i>of which eligible for cancellation within 1 year</i>	-	-

5.10.9 Presentation of intangible assets

(in CHF thousands)	Value of acquisition	Depreciation to date accumulated	Book value 31.12.2020	2021					Book value 31.12.2021
				Transfers	Investments	Disposals	Depreciation	/Appreciation	
Goodwill	18,120	17,665	455	-	8,130 ¹	-	1,891 ²	-	6,694
Total intangible assets	18,120	17,665	455	-	8,130	-	1,891	-	6,694

¹ Goodwill – in relation to the acquisition in March 2021 of a share of the assets of EFG Bank AG, Lugano – is amortised over 5 years according to the straight line method.

² Half-yearly analyses have established the need to apply a supplementary amortisation charge of CHF 0.2 million, as mentioned in the Note in item 5.2.5 "Intangible assets".

5.10.10 Breakdown of other assets and other liabilities

(in CHF thousands)	31.12.2021	31.12.2020
Other assets		
Compensation account	6,248	14,282
Indirect taxes	640	637
Various other assets	180,430 ¹	102,252 ²
Total other assets	187,318	117,171
Other liabilities		
Direct / indirect taxes	3,559	3,314
Matured non-redeemed cash bonds	521	1,031
Memorandum accounts	6,170	625
Various other liabilities	1,440	3,889
Total other liabilities	11,690	8,859

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

² of which a balance of CHF 100.7 million for in-house banking transactions.

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

(in CHF thousands)	31.12.2021		31.12.2020	
	Book value	Effective commitments	Book value	Effective commitments
Pledged / assigned assets (excluding securities financing transactions)				
Book value of mortgages set as collateral for mortgage bonds of the Mortgage Bond Issuing Body of the Swiss Cantonal Banks	2,544,934	2,064,000	2,508,092	1,838,000
Book value of securities delivered as collateral to SIX Group AG	1,012	-	1,413	-
Book value of securities delivered as collateral in connection with Repo Light credit with SNB (unused)	21,801	-	21,527	-
Book value of the Covid-19 loans assigned to the SNB.	118,800	118,800	122,900	122,900
Book value of assets pledged to secure own commitments	91,713	87,915	20,569	16,189
Total pledged / assigned assets	2,778,260	2,270,715	2,674,501	1,977,089
Assets under reservation of ownership Assets under reservation of ownership	-	-	-	-

5.10.12 Disclosure on the economic situation of pension schemes

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

The Group has no own pension scheme.

5.10.12.2 Disclosures on the economic situation of own pension schemes

a) Employer contribution reserves (ECR)

There were no employer contribution reserves as at 31 December 2021.

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

	Over / underfunding at the end of 2021	Economic interest of the bank		Change in economic interest (benefit and/or commitment) versus previous year	Contributions paid for 2021	Pension expenses included within personnel expenses	
		31.12.2021	31.12.2020			31.12.2021	31.12.2020
Group Pension plans unsecured overfunding / underfunding	-	-	-	-	10,048	26,121 ¹	9,748

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

The Group has opted for affiliation to the Group Plan LPP Swiss Life, a legally independent pension fund. The pension plan is a defined-contribution scheme and provides the basic compulsory coverage as stated in the Swiss LPP (Federal Law on Occupational Benefits), as well as complementary coverage. The Group does not report any obligation towards pension foundations at the end of the accounting period. There are no contribution reserves on the part of the employers and the relationships between the Group's banks and their pension funds are based on global affiliation contracts. The pension fund reinsures all pension risks by means of a comprehensive insurance contract. Within the framework of these contracts no possibility of undercoverage exists and, consequently, there are no obligations in this regard on the part of the employers.

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

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

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

(in CHF thousands)				
Interest rate	Type of bond	Issue year	Due date	Net amount
0.500%	Non subordinated loan ¹	2015	24/06/24	150,000
0.000%	Non subordinated loan ¹	2016	04/03/22	50,000
0.300%	Non subordinated loan ¹	2017	15/06/27	200,000
0.375%	Non subordinated loan ¹	2018	08/02/28	250,000
0.450%	Non subordinated loan ¹	2019	26/02/29	150,000
0.050% ²	Non subordinated loan ¹	2019	10/07/29	100,000
0.050%	Non subordinated loan ¹	2020	10/07/29	50,000
Total bond issues				950,000
Bonds and loans from central mortgage institutions ³				2,064,000
Total outstanding bonds and mortgage bonds from central mortgage bond institutions and mandatory convertible bonds				3,014,000

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

(in CHF thousands)							
	Within one year	> 1 - ≤ 2 years	> 2 - ≤ 3 years	> 3 - ≤ 4 years	> 4 - ≤ 5 years	> 5 years	Total
Bonds	50,000	-	150,000	-	-	750,000	950,000
Mortgage bonds from central issuing institutions	121,000	158,000	239,000	59,000	179,000	1,308,000	2,064,000
Total	171,000	158,000	389,000	59,000	179,000	2,058,000	3,014,000

¹ No early repayment.

² The 2020 Annual Report incorrectly indicated a rate of 0.45%.

³ Average interest rate 0.654%

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

(in CHF thousands)	Balance at 31.12.2020	2021					Balance at 31.12.2021
		Commitments consistent with purpose	Currency differences	Reclassification without impact on the income statement ¹	New creations charged to the income statement	Releases credited to the income statement	
Provisions							
Provisions for default risk ²	86	-	-	2,360	300	-	2,746
<i>of which provisions for likely commitments</i>	86	-	-	-	300	-	386
<i>of which provisions for default risks</i>	-	-	-	2,360	-	-	2,360
Value adjustments and provisions for other operating risks	840	-202	-	-	475	-15	1,098
Other provisions additional pension provision ³	5,673	-6,706	-	-	16,030	-	14,997
Provisions for deferred taxes	900	-	-	-	-	-	900
Other provisions	1,104	-1,136	-	-	32	-	-
Total provisions	8,603	-8,044	-	2,360	16,837	-15	19,741
Reserves for general banking risks	526,000	-	-	-42,616	23,116	-	506,500
Value adjustments for default and country risks	42,367	-5,836	-472	40,256	6,242	-4,789	77,768
<i>of which value adjustments for default risk from impaired loans</i>	42,367	-5,836	-428	-	6,242	-4,789	37,556
<i>of which value adjustments for default risk inherent to receivables</i>	-	-	-44	39,937	-	-	39,893
<i>of which value adjustments for default risk inherent to other items</i>	-	-	-	319	-	-	319

¹ See the Annex item 5.3 Changes in financial statements and presentation of accounts.

² On off-balance sheet commitments.

³ See table 5.10.12 Disclosure of the economic position of own pension schemes.

5.10.15 Disclosure of amounts due from / to related parties

(in CHF thousands)	31.12.2021		31.12.2020	
	Receivables	Payables	Receivables	Payables
Holders of qualified participations	25,012	368,385	24,928	114,978
Linked companies	142,526	108,693	137,710	160,333
Members of governing bodies	17,666	8,277	21,518	8,089

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

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

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

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

5.10.16 Presentation of the maturity structure of financial instruments

(in CHF thousands)			with maturity				Reported as fixed assets	Total
			at sight	with prior notice	within 3 months	beyond 3 months and up to 12 months		
Assets / Financial instruments								
Liquid assets	3,434,270	-	-	-	-	-	-	3,434,270
Due from banks	311,522	-	37,918	-	-	-	-	349,440
Due from clients	30,817	600,147	478,341	317,418	609,516	293,260	-	2,329,499
Mortgage loans	1,064	279,699	550,955	1,135,522	5,692,640	3,427,261	-	11,087,141
Trading activities	32,557	-	-	-	-	-	-	32,557
Positive replacement values of derivative financial instruments	10,303	-	-	-	-	-	-	10,303
Financial investments	35,491	5,997	16,383	6,537	98,420	229,091	13,587	405,506
Total	3,856,024	885,843	1,083,597	1,459,477	6,400,576	3,949,612	13,587	17,648,716
Previous year	3,466,023	579,609	1,291,661	2,378,460	4,788,000	3,758,936	9,059	16,271,748
Debt capital / Financial instruments								
Due to banks	253,988	119,005	222,436	22,223	-	-	-	617,652
Liabilities from securities financing transactions	-	-	270,000	-	-	-	-	270,000
Amounts due in respect of customer deposits	6,569,967	4,648,688	518,356	227,940	296,164	283,130	-	12,544,245
Negative replacement values of derivative financial instruments	88,627	-	-	-	-	-	-	88,627
Bond issues and central mortgage institution loans	-	-	67,000	104,000	785,000	2,058,000	-	3,014,000
Total	6,912,582	4,767,693	1,077,792	354,163	1,081,164	2,341,130	-	16,534,524
Previous year	6,124,693	4,591,708	1,059,387	292,328	1,041,432	1,975,387	-	15,084,935

5.10.17 Presentation of assets and liabilities by domestic and foreign origin (domicile principle)

(in CHF thousands)	31.12.2021		31.12.2020	
	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	3,434,270	-	3,054,436	-
Due from banks	309,799	39,641	175,153	179,286
Due from clients	1,936,146	393,353	1,833,711	336,885
Mortgage loans	11,087,141	-	10,264,672	-
Trading activities	26,623	5,934	17,744	4,336
Positive replacement values of derivative financial instruments	7,105	3,198	16,713	2,461
Financial investments	320,213	85,293	294,898	91,453
Prepaid expenses and deferred income	13,468	616	10,910	601
Non-consolidated participations	7,986	113	6,433	113
Tangible fixed assets	80,994	-	78,502	-
Intangible assets	6,694	-	455	-
Other assets	187,318	-	117,171	-
Total assets	17,417,757	528,148	15,870,798	615,135
Liabilities				
Due to banks	435,344	182,308	409,117	404,000
Liabilities from securities financing transactions	270,000	-	250,000	-
Amounts due in respect of customer deposits	8,948,831	3,595,414	7,992,886	3,036,071
Negative replacement values of derivative financial instruments	65,720	22,907	25,001	4,860
Bond issues and central mortgage institution loans	3,014,000	-	2,963,000	-
Prepaid expenses and deferred income	44,111	-120	41,479	91
Other liabilities	11,690	-	8,698	161
Provisions	19,567	174	8,603	-
Reserves for general banking risks	506,500	-	526,000	-
Endowment capital	500,000	-	500,000	-
Retained earnings reserves	274,297	-	265,512	-
Group's profit	55,162	-	50,454	-
Total liabilities	14,145,222	3,800,683	13,040,750	3,445,183

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

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

(in CHF thousands)	31.12.2021		31.12.2020	
	Amount	Share in %	Amount	Share in %
Assets abroad				
Europe¹	391,198	2.18	376,849	2.29
Belgium	2,706		8,011	
Cyprus	5,178		5,416	
France	17,418		17,243	
Germany	8,326		16,711	
Guernsey	8,192		12,245	
Italy	150,311		149,465	
Jersey	45,583		44,240	
Liechtenstein	12,088		8,809	
Luxembourg	52,053		44,329	
Malta	3,271		5,604	
Monaco	27,019		11,736	
Norway	12,786		13,693	
Czech Republic	1,970		194	
United Kingdom	16,432		16,275	
Romania	10,679		11,138	
Russia	3,283		667	
San Marino	2,570		2,543	
Turkey	3,139		2,694	
Other countries	8,194		5,836	
North America	21,014	0.12	181,189	1.10
Canada	11,250		11,475	
United States	9,764		169,714	
Asia¹	97,800	0.54	41,830	0.25
United Arab Emirates	20,379		9,114	
Israel	2,237		2,317	
Kazakhstan	62,779		27,276	
Uzbekistan	6,760		2	
Other countries	5,645		3,121	
Caribbean	15,903	0.09	13,752	0.08
Panama	13,412		10,917	
Other countries	2,491		2,835	
South America	1,007	0.01	1,350	0.01
Mexico	907		75	
Other countries	100		1,275	
Oceania	336	-	62	-
Africa	890	-	103	-
Total assets abroad	528,148	2.94	615,135	3.73
Domestic	17,417,757	97.06	15,870,798	96.27
Total assets	17,945,905	100.00	16,485,933	100.00

¹ Amounts from the previous year have been adjusted in order to ensure comparability with the level of detail used for financial year 2021.



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

Bank's own country rating (in CHF thousands)	Rating Standard & Poor's	31.12.2021		31.12.2020	
		Net foreign exposure	Share as %	Net foreign exposure	Share as %
1 Excellent and high quality	AAA to AA-	225,480	42.7%	377,649	61.4%
2 Above-average quality	A+ to A-	8,557	1.6%	8,561	1.4%
3 Average quality	BBB+ to BBB-	248,035	47.0%	206,520	33.6%
4 Default risk	BB+ to BB	37	0%	2	0%
5 Default risk material	BB-	6,944	1.3%	611	0.1%
6 Speculative, high default risk	B+ to B-	5,224	1.0%	4,387	0.7%
7 Poor quality, very high risk	CCC+ to D	1,083	0.2%	-	0%
Unrated	-	32,788	6.2%	17,405	2.8%
Total		528,148	100.0%	615,135	100.0%

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

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

(in CHF thousands)	Currency				Total
	CHF	EUR	USD	Other	
Assets					
Liquid assets	3,364,858	65,403	2,853	1,156	3,434,270
Due from banks	114,271	20,300	72,359	142,510	349,440
Due from clients	1,666,797	355,078	290,910	16,714	2,329,499
Mortgage loans	11,087,141	-	-	-	11,087,141
Trading activities	5,740	815	2,616	23,386	32,557
Positive replacement values of derivative financial instruments	9,897	262	55	89	10,303
Financial investments	359,007	37,672	8,726	101	405,506
Prepaid expenses and deferred income	13,369	495	190	30	14,084
Non-consolidated participations	7,986	113	-	-	8,099
Tangible fixed assets	80,994	-	-	-	80,994
Intangible assets	6,694	-	-	-	6,694
Other assets	187,263	42	13	-	187,318
Total assets shown in balance sheet	16,904,017	480,180	377,722	183,986	17,945,905
Delivery entitlements from spot exchange, forward forex and forex options transactions ¹	294,390	2,899,172	1,282,379	147,924	4,623,865
Total assets	17,198,407	3,379,352	1,660,101	331,910	22,569,770
Liabilities					
Due to banks	357,374	101,350	152,651	6,277	617,652
Liabilities from securities financing transactions	270,000	-	-	-	270,000
Amounts due in respect of customer deposits	8,531,898	2,643,476	1,071,647	297,224	12,544,245
Negative replacement values of derivative financial instruments	88,238	245	55	89	88,627
Bond issues and central mortgage institution loans	3,014,000	-	-	-	3,014,000
Prepaid expenses and deferred income	44,157	-213	47	-	43,991
Other liabilities	9,511	2,114	65	-	11,690
Provisions	19,066	385	290	-	19,741
Reserves for general banking risks	506,500	-	-	-	506,500
Endowment capital	500,000	-	-	-	500,000
Retained earnings reserves	274,297	-	-	-	274,297
Group's profit	55,162	-	-	-	55,162
Total liabilities shown in balance sheet	13,670,203	2,747,357	1,224,755	303,590	17,945,905
Delivery obligations from spot exchange, forward forex and forex options transactions ¹	3,609,553	617,885	435,785	29,172	4,692,395
Total liabilities	17,279,756	3,365,242	1,660,540	332,762	22,638,300
Net position per currency	-81,349	14,110	-439	-852	-68,530
Net position per currency in the previous year	6,135	-158	163	607	6,747

¹ Options have been delta-weighted.



5.11 INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

5.11.21 Breakdown of contingent liabilities and contingent assets

(in CHF thousands)	31.12.2021	31.12.2020
Contingent liabilities		
Guarantees to secure credits and similar instruments	103,427	108,765
Performance guarantees and similar	47,955	33,510
Irrevocable commitments arising from documentary letters of credit	67,560	23,034
Total contingent liabilities	218,942	165,309

5.11.22 Breakdown of fiduciary transaction

(in CHF thousands)	31.12.2021	31.12.2020
Fiduciary investments with third-party companies	175,570	206,561
Fiduciary loans	4,604	4,468
Total fiduciary transactions	180,174	211,029

5.12 INFORMATION ON THE INCOME STATEMENT

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

Breakdown of result from trading activities by business line

(in CHF thousands)	2021	2020
Trading activities with private clients	8,982	8,133
Trading activities with corporate clients	7,767	7,302
Trading activities on own account	4,061	2,475
Total result from trading activities	20,810	17,910

Result from trading activities and fair value option

(in CHF thousands)	2021	2020
Equity-type securities (including investment funds)	77	-1,410
Foreign currencies and banknote trading	20,556	17,356
Commodities / precious metals	177	1,964
Total result from trading activities	20,810	17,910

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

Refinancing income in the item "Result from interest operations"		
Interest and dividend income from trading portfolio is offset with costs of refinancing of that portfolio.		
(in CHF thousands)	2021	2020
Negative interest		
Negative interest on assets (decrease in interest and discount income)	2,759	1,777
Negative interest on liabilities (decrease in interest expenses)	7,492	5,647

5.12.25 Breakdown of personnel expenses

(in CHF thousands)	2021	2020
Salaries	68,492	66,426
<i>of which expenses relating to share-based compensation and alternative forms of variable compensation</i>	-	-
Social benefits	33,617 ¹	17,682
Other personnel expenses	2,901	2,611
Total personnel expenses	105,010	86,719

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

5.12.26 Breakdown of general and administrative expenses

(in CHF thousands)	2021	2020
Expenses for premises	5,481	5,976
Expenses for information and communications technology	27,686	24,342
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	477	448
Fees of audit firm	766	497
<i>of which for financial and regulatory audits</i>	642	497
<i>of which for other services</i>	124	-
Other operating expenses	13,519	11,709
<i>of which compensation for any State guarantee</i>	-	-
Total other operating expenses	47,929	42,972

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

<p>5.12.27.1 Material losses No material losses were incurred during the financial year.</p>
<p>5.12.27.2 Extraordinary income and extraordinary expenses No extraordinary income or extraordinary expenses were recorded during the 2021 financial year.</p>
<p>5.12.27.3 Hidden reserves The Group does not hold any hidden reserves, and discloses its financial statements on the basis of the true and fair view principle.</p>
<p>5.12.27.4 Reserves for general banking risks CHF 23.1 million were deducted from "Changes in reserves for general banking risks" and allocated to reserves for general banking risks.</p>
<p>5.12.27.5 Value adjustments and provisions no longer required There is nothing to report under this heading.</p>
<p>5.12.27.6 Revaluations from participations and tangible fixed assets There were neither gains nor losses from participations and tangible fixed assets during this financial year.</p>

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

(in CHF thousands)	31.12.2021	31.12.2020
Current taxes	1,524	1,165
Other taxes	152	170
Provisions for deferred taxes	-	-
Total taxes	1,676	1,335
Average current tax rate weighted on the basis of the result for the year¹	1.9%	1.3%

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

Report of the auditor

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Banca dello Stato del Cantone Ticino and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2021, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and annex for the year then ended, including a summary of significant accounting policies (pages 36-68).

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the accounting rules for banks and comply with Swiss law and the Law on Banca dello Stato del Cantone Ticino.

Basis for opinion

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

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

Our audit approach

Overview



Overall group materiality: CHF 3'975'000

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

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

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

- Valuation of amounts due from customers and mortgage loans

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

Materiality

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

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

Overall group materiality	CHF 3'975'000
How we determined it	Operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items).
Rationale for the materiality benchmark applied	We chose the operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items) because it is the benchmark against which the performance of a banking group is most commonly measured and it is the generally accepted benchmark in the financial industry.

We agreed with the Audit Committee of the Board of Directors that we would report to them misstatements above CHF 198'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

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

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

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



Valuation of amounts due from customers and mortgage loans

Key Audit Matters	How our audit addressed the key audit matter
<p>As shown in the note 5.6.2 of the annual report 2021, the Group grants loans and advances to customers and mortgage loans.</p> <p>We consider the valuation of amounts due from customers and mortgage loans to be a key audit matter for the following reasons:</p> <ul style="list-style-type: none">• Amounts due from customers and mortgage loans represent 13% (MCHF 2'329), respectively 62% (MCHF 11'087) of total assets;• the determination of the amount of any impairment is based on the customer's capacity to repay the amount due and on the liquidation value of the collateral, both of which may be influenced by subjective factors and involve management's judgement.• the determination of value adjustments for default risks on loans that are not-impaired is based on an internal model. Such internal model includes assumptions and parameters on which the Group exercises a significant degree of estimation. <p>The Bank has a control system in place that allows to identify and to analyze the risk of default, to take precautionary measures and to determine the impairment necessary.</p> <p>The accounting and valuation principles for amounts due from customers and mortgage loans and the methods used to identify default risks and to determine the need for impairment are described in the notes to the consolidated financial statements (notes 5.2.3.3, 5.4.1 and 5.5).</p>	<p>We identified and tested the key controls relating to amounts due from customers and mortgage loans, more specifically:</p> <p><i>Impaired loans</i></p> <ul style="list-style-type: none">• controls aimed to identify signs of potential default in order to determine the scope of non-performing and/or impaired loans;• controls relating to the calculation of value adjustment including the determination of the market value of the collaterals. <p><i>Not-impaired loans</i></p> <ul style="list-style-type: none">• controls aimed to validate the internal model used to determine value adjustments for default risks on not-impaired loans according to FINMA-AO (art. 25). <p>We concluded that we are able to rely on key controls tested.</p> <p>In addition, we tested on a sample basis that:</p> <ul style="list-style-type: none">• the risk category given to the selected credit was adequate;• the market value of the collateral was determined or updated in accordance with market practice;• the impairments were calculated and recorded in accordance with the applicable accounting principles;• the assumptions and parameters included in the internal model used to determine value adjustments for default risks on not-impaired loans are adequate;• data included into the internal model is complete and accurate. <p>We concluded that the methods and assumptions used to determine value adjustments on both doubtful and on not-impaired loans are appropriate and in accordance with our expectations.</p>

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can



arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

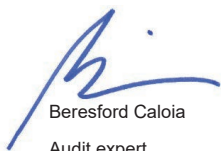


Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers SA



Beresford Caloia
Audit expert
Auditor in charge



Lorenzo Morelli
Audit expert

Lugano, 29 March 2022





Individual Financial Statements

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1. Balance sheet

(in CHF thousands)	Annex	31.12.2021	31.12.2020	Change
Assets				
Liquid assets		2,888,873	2,685,635	203,238
Due from banks		352,849	349,697	3,152
Due from clients	5.6.2	1,940,385	1,849,250	91,135
Mortgage loans	5.6.2	11,087,141	10,264,672	822,469
Trading activities	5.6.3	30,087	18,413	11,674
Positive replacement values of derivative financial instruments	5.6.4	15,693	21,620	-5,927
Financial investments	5.6.5	383,821	360,386	23,435
Prepaid expenses and deferred income		12,634	11,666	968
Participations		71,960	70,406	1,554
Tangible fixed assets		79,272	77,362	1,910
Intangible assets		6,694	-	6,694
Other assets	5.6.6	186,764	116,791	69,973
Total assets		17,056,173	15,825,898	1,230,275
Totale dei crediti postergati		28,869	29,164	-295
<i>di cui con obbligo di conversione e/o rinuncia al credito</i>		28,869	29,164	-295
Liabilities				
Due to banks		1,121,991	1,505,740	-383,749
Liabilities from securities financing transactions	5.6.1	270,000	250,000	20,000
Amounts due in respect of customer deposits		11,155,859	9,677,884	1,477,975
Negative replacement values of derivative financial instruments	5.6.4	89,174	30,837	58,337
Bond issues and central mortgage institution loans	5.6.7	3,014,000	2,963,000	51,000
Deferred expenses and prepaid income		35,526	34,362	1,164
Other liabilities	5.6.6	9,701	7,430	2,271
Provisions	5.6.9	18,135	6,211	11,924
Reserves for general banking risks	4 and 5.6.9	506,500	526,000	-19,500
Endowment capital	4 and 5.6.10	500,000	500,000	-
Statutory retained earnings reserve	4	282,764	273,929	8,835
Profit (result for the period)	4	52,523	50,505	2,018
Total liabilities		17,056,173	15,825,898	1,230,275
Total subordinated liabilities		250,654	175,273	75,381
<i>of which subject to mandatory conversion and/or debt waiver</i>		250,654	-	250,654
Off-balance sheet transactions				
Contingent liabilities	5.6.2	212,481	156,907	55,574
Irrevocable commitments	5.6.2	341,042	401,017	-59,975
Commitments for calls on shares and other equities	5.6.2	19,416	14,180	5,236

2. Income Statement

(in CHF thousands)	Annex	2021	2020	Change
Costs and expenses from ordinary banking business				
Result from interest operations				
Interest and discount income		174,491	173,221	1,270
Interest and dividend income from financial investments		1,518	2,344	-826
Interest expenses		-20,625	-24,311	3,686
Gross result from interest operations		155,384	151,254	4,130
Changes in value adjustments for default risks and losses from interest operations		-1,384	-2,981	1,597
Net result from interest operations		154,000	148,273	5,727
Result from commission business and services		38,252	31,390	6,862
Commission income from securities trading and investment activities		30,613	25,367	5,246
Commission income from lending activities		5,167	4,037	1,130
Commission income from other services		9,658	8,783	875
Commission expenses		-7,186	-6,797	-389
Result from trading activities and fair value option	5.8.15	15,297	13,145	2,152
Other results from ordinary activities		9,126	9,113	13
Result from the disposal of financial investments		2,585	868	1,717
Participation income		3,360	4,362	-1,002
Real estate income		514	433	81
Other ordinary income		3,799	3,526	273
Other ordinary expenses		-1,132	-76	-1,056
Net revenues		216,675	201,921	14,754
Operating expenses		-128,799	-107,060	-21,739
Personnel expenses	5.8.17	-87,151 ¹	-69,410	-17,741
Other operating expenses	5.8.18	-41,648	-37,650	-3,998
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		-12,049	-8,526	-3,523
Changes to provisions and other value adjustments, and losses		-127	-366	239
Operating result		75,700	85,969	-10,269
Extraordinary income	5.8.19.02	492	2,210	-1,718
Extraordinary expenses	5.8.19.02	-81	-6,200	6,119
Changes in reserves for general banking risks	5.8.19.04	-23,116	-31,000	7,884
Taxes	5.8.20	-472	-474	2
Profit (result for the period)		52,523	50,505	2,018

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

3. Proposed Appropriation of Available Earnings

(in CHF thousands)	2021	2020	Change
Appropriation of retained earnings			
Profit (result for the period)	52,523	50,505	2,018
Profit carried forward	-	-	-
Balance sheet profit	52,523	50,505	2,018
Proposal of the Board of Directors			
Assignment to statutory retained earnings reserve	9,174	8,835	339
Payment to the Canton	43,349	41,670	1,679
<i>of which 5% interest on the endowment capital</i>	25,000	24,000	1,000
<i>of which additional payment to the Canton</i>	18,349	17,670	679
Amount carried forward	-	-	-

4. Statement of Changes in Endowment Capital

(in CHF thousands)	Endowment capital	Retained earnings reserve	Reserves for general banking risks	Result of the period	Total
Endowment capital at 1.1.2021	500,000	273,929	526,000	50,505	1,350,434
Appropriation of retained earnings 2020					
<i>Assignment to statutory retained earnings reserve</i>	-	+8,835	-	-8,835	-
<i>5% interest on endowment capital</i>	-	-	-	-24,000	-24,000
<i>Additional payment to the Canton</i>	-	-	-	-17,670	-17,670
Allocation to reserves for general banking risks	-	-	-19,500	-	-19,500
Profit (result for the period)	-	-	-	+52,523	52,523
Total endowment capital at 31.12.2021	500,000	282,764	506,500	52,523	1,341,787

5. Annex

5.1 ACTIVITIES OF THE BANK AND PERSONNEL

5.1.1 Activities of the Bank

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

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

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

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

5.1.2 Personnel

As at 31 December 2021, the Bank had a total of 432 employees on payroll (391.40 FTEs) with apprentices calculated at 50%, compared to 411 staff at the end of 2020 (372.70 FTEs).

5.2 ACCOUNTING AND VALUATION PRINCIPLES

5.2.1 In general

The financial statements of BancaStato as at 31 December 2021 were prepared in accordance with applicable legal and regulatory provisions as well as the true and fair view principle, in compliance with the provisions of the Swiss Code of Obligations and the Swiss Banking legislation, in particular the guidelines of the Swiss Financial Market Supervisory Authority FINMA, the Swiss listing rules and the directives of SIX Group AG.

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

5.2.2 Accounting and valuation principles

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

5.2.3 Participations

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

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

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

5.3 FOREIGN CURRENCY TRANSLATION

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

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

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

EUR 1.0371 (2020: 1.0821)
USD 0.9117 (2020: 0.8848)

5.4 CHANGES IN FINANCIAL STATEMENTS AND PRESENTATION OF ACCOUNTS

No changes were made in 2021 to principles of accounting and reporting, with the exception of the new rules issued by the Swiss Financial Market Supervisory Authority, which came into force on 1 January 2020 (FINMA Ordinance on Accounts, OAPC-FINMA, and the new circular 2020/1 Accounting - Banks), which provide that category 3 banks the gross result from interest operations of which accounts for at least one third of net revenues must apply value adjustments for default risk inherent to non-impaired loans by the end of 2021. For further details refer to sections 5.3 "Changes in financial statements and presentation of accounts" and 5.4 "Risk management" of the Annex to the Consolidated Financial Statements.

5.5 OTHER INFORMATION

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

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

5.6 INFORMATION ON THE BALANCE SHEET

5.6.1 Breakdown of securities financing transactions (assets and liabilities)

(in CHF thousands)	31.12.2021	31.12.2020
Securities lending, securities borrowing and repurchase agreements		
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions ¹	-	-
Book value of obligations from cash collateral received in connection with securities lending and repurchase agreements ¹	270,000	250,000
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	267,703	243,431
<i>of which with unrestricted right to resell or repledge</i>	267,703	243,431
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	-	-
<i>of which repledged securities</i>	-	-
<i>of which resold securities</i>	-	-

¹ Before any netting agreement.

5.6.2 Presentation of collateral for loans / receivables and off-balance sheet transactions, as well as impaired loans/receivables at 31.12.2021

(in CHF thousands)	Type of collateral			
	Collateral mortgage	Other collateral	Without collateral	Total
Loans (before netting with value adjustments)				
Due from clients	156,776	367,865	772,537	1,297,178 ³
Due from public corporations	2,122	2,013	676,476 ¹	680,611
Mortgage loans	11,123,967 ¹	-	3,135	11,127,102
<i>Residential premises</i>	8,133,580	-	532	8,134,112
<i>Office and business premises</i>	1,708,931	-	1,809	1,710,740
<i>Crafts and industrial premises</i>	611,737	-	794	612,531
<i>Other</i>	669,719	-	-	669,719
Total loans (before netting with value adjustments)	11,282,865	369,878	1,452,148	13,104,891
Previous year	10,428,466	395,909	1,331,825	12,156,200
Total loans (after netting with value adjustments)	11,242,904	353,439	1,431,183	13,027,526
Previous year	10,417,856	387,573	1,308,493	12,113,922
Off-balance sheet transactions				
Contingent liabilities	8,232	73,654	130,595	212,481
Irrevocable commitments	11,184	45,883	283,975 ²	341,042
Commitments for calls on shares and other equities	-	-	19,416	19,416
Total off-balance sheet transactions	19,416	119,537	433,986	572,939
Previous year	20,997	115,136	435,971	572,104

(in CHF thousands)	Gross debt amount	Estimated liquidation value	Net debt amount	Individual value adjustments
Impaired loans				
Year under review	107,768	70,296	37,472	37,472
Previous year	138,621	96,343	42,278	42,278

¹ Including loans to entities related to public institutions for CHF 95.4 million (2020: 104.2 million).

² Including CHF 39.2 million (2020: CHF 38.5 million) as a required share for deposit guarantee purposes.

³ Including CHF 132.6 million in Covid-19 and Covid-19 Plus loans (2020: 133.5 million), secured almost entirely by a guarantee provided by the federal government.

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

(in CHF thousands)	31.12.2021	31.12.2020
Trading portfolio (assets)		
Equity securities	200	146
Shares in investment funds	3,672	2,846
Precious metals and commodities	23,386	13,072
Structured products	2,829	2,349
Total trading portfolio assets	30,087	18,413
<i>of which determined using a valuation model</i>	-	-
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	-	-

5.6.4 Presentation of derivative financial instruments (assets and liabilities)

(in CHF thousands)	Trading instruments			Hedging instruments		
	Replacement values		Contract volumes	Replacement values		Contract volumes
	positive	negative		positive	negative	
Interest rate instruments						
Swaps	-	-	-	-	7,810	400,000
Total interest rate instruments	-	-	-	-	7,810	400,000
Foreign currencies / precious metals						
Forward contracts	2,114	3,675	365,494	-	-	-
Swaps (interest rate/currency)	6,549	4,785	916,512	6,623	72,514	4,028,217
OTC Options	407	390	112,080	-	-	-
Total foreign currencies / precious metals	9,070	8,850	1,394,086	6,623	72,514	4,028,217
Total derivative financial instruments	9,070	8,850	1,394,086	6,623	80,324	4,428,217
<i>of which determined using a valuation model</i>	9,070	8,850	-	6,623	80,324	-
Total previous year	5,500	5,373	879,810	16,120	25,464	4,142,502
<i>of which determined using a valuation model</i>	5,500	5,373	-	16,120	25,464	-

Recapitalisation

(in CHF thousands)	Positive replacement values (cumulated)	Negative replacement values (cumulated)	Contract volume
Trading instruments	9,070	8,850	1,394,086
Hedging instruments	6,623	80,324	4,428,217
Total before netting agreements	15,693	89,174	5,822,303
Total previous year	21,620	30,837	5,022,312
Total after netting agreements	15,693	89,174	5,822,303
Total previous year	21,620	30,837	5,022,312

Breakdown by counterparty

(in CHF thousands)	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	-	14,561	1,132

5.6.5 Breakdown of financial investments

(in CHF thousands)	Book value		Fair value	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Debt securities	327,169	322,617	329,900	332,490
<i>of which intended to be held to maturity</i>	315,292	318,407	317,943	328,186
<i>of which not intended to be held to maturity (available for sale)</i>	11,877	4,210	11,957	4,303
Shares in investment funds	25,404	17,982	19,616	18,804
Equity securities	17,560	10,634	25,272	11,919
<i>of which qualified participations (at least 10% capital stake or voting rights)</i>	-	-	-	-
Precious metals	101	94	101	94
Real estate	13,587	9,059	13,587	9,059
Total financial investments	383,821	360,386	388,476	372,366
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	295,854	284,169	298,330	293,622

Breakdown of counterparties by rating

(in CHF thousands)	AAA or higher AA- or lower	A+ or higher A- or lower	BBB+ or higher BBB- or lower	BB+ or higher B- or lower	Below B-	Unrated
Book value of debt securities	304,197	16,219	4,997	999	-	757

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

5.6.6 Breakdown of other assets and other liabilities

(in CHF thousands)	31.12.2021	31.12.2020
Other assets		
Compensation account	6,248	14,282
Indirect taxes	636	635
Various other assets	179,880 ¹	101,874 ²
Total other assets	186,764	116,791
Other liabilities		
Direct / indirect taxes	2,535	2,541
Matured non-redeemed cash bonds	521	1,031
Memorandum accounts	5,396	2,100
Various other liabilities	1,249	1,758
Total other liabilities	9,701	7,430

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

² of which a balance of CHF 100.7 million for in-house banking transactions.

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

(in CHF thousands)	31.12.2021		31.12.2020	
	Book value	Effective commitments	Book value	Effective commitments
Pledged / assigned assets (excluding advances and repurchase agreements with securities)				
Book value of mortgages set as collateral for mortgage bonds of the Mortgage Bond Issuing Body of the Swiss Cantonal Banks	2,544,934	2,064,000	2,508,092	1,838,000
Book value of securities delivered as collateral to SIX Group AG	1,012	-	1,413	-
Book value of securities delivered as collateral in connection with Repo Light credit with SNB (unused)	21,801	-	21,527	-
Book value of the Covid-19 loans assigned to the SNB.	118,800	118,800	122,900	122,900
Book value of assets pledged to secure own commitments	81,227	81,227	10,806	10,806
Total pledged / assigned assets	2,767,774	2,264,027	2,664,738	1,971,706
Assets under reservation of ownership Assets under reservation of ownership	-	-	-	-

5.6.8 Disclosure of the economic position of own pension schemes

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

The Bank has no own pension scheme.

5.6.8.2 Disclosure of liabilities relating to own pension schemes

a) Employer contribution reserves (ECR)

There were no employer contribution reserves as at 31 December 2021.

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

	Over- / underfunding at the end of 2021	Economic interest of the bank		Change in economic interest (benefit and/or commitment) versus previous year	Contributions paid for 2021	Pension expenses included within personnel expenses	
		31.12.2021	31.12.2020			31.12.2021	31.12.2020
Pension plans without overfunding / underfunding	-	-	-	-	8,759	24,377 ¹	8,333

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

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

The Bank does not report any obligation towards the pension foundation at the end of the accounting period. There are no contribution reserves on the part of the employer and the relationship between the Bank and its pension fund is based on a global affiliation contract. The pension fund reinsures all pension risks by means of a comprehensive insurance contract. Within the framework of this contract no possibility of undercoverage exists and, consequently, there are no obligations in this regard on the part of the employer.

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

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

(in CHF thousands)	Balance at at 31.12.2020	2021					Balance at 31.12.2021
		Commitments consistent with purpose	Currency differences	Reclassification without impact on the income statement ¹	New creations charged to the income statement	Releases credited to the income statement	
Provisions							
Provisions for default risk ²	86	-	-	2,360	300	-	2,746
<i>of which provisions for likely commitments</i>	86	-	-	-	300	-	386
<i>of which provisions for default risks</i>	-	-	-	2,360	-	-	2,360
Value adjustments and provisions for other operating risks	452	-45	-	-	-	-15	392
Other provisions additional pension provision ³	5,673	-6,706	-	-	16,030	-	14,997
Total provisions	6,211	-6,751	-	2,360	16,330	-15	18,135
Reserves for general banking risks	526,000	-	-	-42,616	23,116	-	506,500
Value adjustments for default and country risks	42,278	-5,832	-469	40,256	6,198	-4,747	77,684
<i>of which value adjustments for default risk from impaired loans</i>	42,278	-5,832	-425	-	6,198	-4,747	37,472
<i>of which value adjustments for default risk inherent to receivables</i>	-	-	-44	39,937	-	-	39,893
<i>of which value adjustments for default risk inherent to other items</i>	-	-	-	319	-	-	319

¹ See the enclosed Group Financial Statements item 5.3 Changes in financial statements and presentation of accounts.

² On off-balance sheet commitments.

³ See table 5.6.8 Disclosure of the economic position of own pension schemes.

5.6.10 Presentation of the Bank's endowment capital

(in CHF thousands)	31.12.2021			31.12.2020		
	Total par value	Quantity	Capital eligible for dividend	Total par value	Quantity	Capital eligible for dividend
Endowment capital						
Endowment capital	500,000	500,000	500,000	500,000	500,000	500,000
<i>of which paid up</i>	500,000	500,000	500,000	500,000	500,000	500,000
Total endowment capital	500,000	500,000	500,000	500,000	500,000	500,000

On 19 June 2017, the Grand Council (Cantonal Parliament) approved a request for an increase of the endowment capital from CHF 240 million to CHF 500 million. This increase was authorised through the transformation into endowment capital of perpetual subordinated loans for a total amount of CHF 140 million and through the authorisation to increase capital by a further CHF 120 million. The State Council has authorised four subsequent increases in endowment capital, and the funds allocated have been fully disbursed.

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

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

5.6.11 Disclosure of amounts due from / to related parties

(in CHF thousands)	31.12.2021		31.12.2020	
	Receivables	Payables	Receivables	Payables
Holders of qualified participations	25,012	368,385	24,928	114,978
Group companies	32,514	519,437	33,027	706,340
Linked companies	142,526	108,693	137,710	160,333
Members of governing bodies	17,666	8,230	21,518	8,052

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

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

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

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

5.6.12 Disclosure of holders of significant participations

(in CHF thousands)	31.12.2021		31.12.2020	
	Nominal	Share as %	Nominal	Share as %
Canton Ticino With voting rights	500,000	100	500,000	100

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

Bank's own country rating (in CHF thousands)	Rating Standard & Poor's	31.12.2021		31.12.2020	
		Net foreign exposure	Share as %	Net foreign exposure	Share as %
1 Excellent and high quality	AAA to AA-	108,649	58.6%	255,159	80.4%
2 Above-average quality	A+ to A-	2,479	1.3%	1,968	0.6%
3 Average quality	BBB+ to BBB-	65,520	35.3%	53,480	16.8%
4 Risk of default	BB+ to BB	37	0.0%	1	0.0%
5 Significant risk of default	BB-	101	0.1%	104	0.0%
6 Speculative, high risk of default	B+ to B-	-	0.0%	3	0.0%
7 Poor quality, very high risk	CCC+ to D	-	0.0%	-	0.0%
Unrated	-	8,697	4.7%	7,004	2.2%
Total		185,483	100.0%	317,719	100.0%

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

5.7 INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

5.7.14 Breakdown of fiduciary transactions

(in CHF thousands)	31.12.2021	31.12.2020
Fiduciary investments with third-party companies	22,703	13,195
Total fiduciary transactions	22,703	13,195

5.8 INFORMATION ON THE INCOME STATEMENT

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

Breakdown of result from trading activities by business line

(in CHF thousands)	2021	2020
Trading activities with private clients	6,124	5,843
Trading activities with corporate clients	5,136	4,916
Trading activities on own account	4,037	2,386
Total result from trading activities	15,297	13,145

Result from trading activities and fair value option

(in CHF thousands)	2021	2020
Equity-type securities (including investment funds)	53	-1,500
Foreign currencies and banknote trading	15,067	12,681
Commodities / precious metals	177	1,964
Total result from trading activities	15,297	13,145

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

Refinancing income in the item "Result from interest operations"		
Interest and dividend income from trading portfolio is offset with costs of refinancing of that portfolio.		
(in CHF thousands)	2021	2020
Negative interest		
Negative interest on assets (decrease in interest and discount income)	332	283
Negative interest on liabilities (decrease in interest expenses)	10,498	8,977

5.8.17 Breakdown of personnel expenses

(in CHF thousands)	2021	2020
Salaries	54,250	52,536
<i>of which expenses relating to share-based compensation and alternative forms of variable compensation</i>	-	-
Social benefits	30,538 ¹	14,850
Other personnel expenses	2,363	2,024
Total personnel expenses	87,151	69,410

5.8.18 Breakdown of general and administrative expenses

(in CHF thousands)	2021	2020
Expenses for premises	4,792	5,302
Expenses for information and communications technology	23,038	20,232
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	468	431
Fees of audit firm	509	328
<i>of which for financial and regulatory audits</i>	385	328
<i>of which for other services</i>	124	-
Other operating expenses	12,841	11,357
<i>of which compensation for any State guarantee</i>	-	-
Total other operating expenses	41,648	37,650

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

5.8.19.1 Material losses No material losses were incurred during the financial year.
5.8.19.2 Extraordinary income and extraordinary expenses No extraordinary income or extraordinary expenses were recorded during the 2021 financial year.
5.8.19.3 Hidden reserves The Bank does not hold any hidden reserves as it discloses its individual financial statements on the basis of the true and fair view principle.
5.8.19.4 Reserves for general banking risks CHF 23.1 million were deducted from "Changes in reserves for general banking risks" to create reserves for general banking risks.
5.8.19.5 Value adjustments and provisions no longer required There is nothing to report under this heading.
5.8.19.6 Revaluations from participations and tangible fixed assets There were no revaluations of participations or tangible fixed assets during the financial year.

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

(in CHF thousands)	2021	2020
Current taxes	320	304
Other taxes	152	170
Total taxes	472	474

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

The Bank is exempt from federal taxation as it is a cantonal establishment (Art. 56b of the Federal Act on Direct Federal Taxation) and from cantonal taxation (legislative decree of 19.5.1952).

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



Report of the auditor

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Banca dello Stato del Cantone Ticino, which comprise the balance sheet as at 31 December 2021, income statement, statement of changes in endowment capital and annex for the year then ended, including a summary of significant accounting policies (pages 76-89).

In our opinion, the financial statements give a true and fair view of the financial position as at 31 December 2021, the financial performance and the cash flows for the year then ended in accordance with the accounting rules for banks and comply with Swiss law and the Law on Banca dello Stato del Cantone Ticino.

Basis for opinion

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

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

Our audit approach

Overview

Overall materiality: CHF 3'785'000



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

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

- Valuation of amounts due from customers and mortgage loans.

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Materiality

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

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

Overall materiality	CHF 3'785'000
How we determined it	Operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items).
Rationale for the materiality benchmark applied	We chose the operating result (result of the period before tax, changes in reserves for general banking risks and extraordinary items) because it is the benchmark against which the performance of a bank is most commonly measured and it is the generally accepted benchmark in the financial industry.

We agreed with the Audit Committee of the Board of Directors that we would report to them misstatements above CHF 189'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

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

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

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

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



Valuation of amounts due from customers and mortgage loans

Key audit matter	How our audit addressed the key audit matter
<p>As shown in the note 5.6.2 of the annual report 2021, the Bank grants loans and advances to customers and mortgage loans.</p> <p>We consider the valuation of amounts due from customers and mortgage loans to be a key audit matter for the following reasons:</p> <ul style="list-style-type: none"> • Amounts due from customers and mortgage loans represent 11% (MCHF 1'940), respectively 65% (MCHF 11'087) of total assets; • the determination of the amount of any impairment is based on the customer's capacity to repay the amount due and on the liquidation value of the collateral, both of which may be influenced by subjective factors and involve management's judgement. • the determination of value adjustments for default risks on loans that are not-impaired is based on an internal model. Such internal model includes assumptions and parameters on which the Bank exercises a significant degree of estimation. <p>The Bank has a control system in place that allows to identify and to analyze the risk of default, to take precautionary measures and to determine the impairment necessary.</p> <p>The accounting and valuation principles for amounts due from customers and mortgage loans and the methods used to identify default risks and to determine the need for impairment are described in the notes to the consolidated financial statements (notes 5.2.3.3, 5.4.1 and 5.5).</p>	<p>We identified and tested the key controls relating to amounts due from customers and mortgage loans, more specifically:</p> <p><i>Impaired loans</i></p> <ul style="list-style-type: none"> • controls aimed to identify signs of potential default in order to determine the scope of non-performing and/or impaired loans; • controls relating to the calculation of value adjustment including the determination of the market value of the collaterals. <p><i>Not-impaired loans</i></p> <ul style="list-style-type: none"> • controls aimed to validate the internal model used to determine value adjustments for default risks on not-impaired loans according to FINMA-AO (art. 25). <p>We concluded that we are able to rely on key controls tested.</p> <p>In addition, we tested on a sample basis that:</p> <ul style="list-style-type: none"> • the risk category given to the selected credit was adequate; • the market value of the collateral was determined or updated in accordance with market practice; • the impairments were calculated and recorded in accordance with the applicable accounting principles; • the assumptions and parameters included in the internal model used to determine value adjustments for default risks on not-impaired loans are adequate; • data included into the internal model is complete and accurate. <p>We concluded that the methods and assumptions used to determine value adjustments on both doubtful and on not-impaired loans are appropriate and in accordance with our expectations.</p>

Responsibilities of the Board of Directors for the financial statements

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

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



Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

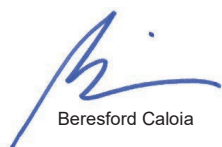


Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers SA



Beresford Caloia



Lorenzo Morelli

Audit expert
Auditor in charge

Audit expert

Lugano, 29 March 2022



Board of Directors at 31.12.2021

Chairman

Bernardino Bulla ¹

Deputy Chairman

Raoul Paglia ^{1,2}

Secretary

Daniel Joss ¹

Members

Avv. Giovanni Jelmini ^{1,2}

Avv. Michela Ferrari-Testa ¹

Stefano Santinelli ¹

Luca Soncini ^{1,2}

Public Mandate Control Commission at 31.12.2021

Chairman

Fabrizio Garbani Nerini

Deputy Chairman

Omar Balli

Members

Samantha Bourgoïn

Tiziano Galeazzi

Giacomo Garzoli

Marco Passalia

¹ Independent members as specified in FINMA Circular 2017/01

² Members of the Audit and Risk Committee

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

PricewaterhouseCoopers SA

Internal Audit

Head of Internal Audit

Gabriele Guglielmini

Deputy

Guido Gianetti

Executive Board

at 31.12.2021

President of the Executive Board

Fabrizio Cieslakiewicz

Members of the Executive Board

Daniele Albisetti

Curzio De Gottardi

Nicola Guscelli

Patrick Lafranchi

Gabriele Zanzi

Members of the Management

at 31.12.2021

BELLINZONA

Senior Vice-Presidents

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

First Vice-Presidents

Mauro Bazzotti
Maurizio Derada
Massimiliano Morelli
Massimo Penzavalli

Vice-Presidents

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Enrico Bertozzi
Boris Bionda
Omar Cadola
Dario Caramanica
Medardo Caretti
Lorenzo Cattaneo
Roberto Frigo
Adolfo Genzoli
Luca Ghiringhelli
Manuel Giambonini
Tiziano Gianini
Stefano Giedemann

Roberto Landis
Dante Manara
Daniele Manzoni
Raffaele Marti
Roberto Meyer
Cesare Pedrocchi
Stéphane Pellegrini
Patrick Pestelacci
Francesco Pisano
Fiorenzo Poretti
Aris Rogic
Giorgio Sala
Ferruccio Unternährer

LUGANO

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Luigi Longoni
Carlo Ruggia

First Vice-Presidents

Filippo Dotti
Sura Fini Di Pietro
Alberto Pedrazzi
Luca Todesco

Vice-Presidents

Marco Airoldi
Gianluca Bassi
Roberto Barbera
Enrico Bentoglio
Gianluca Colpo
Luca Comisetti

Gabriele Mantegazzi
Alessandro Massetti
Isabella Pastore Pacia
Roberto Vassalli
Jvan Zatta

LOCARNO

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Marco Meschiari

First Vice-Presidents

Fabrizio Conti Rossini
Claudio Gnesa

Vice-Presidents

Verena Gaggetta
Stephan Mair
Gianmaria Mondada
Maurizio Ostinelli
Marco Pellanda
Franco Storni

CHIASO

Senior Vice-Presidents

Marco Soragni

First Vice-Presidents

Gilberto Pittaluga

Vice-Presidents

Maurizio Brenta
Lorenzo Imperiali

INTERNAL AUDIT

Equivalent to Senior Vice-Presidents

Gabriele Guglielmini

Equivalent to First Vice-President

-

Equivalent to Vice-Presidents

Guido Gianetti
Christian Steffen

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6501 Bellinzona

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6830 Chiasso

Via Naviglio Vecchio 4
6600 Locarno

Via Pioda 7
6900 Lugano

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6982 Agno

Via della Stazione 21
6780 Airolo

Viale Papio 5
6612 Ascona

Via Pini 2
6710 Biasca

Via Leoncavallo 31
6614 Brissago

Via Pretorio 3
6675 Cevio

Stabile Isra
6715 Dongio

Piazza S. Franscini 5
6760 Faido

Largo Libero Olgiati 81a
6512 Giubiasco

Via San Gottardo 77
6596 Gordola

Piazza Riforma
6900 Lugano

Via Trevano 97
6904 Lugano-Molino Nuovo

Via Cantonale 38
6928 Manno

Via Lavizzari 18
6850 Mendrisio

Via Pietro Fontana 8
6950 Tesserete

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Piazza Collegiata
6500 Bellinzona

Viale Stazione
6500 Bellinzona

Via San Francesco 1
6600 Locarno-Città Vecchia

Via Emmuaus 1
(Centro Comm. Cattori)
6616 Losone

Civico Hospital
6900 Lugano

Beata Vergine Hospital
6850 Mendrisio

Viale Stefano Franscini
6850 Mendrisio

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