



# ANNUAL REPORT 2013



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**Dr. Fulvio Pelli**

Chairman of the Board of Directors

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# Message from the Chairman of the Board of Directors

Dear Madam,  
Dear Sir,

In 2013 Banca dello Stato del Cantone Ticino was able to post good results: commercial volumes showed substantial growth, the Bank's efficiency improved and, as a result, its operating activities also progressed.

The Institute increased its dividend payment to the Canton which now totals close to CHF 30 million. Ten years ago, this payment was slightly under CHF 16 million. It has thus almost doubled since that time.

In total the Bank distributed approximately CHF 240 million to its owner over the last 10 years.

Last year, the Institution also prepared for the migration to the new IT system called BSM (B-Source Master), reviewing at the same time its work processes and organisational structure. Besides developing its business activities, the Bank worked intensively on the "Zenit" project which is expected to lead to the replacement of the present informatics platform by the beginning of April 2014. Staff had the opportunity to perform several tests on the new platform, and attended numerous hours of training to familiarise themselves with this system's peculiarities.

Thanks to the "Zenit" project, the Bank will be able to redirect its own resources more efficiently in order to bolster customer advisory services while externalising those activities requiring increasingly more technical knowledge, as specialised firms such as B-Source can carry these out more efficiently. The outsourcing of some support services, the new work processes, the new IT system and a streamlined organisational structure should all contribute to a further improvement in operational efficiency as well as the enhancement of client services. Meeting these objectives is particularly relevant, as this will allow the Institute better preparation in facing the many challenges that have come to characterise the banking business in recent years.

On the subject of challenges, it should be remembered that 2013 was a demanding year. Alongside persistent instability with regard to the economic and financial context, there was the heightened controversy over taxation issues with the United States which, after long debate, has led to a solution based on the US proposition to Swiss banks to participate in a "program" in order to amend possible past violations of the rules and regulations applicable in that country.

The decision on whether or not to take part in that program has required considerable human and financial resources from BancaStato. After scrutiny, and although it never actively attempted to attract American clients, the Bank decided to participate in the "US program". This decision has been reached essentially for prudential reasons as the Bank cannot ascertain that all the clients who are considered to be Americans by the US revenue authorities (whose definition is not limited to US residents or US citizens, but uses much wider criteria) have made full tax declarations to the IRS since 2008.

With regard to the real estate market, it should be noted that the Federal Council has acted upon the request of the Swiss National Bank (SNB) which was particularly concerned by the increasing risk of a real estate bubble, activating part of the "anticyclical capital buffer" on mortgage loans established by the new Federal Ordinance on Capital Adequacy applicable to Banks. With interest rates at historical lows for the last years, a restrictive monetary policy will not succeed in slowing down the increase in mortgage loans. In fact, higher interest rates would certainly have a cooling effect on the real estate market, but would also strengthen the Swiss Franc, and therefore penalise exports. The SNB has therefore decided to intervene directly by increasing the banks' ratio of capital to mortgage lending.



In a year of consistent growth in lending, BancaStato has had to earmark a substantial quota of own funds and reduce its margin of manoeuvre in order to continue to develop its business. In 2014 these margins are expected to be further restricted as the Federal Council, still on instructions from the SNB, has decided to double the "anticyclical capital buffer". In this regard, it is important to remember that, in 2013, the Board of Directors requested the State Council to increase the endowment capital by CHF 90 million in view of the investments required by "Zenit", the increase in commercial volumes and the stricter norms on capital adequacy. As a result of this allocation and of the ordinary allocation to the legal reserve, the Bank's capital before appropriation of available earnings increased by CHF 103 million, totalling CHF 810 million. The pace of growth in productive lending to the economy of the Canton continued to be strong even at the beginning of 2014, and will require the adoption of further specific measures to consolidate capital adequacy in order to be maintained.

In 2013, the Bank performed well in terms of business volumes, increasing most of the principal items on its balance sheet. BancaStato recorded a further substantial growth of CHF 584 million in mortgage lending, totalling close to CHF 6.9 billion. The influx of new assets from clients was remarkable, double the amount booked in 2012, running ahead of CHF 1 billion. Overall, client assets managed by the Bank total CHF 9.1 billion.

The increase in business volumes was matched by growth in net revenues in spite of the concentration of resources on the "Zenit" project, the ongoing economic instability in Europe, the historically low level of interest rates, problems related to the management of assets belonging to clients domiciled abroad, the stricter norms on capital adequacy and continued competitive pressure. The Institute has been persistently working on its efficiency, and has succeeded in maintaining its operating expenses at the previous year's level, apart from the costs of the "Zenit" project and for the analyses and certifications in connection with the unilateral US program.

On the whole, in spite of these extraordinary expenses, gross profit increased by close to CHF 4 million (+7.4%).

Net valuation adjustments, provisions and losses increased by CHF 4.1 million. This is due primarily to an allocation effected by the Bank in view of the "US program". In this context, it is important to note that, apart from this non-recurring item, the quality of the loan portfolio remains excellent despite its substantial growth, and is a clear evidence of the Bank's strict lending policy.

Net income grew by approximately CHF 1.4 million, allowing the Bank to increase its payment to the Canton by about CHF 1 million to a total of CHF 29.7 million. In conjunction with an increased distribution of profits and stepped-up lending to the productive economy, the Institute has been actively promoting the economy of Ticino by providing ongoing support to research institutes as well as to labour organisations and numerous sports, cultural and music societies.

In 2013, BancaStato successfully increased its efficiency (in terms of its ratio of operating costs to net revenues). However, the Bank recognizes that it must succeed in improving further, particularly as compared to other cantonal banks. In view of this particular framework, the Institution has launched the "Zenit" project. Even though this project will absorb considerable resources in 2014, it is expected to produce significant sought-after positive results.

With regard to the anticipated performance in 2014, and in view of the pervading economic instability and the expected important changes in the Swiss federal banking legislation, it has become even more difficult to make reliable predictions, particularly in terms of business volumes and revenues. Also to be taken into account is the fact that the "Zenit" project is expected to take up considerable resources, both financial and human.

**Dr. Fulvio Pelli**

Chairman of the Board of Directors

# Corporate Governance

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

## Introduction

For the ninth year in a row, Banca dello Stato del Cantone Ticino (BancaStato) chose to voluntarily publicise information on its corporate governance. The publication draws reference from the outline proposed by the Directive on Information Relating to Corporate Governance, issued by SIX Swiss Exchange, latest version effective 1 July 2009<sup>1</sup>.

All data herein are at 31 December 2013 or refer to the entire 2013 financial year, unless otherwise indicated.

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

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

The Institution's statute is that of a cantonal bank, in accordance with the Swiss Federal Law on Banks and Savings Banks<sup>2</sup>.

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

The Bank is established with no time limit. Its head office is in Bellinzona<sup>3</sup>.

## Purpose and Activities

The purpose of Banca dello Stato del Cantone Ticino, as indicated in Art. 3 of the Law on Banca dello Stato del Cantone Ticino, is to promote the economy of the Canton and to provide the public with opportunities for secure and remunerative investment of their savings. In conformity with the above-mentioned Law, the activities of the Bank extend to all operations of a full-service bank.

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

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

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

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

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

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

## Supervision

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

## 1. BANK STRUCTURE AND OWNERSHIP

### 1.1 Operational structure

#### 1.1.1 Group operational structure

BancaStato is a Group. As at 31 December 2013 the Bank held a 100% share in a holding company, AHSA Holding SA, with headquarters in Lugano (nominal capital: CHF 7.5 million). In 2013, BancaStato acquired from Bellflower Holding SA (owned by the management of Axion SWISS Bank SA) the 20% share it held in the capital of AHSA Holding SA. AHSA Holding SA in turn owns 100% of the share capital of Axion SWISS Bank SA (nominal capital: CHF 43 million). With this structure, BancaStato remains legally autonomous. As a Group, BancaStato adopted special Group Regulations which lay down its overall organisational rules.

#### 1.1.2 Bank operational structure

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

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

## 1.2 Ownership

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

## 1.3 Cross-shareholdings

The Bank does not have any cross-shareholdings.

## 2. CAPITAL STRUCTURE

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

By law, the State assigns the Bank an endowment capital and the Bank is authorized to issue participation certificates. To this date the Bank has not made use of the latter source of capital, and its capital solely consists of the endowment capital provided by the State, that is CHF 200 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 2013.

### 2.2 Specifications concerning capital

Pursuant to Art. 6 of the Law on Banca dello Stato del Cantone Ticino, any increase in endowment capital must be authorised by the Grand Council (Cantonal Parliament). On 23 November 2011, the Government issued a request to Parliament with respect to increasing BancaStato's endowment capital from CHF 110 million to CHF 240 million<sup>6</sup> in order to satisfy the new requisites of the Federal Supervisory Authority on financial markets in terms of capital adequacy<sup>7</sup> and to sustain the investments involving several important projects which BancaStato is implementing while, at the same time, still guaranteeing a margin of financial autonomy. The Legislative Decree related to this request was approved by Parliament on 8 May 2012. Up to the present time, as mentioned under 2.1, the State has paid out CHF 200 million.

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

<sup>5</sup> Refer to: [http://www.bancastato.ch/dms/site-bancastato/documenti/Corporate-BancaStato/Legge\\_di\\_istituzione/Leggelstituzione.pdf](http://www.bancastato.ch/dms/site-bancastato/documenti/Corporate-BancaStato/Legge_di_istituzione/Leggelstituzione.pdf)

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

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



## 2.3 Changes in capital

On 31 December 2013, in conformity with Government Resolution n° 5285 of 15 October 2013, the endowment capital was increased from CHF 110 million to CHF 200 million.

## 2.4 Shares and participation certificates

The Bank's endowment capital is not divided up into shares. According to Art. 6 of the Law on Banca dello Stato del Cantone Ticino, the Institution is authorised to issue participation certificates not exceeding 50% of its endowment capital. As at 31 December 2013 there was no participation capital.

## 2.5 Bonus certificates

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

## 2.6 Limitations on transferability and nominee registrations

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

## 2.7 Convertible bonds and options

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

## 3. BOARD OF DIRECTORS

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

The Board of Directors exercises the ultimate responsibility for the management of the Bank and the supervision and control of the state of business.

The Board is composed of seven members who must be Swiss citizens of which at least six must be domiciled in the Canton (Art. 19 of the Law on Banca dello Stato del Cantone Ticino). Based on the provisions of Art. 20 of the Law on Banca dello Stato del Cantone Ticino, members of the State Council

(Cantonal Government), government officials, magistrates of any type (except for justices of peace), directors, administrators and employees of other credit institutions (with the exception of members of the Swiss National Bank governing bodies), cannot be appointed to the Board of Directors. Relatives and next of kin, spouses, registered partners or cohabiting partners, siblings or siblings-in-law, business partners and employees of the same company may not be members of the Board of Directors simultaneously. This is in line with the provisions of the Swiss Financial Market Supervisory Authority, FINMA Circular 2008/24<sup>8</sup>.

The members of the Board of Directors do not carry out operational functions. No member of the Board of Directors has been a member of the Executive Board or member of the Auditors (previous or present). Hereunder is a brief presentation of the members of the Board in office as at 31 December 2013<sup>9</sup>, their function, education, professional background and principal activities.

### FULVIO PELLI

#### Function

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

#### Education and professional background

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

#### Other principal activities

- » National councillor since 1995, president of the Swiss Liberal Radical Party from 2005 to 2012;
- » Member of the Board of Directors of the Cooperative, the Holding and two operational companies of the La Mobiliare Group, Bern;

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

<sup>9</sup> The composition of the Board of Directors has remained unchanged with respect to 31.12.2012.

- » Member of the Board of Directors of Sogeho International Holding SA, Luxemburg;
- » Member of the Board of Directors of Genolier Swiss Medical Network SA and its controlled companies Ars Medica Clinic SA, Gravesano and Salus Medica Clinic SA (Clinica Sant'Anna), Sorengo;
- » Chairman of the Board of Directors of Blufin SA, Lugano.

## **ROBERTO GRASSI**

### **Function**

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

### **Education and professional background**

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

### **Other principal activities**

- » Chairman or Member of the Board of Directors of various companies of the Fidinam Group;
- » Chairman of the Board of Directors of Pizzarotti SA, Lugano;
- » Member of the Board of Directors of SRP Services SA, Lugano;
- » Member of the Chairman's Office of the Chamber of Commerce, Industry and Crafts of Canton Ticino (CCIATI);
- » Member of the Board of Directors of SAINT GEORGE CAPITAL MANAGEMENT SA, Lugano;
- » Vice-president of the Lugano Commodity Trading Association.

## **CARLO DANZI**

### **Function**

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

### **Education and professional background**

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

### **Other principal activities**

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

## **MARCO FANTONI**

### **Function**

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

### **Education and professional background**

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

### **Other principal activities**

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

## **GIOVANNI JELMINI**

### **Function**

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

### **Education and professional background**

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

### **Other principal activities**

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

## **MICHELE MORISOLI**

### **Function**

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

### **Education and professional background**

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

### **Other principal activities**

- » Vice-president of the Casa dell'Accademia Foundation, Mendrisio;
- » Member of the IT for Persons with Disabilities Foundation, Lugano.

## **RAOUL PAGLIA**

### **Funzione**

Function Member of the Board of Directors, born on 22 April 1967, Swiss. On the Board of Directors since 10 July 2012, Member of the Projects Committee.

### **Education and professional background**

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

### **Other principal activities**

No other activities to mention.

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

This information is included in Section 3.1.

### **3.3 Elections and terms of office**

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

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

Fulvio Pelli, Chairman: 1 July 2004/30 June 2014  
Carlo Danzi, Secretary: 10 July 2007/30 June 2016  
Marco Fantoni: 10 March 2009/30 June 2015  
Roberto Grassi, Deputy Chairman: 1 July 2004/30 June 2016  
Giovanni Jelmini: 1 December 2011/30 June 2016  
Michele Morisoli: 2 December 2008/30 June 2014  
Raoul Paglia: 10 July 2012/30 June 2015

### 3.4 Internal organisational structure

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

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

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

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

In 2013, the Board of Directors convened 14 times.

The meetings of the Board of Directors and its committees lasted between two and five hours.

### 3.5 Areas of responsibility

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

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

#### *Regulatory duties*

- establishing the Bank's regulatory provisions;
- laying down the operating rules and regulations and special regulations;
- laying down special rules and regulations on risk management, expense limitations and organisational responsibilities;
- drawing up a formal document on the public mandate in view of defining the general and specific objectives which are to be met in the medium term by the Bank in favour of the development of the cantonal economy, specifying the instruments to be used to this end and priorities;
- issuing, upon prior consultation with personnel, Bank Rules on Work Contracts and Staff Salaries.

#### *Organisational duties*

- establishment of the Bank's organisation;
- definition of the Bank's organisational chart;
- appointment, compensation, adoption of disciplinary measures, suspension, removal of the President of the Executive Board, members of the Executive Board, Members of the Management, Chief Auditor, Deputy Chief Auditor and the Compliance Officer;

- organisation of accounting, controlling and financial planning;
- establishment and closing of branches, agencies and representative offices;
- appointment and dismissal of External Auditors;
- granting or revoking power to sign as laid down in Art. 22 and 23 of the Operating Rules and Regulations;
- authorisation to assume mandates as corporate or foundation bodies on the part of all Bank staff;
- authorisation to operate in new sectors;
- approval of tasks and objectives of each division;
- decision to appear in court and initiate legal proceedings, with power to delegate;
- appointment of the Chairs of the Committees of the Board of Directors.

#### *Strategic and financial duties*

- approval of the Bank's financial plans and strategic guidelines laid down in the strategic planning document;
- review and approval of budgets, accounts, semi-annual and annual financial reports;
- review and approval of the annual social and environmental report;
- decision on the issuance of participation certificates as per special regulations and the annual setting of the base dividend on participation capital;
- decision-making, upon notice from the Executive Board, on requests for loans, credits or advances and on operations which engage Bank funds or its pecuniary responsibility and which are not part of delegated responsibilities as laid down in the operating rules and regulations;
- approval of loans to the members of the Executive Board and the Chief Auditor;
- ratification of loans granted to members of the Board of Directors by the Executive Board or by its subordinate offices within the framework of their delegated responsibilities;

- decision-making on the acquisition and disposal of participations exceeding 1.5% of the subsidiary's capital or exceeding CHF 2 million, within the limits set by Art. 14 of the Law on Banca dello Stato del Cantone Ticino;
- fixation, in agreement with the State Council, of the interest rate on the endowment capital;
- providing the State Council with the annual report, the financial statements, the proposal for appropriation of available earnings and the External Auditors' report by 31 March of each year;
- establishment of reference rates and oversight to ensure that the individual rates set by the Executive Board are in conformity with Art. 3 of the Law on Banca dello Stato del Cantone Ticino;
- reporting to the Swiss Financial Market Supervisory Authority (FINMA) in the event that capital requirements are not met;
- current operating expenses and investments in infrastructure which are not specifically delegated to the Executive Board.

#### *Supervision and control duties*

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

Moreover, the Board of Directors makes decisions, in accordance with Art. 24 of the Law on Banca dello Stato del Cantone Ticino, on any other matter that the said Law or the Bank's Rules and Regulations do not explicitly assign to another Bank body or authority. With respect to consolidated supervision, the Board of Directors exercises its competences on the basis of the Group rules and regulations which is drawn upon the principles mentioned above (Art. 24 of the Law on Banca dello Stato del Cantone Ticino and Art. 11 of the Operating Rules and Regulations).

In compliance with Art. 25 of the Law on Banca dello Stato del Cantone Ticino, the Board of Directors may delegate part of its duties, to the exclusion of those inalienable on the analogy of Art. 716a of the Swiss Civil Code, to permanent or ad hoc committees composed of members of the Board of Directors or to the Executive Board. As a rule, the Committees do not have any decision-making authority; they draw up notices to the Board of Directors on matters relating to their own charter. Specific decisional authority may be attributed by the Board of Directors. Minutes are taken at every meeting of the Chairman's Office and of the Committees. With respect to the delegation of duties to the Executive Board, refer to the corresponding paragraph under Executive Board.

The functions and organisation of the Chairman's Office and the Board of Directors' Committees as at the end of 2013 are described hereunder. As laid down in internal regulatory provisions, at Group level, the activities of the Committees of the Board of Directors also comprise all issues entrusted for the Group to BancaStato's Board of Directors.

### **CHAIRMAN'S OFFICE**

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

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

The Chairman's Office is composed, as it was at the end of 2012, of the Chairman, Dr. Fulvio Pelli, the Deputy Chairman, Dr. Roberto Grassi and the Secretary, Mr. Carlo Danzi. In 2013, the Chairman's Office convened twice.

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

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

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

The Audit Committee of the Board of Directors is composed, as it was at the end of 2012, of the Chairman, Dr. Roberto Grassi, and Messrs. Carlo Danzi and Michele Morisoli, members. In 2013 the Committee convened six times.

### **Projects Committee**

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

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

- planning, budget, implementation, management and control methods, future impact and other possible aspects relating to projects which the Bank may consider;
- investments which fall within the authority of the Board of Directors.

The Projects Committee is composed, as it was at the end of 2012, of the Chairman, Mr. Marco Fantoni and Messrs. Giovanni Jelmini and Raoul Paglia. In 2013 the Committee met twice.

### Strategy Committee

The Strategy Committee examines the issues and submits notices to the Board of Directors in matters of the Bank's strategy. This Committee is composed, as it was in 2012, of the Chairman, Dr. Fulvio Pelli and Mr. Carlo Danzi and Dr. Roberto Grassi, members. In 2013 the Committee met twice.

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

In line with the Operating Rules and Regulations, the President of the Executive Board reports monthly to the Board of Directors: the balance sheet and income statements, information on the Bank's liquidity, capital adequacy, the situation as regards risks as well as information on the functioning, effectiveness and results of the internal control system. Moreover, quarterly, he must convey to the Board of Directors information regarding the business development with respect to targets and strategies set by the Board of Directors, as well as information regarding the general business state of the Bank and information on major risks, as per Art. 16 of the Ordinance on Liquidity and Art. 95 and following of the Capital Adequacy Ordinance. Semi-annually, he must provide the balance sheet and the semi-annual income statement.

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

As deemed necessary, other documents or data may be requested. Information concerning the management of risks is provided in the Notes to the Financial Statements. The fundamental principles of information flows have been set also at the level of the Group. The Bank has External Auditors, in conformity with current banking legislation (cf. Section 8.1) as well as Internal Auditors.

The Internal Auditors' Office is independent of the Executive Board and was composed at the end of 2013 of six staff, including the Chief Auditor (Mr. Gabriele Guglielmini, Chartered Accountant – Federal Accounting Diploma). The Chairman of the Board of Directors acts as the Chief Auditor's direct superior and oversees his activity.

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

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

#### 4. EXECUTIVE BOARD

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

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

##### *Regulatory duties*

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

##### *Management and organisational duties*

- implementation of the Bank's organisation;
- implementation of the Bank's detailed organisational chart;
- development of the Bank's strategic planning and implementation of the measures envisaged in the same based on decisions of the Board of Directors;
- organisation of financial management controls;
- recruitment, compensation, appointment and disciplinary measures, dismissals, as well as direction and supervision of staff other than those falling within the authority of the Board of Directors;

- preparation of the documents pertaining to matters to be submitted to the Board of Directors;
- membership in trade associations;
- decision to appear in court and initiate legal proceedings, as delegated;
- apprising the Board of Directors on the Bank's business development and on its economic and financial state;
- definition of the duties and targets in each division.

##### *Financial duties*

- preparation of budgets, semi-annual and annual financial statements;
- drawing up of the social and environmental reports;
- approval of monthly accounts to be submitted to the Board of Directors;
- implementation of the decisions taken by the Board of Directors with regard to loan requests, credits or advances on operations which engage Bank funds or pecuniary responsibility and which are not included in delegated responsibilities as outlined in the Special Regulation on Risk Management;
- decision on risk-incurring, investments and expenditure, within the limits of the relevant Special Regulations;
- decision on the issuance of bonds or other third-party asset gathering;
- determination of individual interest rates, in accordance with the provisions of Art. 3 of the Law on Banca dello Stato del Cantone Ticino;
- notice to the Board of Directors in the event capital requirements are not met;
- decision-making on the acquisition and disposal of participations not exceeding 15% of the subsidiary's capital or CHF 2 million;
- current operating expenses and investments in infrastructure within specific competency limits.



### *Supervision and control duties*

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

### *Credit duties*

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

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

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

### **Risk Committee**

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

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

### **Credit Risk Committee**

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

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

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

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

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

#### 4.1 Members of the Executive Board

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

Following is a short introduction to the members in office as at 31 December 2013 along with their functions on the Executive Board, their educational background, their professional record of accomplishments and their other activities<sup>10</sup>.

##### **BERNARDINO BULLA**

###### **Function**

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

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

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

At the end of 1998 he was responsible for corporate customers at Credit Suisse-Lugano. He joined BancaStato on 1 October 2000 as a Member of the Executive Board and Head of the Corporate Clients Division.

From 16 April 2007 to 31 December 2011, he was Head of the Risk Control Division. In January 2012, he became President of the Executive Board (competencies listed under 1.1.2).

###### **Other activities**

- » Member of the Board of Directors of Axion SWISS Bank SA, Lugano;
- » Member of the Executive Committee of the Ticino Bankers' Association;
- » Member of the Board of Directors of the Association of Swiss Cantonal Banks (ASCB), Basel.

##### **RENATO ARRIGONI**

###### **Function**

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

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

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

###### **Other activities**

Colonel of the General Staff in the Swiss Army, former Commander of the Territorial Regiment 96; Member of the Board of Directors of TeleTicino SA.

##### **FABRIZIO CIESLAKIEWICZ**

###### **Function**

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

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

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

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

<sup>10</sup> As of 1 April 2014, BancaStato will have a new organisational structure. As regards the Executive Board, it will include a new member, Daniele Albisetti. The details will be laid down in the 2014 Annual Report.

### Other activities

- » Member of the Board of the Carlo and Albina Cavargna Foundation;
- » Member of the Board of Directors of the Gottardo SA Demonstration Cheese Factory;
- » Member of the Board of Directors of Gestione Gottardo SA;
- » Member of the Board of Governors of the Ticino Cancer League;
- » Chairman of the Board of Directors of Parco Multifunzionale Ambri Piotta;
- » Deputy Chairman of the Foundation Council of the Fondazione di Previdenza Risparmio 3 of Banca dello Stato del Cantone Ticino.

### CLAUDIO GENASCI

#### Function

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

#### Education and professional background

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

Since 16 April 2007 he has been Head of the Markets and Private Banking Division.

#### Other activities

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

## 5. COMPENSATION, PARTICIPATIONS AND LOANS

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

The fixed and variable compensation of the Executive Board, as well as that of the Chief Auditor, his Deputy, Members of the Management and Head of Compliance fall within the responsibility of the Board of Directors. Present compensations of the Members of the Board of Directors are established on the basis of a Resolution of the State Council dated 23 June 2004, effective 1 July 2004. The Board of Directors approves the Staff Rules and Regulations and the Management Rules and Regulations, which also outline the Bank's policy with regard to salaries, allowances and variable retributions. On an annual basis and acting on proposals from the Executive Board, the Board of Directors makes decisions with regard to the review of annual salaries and the variable component within the framework of MbO (management by objectives).

The social security coverage of the members of the Executive Board is calculated using the same parameters as used for calculating the compensation to Members of the Management. Guaranteed coverage exceeds minimum legal requirements. Moreover, they benefit from the family allowances granted to all staff. The following figures include fixed retribution, variable retribution and a lump sum figure for entertainment expenses. In 2013, total compensation for members of the Bank's bodies was as follows: CHF 301,077 for the Board of Directors and CHF 2,521,201 for four members of the Executive Board. The highest compensation within the Board of Directors was CHF 64,641 and the highest compensation within the Executive Board was CHF 778,000. Among the Bank's providers there are entities connected to the members of the Board of Directors and the Executive Board. The members of the Board of Directors and the members of the Executive Board benefit from mortgage loans under the same conditions as the Bank staff.

At the end of 2013, loans to Bank governing bodies totalled CHF 68 million (see also Table 4.6 of the Notes to the Financial Statements).

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

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

## **6. SHAREHOLDERS' PARTICIPATION RIGHTS**

### **Relations with Ownership**

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

Moreover, the State Council sends to the Grand Council the specific annual report drawn up by the Bank's Auditor, after examination and after formulating its remarks in this regard. At the same time, it transmits the message on the Bank's income statement and balance sheet. In conformity with Art. 34 of the Law on Banca dello Stato del Cantone Ticino, the Grand Council exercises a supervisory duty as regards the fulfilment of the public mandate by way of the Public Mandate Control Commission. This Commission is made up of one member per parliamentary group each of whom is appointed by the Grand Council for a period corresponding to one legislative session.

In compliance with the provisions of Art. 35 of the Law on Banca dello Stato del Cantone Ticino, the Public Mandate Control Commission verifies the correct fulfilment of the public mandate and draws up a special report to the attention of the Management and Finance Commission on the achievement of the public mandate.

The report prepared by the Commission must include its opinion on the degree of fulfilment of the general and specific objectives laid down in the strategic document on the public mandate as drawn up by the Board of Directors, and based in particular on its analysis of the Annual Social and Environmental Report. The Commission may at any time request the Bank's governing bodies to supply the explanations and documents which it needs in order to carry out the aforementioned task.

In 2013 there were three changes in the composition of the Public Mandate Control Commission which as at 31.12.2013 included: Raffaele De Rosa (chairman), Marco Chiesa (deputy chairman), Elena Bacchetta (member, in place of Michela Delcò Petralli since 27 May 2013), Daniele Caverzasio (member, in place of Michele Barra since 1 July 2013), Pelin Kandemir Bordoli (member, in place of Saverio Lurati since 18 February 2013) and Christian Vitta (member). In accordance with Art. 39 of the Law on Banca dello Stato del Cantone Ticino, the Board of Directors must submit its report on the state of business at the Bank, the income statement and the balance sheet, the proposal for appropriation of available earnings and the report of the External Auditors to the State Council by 31 March of every year. By 30 April, the State Council transmits the documentation to the Grand Council for approval of the annual accounts, the proposed appropriation of available earnings and the sign off of the Bank's governing bodies.

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

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

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

## 8. AUDITORS

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

The appointment of the Auditors falls under the authority of the Board of Directors (Art. 37 of the Law on Banca dello Stato del Cantone Ticino). In 2005, the Board of Directors entrusted the External Auditor mandate to PricewaterhouseCoopers SA in accordance with the Banking Law. In 2013, Mr. Beresford Caloia, partner at PricewaterhouseCoopers SA, assumed the function of lead auditor for the fourth time. This mandate is annual.

### 8.2 Auditing honorarium

For the year 2013, the auditing honorarium of PricewaterhouseCoopers SA for the ordinary audit and other audits amounted to CHF 421,814.

### 8.3 Additional honorariums

In 2013 additional services for CHF 660,324 were required from PricewaterhouseCoopers.

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

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

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

## 9. INFORMATION POLICY

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

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

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

For the 2013 financial year, the Bank published for the ninth year in a row its Social and Environmental Report<sup>12</sup>. BancaStato can be accessed by the public via their website [www.bancastato.ch](http://www.bancastato.ch) which facilitate access to information on products, services and news from the Bank. The website [www.bancastato.ch](http://www.bancastato.ch) was developed in cooperation with IT professionals, and is updated on an ongoing basis and has become a choice communication channel with the public. The Bank publishes the magazine "BancaStato News"<sup>13</sup> twice a year (in January and July) and contributes to various publications which deal with financial and economic issues with interviews, presentations and financial articles<sup>14</sup>.

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

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

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

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



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

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

For further information, contact:

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# Ticino's Economy in 2013 and Outlook for 2014

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## The International Overview

The impressive and ongoing activity on the part of several central banks will be remembered as a characteristic feature of 2013. The largely expansive manoeuvres adopted by the United States, Japan and the United Kingdom were met by formally less aggressive monetary policies, especially in Europe. On the financial markets, the expansive monetary policies have reduced the risk premium requested by investors, pushing stock markets up. The growth in US equity was among the most substantial of the last decade. However, the risks of a possible overrating of these assets, whose present values are in line with their fair value, are beginning to emerge. As for the real economy, starting in the third quarter of 2013, positive results could be observed, above all, in those economies that had implemented expansive monetary policies. However, inflation rates were not particularly high and neither did they approach the threshold requiring attention as defined by central banks. Foreign exchange markets also came under the influence of decisions involving economic policies; revaluations or devaluations de facto followed monetary policies, and trends more closely connected with growth expectations were observed only toward the end of the year.

The situation in Europe was different, except for Switzerland and Great Britain. In European countries, there has been a persistent economic stagnation with particularly high unemployment rates in a number of EU countries. In a framework characterised by the successful attempt to rationalise and normalise markets, there are some doubts for the future with respect to the probable distortions that expansive policies may bring about in investors' behaviour. The danger of new speculative bubbles has become a topic for discussion and the timing for these interventions is beginning to be a subject of debate. In this regard, some countries' high debts and structural problems may again bring about economic slow-down or even an economic crisis. It is however difficult to imagine that the central banks would allow these risks to re-emerge in 2014 after having deployed considerable efforts in the past year to control them.

A reduction of the risk premium, entailing an increase in risk-free rates and a decrease in the yield of other assets, may be

expected in 2014 as a result of a more vigorous economic growth, a minor perception of risk by investors and an easing of expansive monetary policies.

From a quantitative viewpoint, the International Monetary Fund predicted global growth below 3% in 2013, while expecting a 3.6% rate of growth in 2014. In the European Union this forecast is lower as these countries are still struggling with difficult internal policies. No extraordinary contributions are expected from emerging countries, while China is likely to pursue its upward trend as a result of improved domestic consumption.

## The national overview

In the European geographical context, Switzerland is an exception. While it is integrated in the European market in terms of trade, labour market and capital, it shows greater potential and more substantial real growth than its neighbours. Political and financial stability and lower taxation compared to the rest of Europe continue to be a drawing factor for workers and businesses alike.

In 2013, the rate of economic growth in Switzerland is expected to be just below 2% while for 2014 the growth estimate is between +2% and +2.6%. These forecasts may of course be revised upwards in the case of substantial improvement in the main destination markets for Swiss exports. The nature of the Swiss Confederation's commercial relationships and its national productive structure allow it to have a current account balance in relation to GDP which is among the highest in the world. This high ratio puts pressure on the demand for currency. In this regard, the policy adopted by the Swiss National Bank has proven to be successful. The minimum exchange rate against the Euro has been maintained without requiring major intervention on the forex market. The currency reserves held by the Central Bank have remained virtually unchanged compared to December 2012.

As for the monetary aggregates M1 and M3, they were slightly up. The inflationary expectations for 2013 and 2014 remain close to zero.



Employment is expected to increase by 1.3% and 1.2% in 2013 and 2014 respectively, with an unemployment rate of between 3.2% and 3.5%. Some elements of discontinuity arise in this context as a result of restrictive pressures on migratory and occupational flows which are among the contributing factors to the present growth.

### **The overview for Canton Ticino**

With reference to the situation in the Canton, the forecasts drawn up by BakBasel indicate an increase in GDP of 1.5% in 2013 and 1.6% in 2014. The secondary sector is expected to show a higher growth than the tertiary for both years thanks to good performance in the subsectors of electronics, optics, watches and pharmaceuticals. With reference to the tertiary sector, a particularly substantial growth is expected for all research and development activities. In Ticino, variations in employment have mirrored the national trend, though with different absolute values. In the third quarter of 2013, employment rose by 1.3% compared to the previous year while in December the unemployment rate stood at 4.9%, showing a decrease compared to the previous year and an opposing trend with respect to the national variation which is rising on an annual basis.

*February 2014*



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

## **Banca dello Stato del Cantone Ticino and the Economy in Switzerland and Ticino in 2013**

In 2013 the economic environment began at last to show the first signs of a long awaited trend inversion. Economic debates no longer revolved around the Euro, and the fears of a crash of Europe's single currency abated. The situation generally improved also at the international level. In spite of these positive signs, conditions remained difficult, particularly as a result of residual instability in several European countries. This accounted for the ongoing strength of the Swiss Franc against the main currencies, the Euro in primis, thus compelling the Swiss National Bank (SNB) to pursue an expansionist monetary policy with considerable interventions in the foreign exchange market. This policy helped to maintain the level of interest rates which thus remained unchanged. These continued to revolve around their historical minimum while giving some modest hints at an upturn.

Experts agree that 2014 is unlikely to see any significant change in the SNB's monetary policy. This fact will continue to bear negatively on banks' commercial margins, particularly with respect to client deposits.

As a result of the positive evolution on the main stock markets experienced in 2013, financial institutes were able to improve their commission income on clients' investments.

With respect to real estate – a market that has long been under close scrutiny by all economic operators – there were no significant changes: the growth trend of the last years has persisted in Switzerland and in Ticino, although less dynamically.

Real estate prices have shown a positive, yet mixed evolution, not only on the national level but also in various regions of Canton Ticino.

A few areas of northern Switzerland saw a further sharp rise in the values of real estate transactions. In Ticino, the areas around Locarno and Lugano continued, as in previous years, to be more dynamic in this respect than other regions.

Concern about a possible real estate bubble remains high. In 2013, the Federal Council therefore acted on the recommendation of the SNB by activating an initial "countercyclical capital buffer" which compels banks to hold more capital in relation to the mortgage loans granted, with the aim of putting a brake on an overheated mortgage market. In view of the fact that the initial effects did not meet expectations, the Federal Council decided to double the buffer starting in the end of June 2014.

In general terms, anticipations regarding the 2013 results of banking institutions operating on the national level are quite positive, and this sector is expected to show a slight overall growth, except for the negative impacts on some institutes of the regularisation program introduced by the American revenue authorities (US program).

The year 2013 was particularly gratifying for BancaStato both in terms of the realisation of its development strategy and results obtained.

The growth in client business volumes, both in the loan area (+11.6% to CHF 8.6 billion) and in funding (+6.4% to CHF 6.3 billion), is a clear sign of the Bank's pivotal role in the development of the Ticinese economy. Moreover, the significant increase in gross profit (+7.4% to CHF 57.7 million) and net earnings (+3.4% to CHF 41.8 million) has guaranteed an attractive remuneration to the Bank's ownership (+3.2% or CHF 29.7 million).

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

In 2013, mortgage lending was again confirmed as BancaStato's core activity. On the balance sheet, mortgage lending volumes expanded by 9.3%, up by CHF 584 million, totalling close to CHF 6.9 billion. It should be noted that almost all mortgage loans are now fixed-rate as a result of persistently low interest rates. In this regard, as well as in consideration of the concerns voiced over the last years regarding a possible real estate bubble, it must be stated that BancaStato's lending policy continues to be based on cautiousness. An analysis which was performed over the reporting year confirmed further improvement in the quality of the Bank's mortgage loan portfolio.

Overall, amounts due from customers grew by about CHF 310 million, or 21.3%, totalling CHF 1.76 billion. Loan requests on the part of public corporations totalled CHF 763 million, up by over 15% with respect to the previous year, and thus guarantee the Bank a predominant share in this market. Loans to private individuals and companies grew by CHF 203 million (+38.2%) to CHF 734 million, while construction loans showed an upswing of 35.9%, totalling CHF 144 million. This is a tangible sign of BancaStato's contribution to the development of the economy in the Canton.

As regards funding, amounts due to customers in savings and investment accounts were up again, though less markedly than in 2012, rising by CHF 142 million (+5.4%). Within this item lies, once again, the confirmation of our clients' interest in the special savings products designed by the Bank. These deposits recorded a growth rate of over 20% for the third year in a row. PRIMA salary accounts and tied-up pension (3rd pillar and vested benefits) deposits also experienced good growth. The persistent low level of interest rates in the market has translated into a natural regression in the volumes of clients' term deposits (fixed savings and cash bonds).

Other amounts due to customers also grew substantially (+7.6% or CHF 245 million), primarily in the private account segment; deposits by institutional clients, however, continued their downward trend.

The Bank regularly turned to bond issues of the Central Mortgage Bond Issuing Body of the Swiss Cantonal Banks for its own medium- to long-term financing needs. This source has provided capital at a particularly low cost during the reporting year.

The evolution of the Bank's balance sheet total topped the threshold of CHF 10 billion, continuing its over 20 year upward trend. In 1991, this figure was CHF 4.3 billion. It reached CHF 6.3 billion in 2001 and exceeded CHF 10.7 billion by the end of 2013, an increase of over CHF 1.5 billion or +16.4% annually.

With respect to off-balance sheet operations, there has been an upswing in operating volumes connected to guarantees and commitments arising from documentary credits, particularly in terms of the development of trade finance. Contract volumes on derivative instruments used primarily for exchange and rate risk hedging purposes have also increased.

## Evolution of Assets under Management

The volume of assets under management at BancaStato increased by over CHF 1.1 billion (+ 13.8%) rising above CHF 9.1 billion. Net new money exceeded CHF 1 billion, amply surpassing the excellent results reported in the three preceding years (CHF 338 million in 2010, CHF 393 million in 2011 and CHF 524 million in 2012). At the end of 2013, assets under custody amounted to CHF 825 million, a further confirmation of the trust enjoyed by BancaStato in the Swiss domestic market.

Assets under management by Axion SWISS Bank SA showed a progression of close to CHF 100 million, and stood over CHF 1.9 billion.

## Comment on the Evolution of the Main Revenue Items

For BancaStato, 2013 was distinctly satisfactory in terms of achieved results. Gross profit and net income grew by 7.4% and 3.4% respectively. This is also for the benefit of ownership as the proposed appropriation of available earnings entailed a total payment to the Canton of almost CHF 29.7 million, a 3.2% increase as compared to the preceding year. For a better understanding of the evolution of this important source

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

of revenue for the Canton, it should be noted that 10 years ago this payment stood somewhat below CHF 15.9 million. It has thus almost doubled over this period. The overall share distributed over the last 10 years exceeds CHF 240 million with an endowment capital now reaching CHF 200 million (up to a few days before the 2013 end year closing, the endowment capital stood at CHF 110 million). BancaStato has therefore paid out to the Canton well over the capital that was invested in the Institute.

The significantly improved results achieved by the Bank were backed up by the growth in total net revenues (+3.6%) and by cost containment measures – expenses were up by 1.4% only as a consequence of the charges related to the new IT project and those caused by the analyses in view of the US Program.

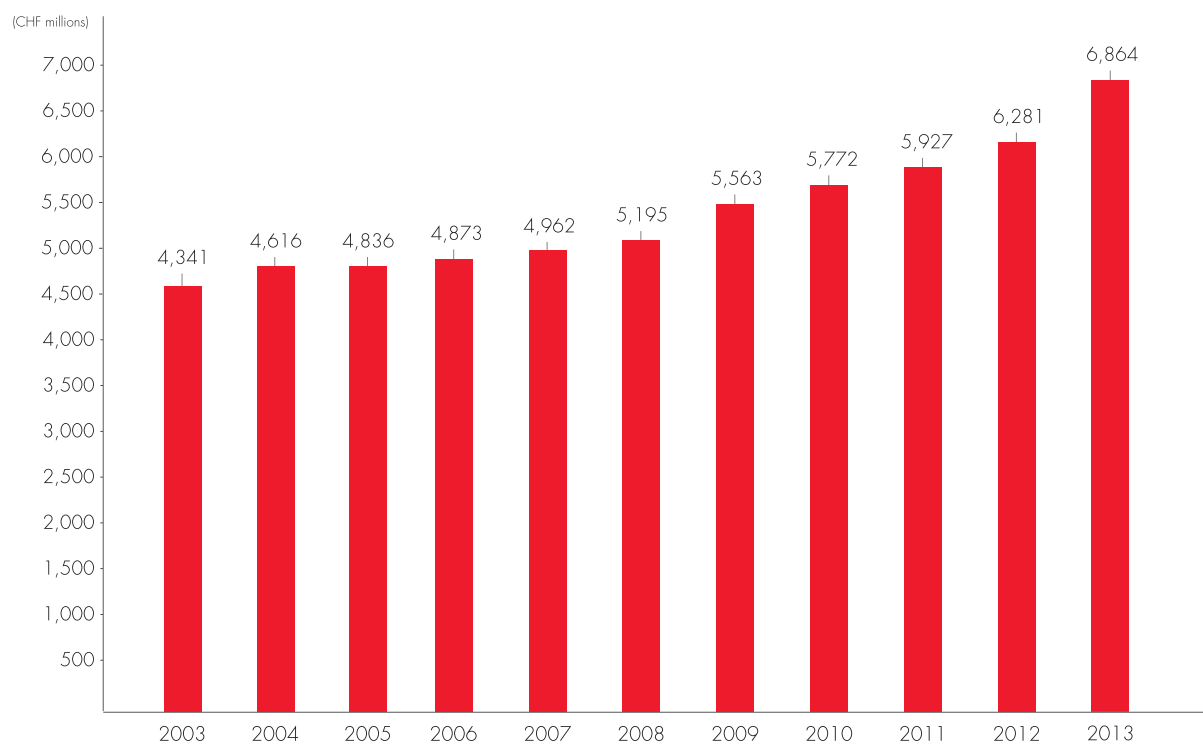
The results from interest activities rose to CHF 109.3 million, up almost CHF 3.2 million or 3%. The conspicuous growth in the volume of mortgages, coupled with slightly rising commercial margins in the lending business, has contributed to mitigate diminishing margins on client deposit operations as a result of

market rates still remaining at their historical lows. The expected rise in reference rates on the part of the SNB, which did not materialise as a result of contingent pressures on the Swiss franc in relation to other main currencies, has prompted the Bank to adopt a cautious policy in managing its balance sheet structure through substantial financing to match its lending exposure, which in part limited the growth of this item.

Even though market uncertainty remains to be dispelled and low risk propensity on the part of BancaStato clients (traditionally cautious in operating investments) has remained largely unchanged, net fees and commission income grew by 0.9% or CHF 0.3 million, levelling out at CHF 27.8 million. A positive contribution in this regard resulted primarily from increased volumes of assets under management.

Most items under commission income, with the exception of those derived from commission expenses, showed a positive trend; in particular income from asset management (+5.8%), from administrative fees (11.6%) and from real estate brokerage (+6.1%).

## EVOLUTION OF MORTGAGE LENDING



These were offset by a marked hike in commission expenses (+25.7%) as a result of major volumes administered through external asset managers.

Trading income of close to CHF 12.4 million rose by CHF 1.1 million, representing an almost 10% increase. This was due primarily to the substantial volume of currency brokerage business as well as to the careful management of market risks. Other operating results totalled CHF 4 million in 2013, rising by 22%, and showing a positive progression in most positions of this item.

Net revenues improved by CHF 5.3 million (+3.6%) to CHF 153.5 million. Cost containment actions which have been implemented for several years contributed to maintaining expenses at the same level, except for project expenses undertaken in 2013 in view of the implementation of the new IT system which is expected to begin in April 2014 and for the analysis and certifications required by the US Program. Operating expenses rose from CHF 94.4 million to CHF 95.7 million, up 1.4%. Personnel costs increased by about CHF 1 million also as a result of the strategic development of trade finance activities and bills trading. Other operating expenses rose by about CHF 0.3 million (+1.1%) and stood at CHF 27 million.

Gross profit showed a substantial progression of close to CHF 4 million (+7.4%), up from CHF 53.8 million to CHF 57.7 million.

The item depreciation on fixed assets rose slightly compared to its 2012 figure (+1.8% to CHF 12.8 million). It must be noted that the Bank reduced the duration of depreciation of its present IT systems on the basis of the expected date the new IT platform was to become operative.

Net value adjustments, provisions and losses were up from CHF 3.2 million to CHF 4.1 million, primarily as a result of the allocation operated by the Bank within the framework of the US Program. Therefore also in the year under analysis the evolution of this item does not follow from increased credit risks: the quality of the Bank's loan portfolio is excellent, and is clear evidence of the strict policy applied in the granting of loans.

Extraordinary income diminished from CHF 9.7 million in 2012 (resulting primarily from the release of a no longer necessary lump sum provision for credit risk) to CHF 1.1 million in 2013. At the same time, the item extraordinary expenses, which last year comprised a CHF 7 million allocation to the reserve for general banking risks, showed no movement in 2013.

BancaStato's net income showed even further progress with respect to the already substantial result achieved in 2012 when, for the first time in the Bank's almost 100 year history, it exceeded the threshold of CHF 40 million, up from CHF 40.4 million to CHF 41.8 million in the reporting year, representing a 3.4% increase.

The evolution of the various items contributing to the results of Axion SWISS Bank SA<sup>16</sup> showed similar trends to BancaStato's with a slight increase in net revenues (+0.6%) and expenses (+2.4%). Gross profit regressed by CHF 0.1 million (-5.1%) to CHF 2.5 million, while net income rose by CHF 0.1 million (+2.7%) to CHF 1.9 million.

The consolidated gross profit grew from CHF 55.4 million in 2012 to CHF 59.2 million in 2013, a CHF 3.8 million (+6.9%) increase; net income also progressed from CHF 40.1 million to CHF 41.6 million (+ CHF 1.5 million or +3.7%).

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

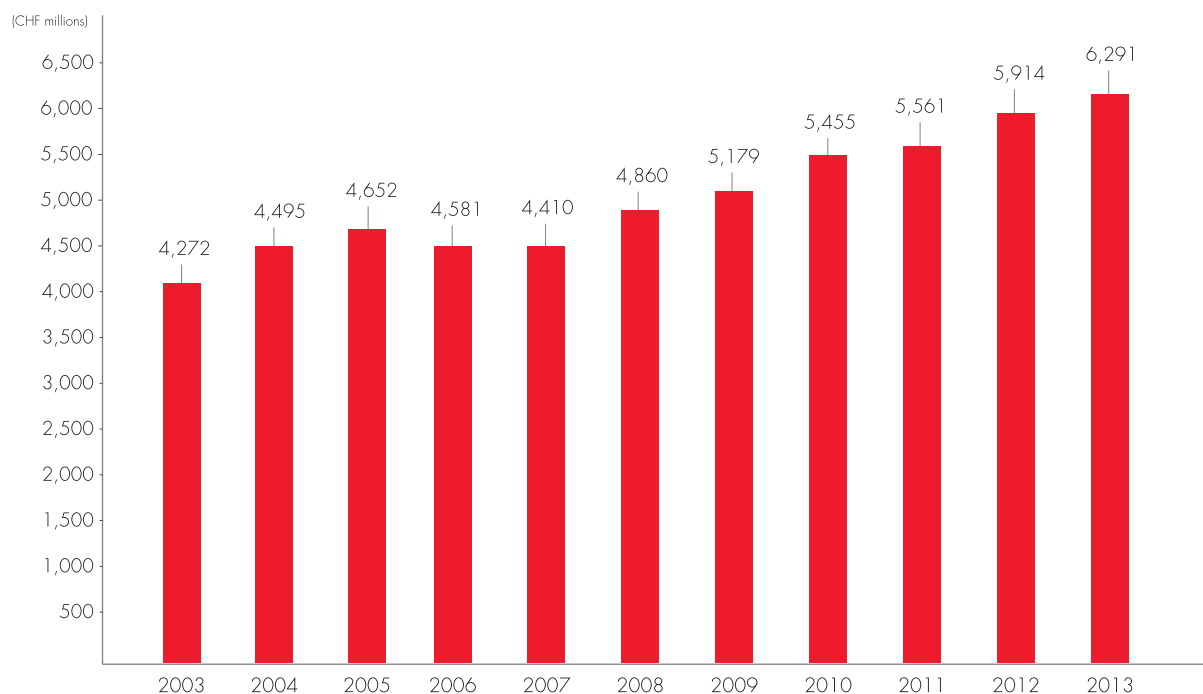
BancaStato's profitability in terms of Return on Equity (ROE)<sup>17</sup> improved as compared to previous years, up from 5.5% in 2010 to 5.9% in 2011 and from 6% in 2012 to 6.1% in 2013. Return on Risk Adjusted Capital (RORAC) decreased slightly and was slightly down from 10% in 2011 and 2012 to 9.3% in the year under review.

Against the backdrop of the improved results achieved during the past three years, there was, for the ROE, an average core capital increase of approximately CHF 15.5 million in 2011, CHF 19.8 million in 2012 and CHF 12.1 million in 2013 (net of the CHF 90 million increase in endowment capital granted on 31.12.2013); for RORAC, an increase in average required capital of CHF 27.3 million in 2011, CHF 28 million in 2012 and CHF 55.2 million in 2013 following an increase in balance sheet volumes. These increases are a key element from the perspective of capital adequacy, despite their negative impact on the growth of profitability (ROE).

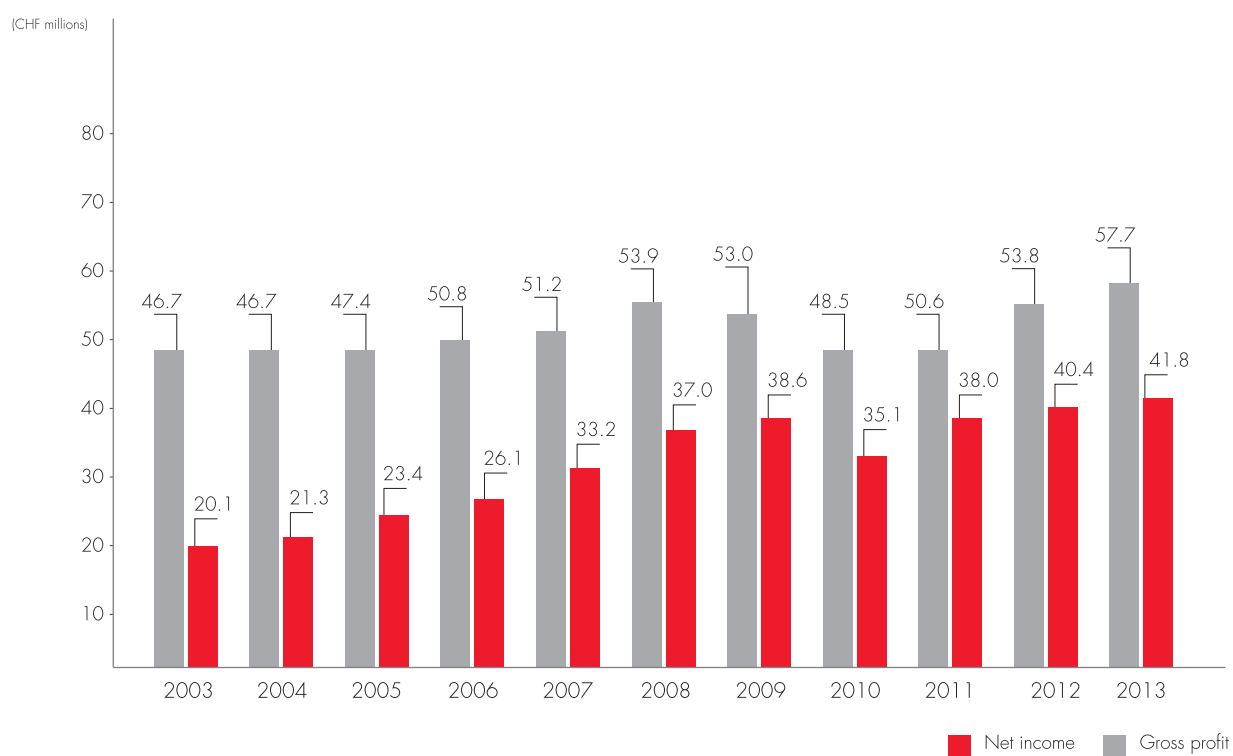
<sup>16</sup> For further information on the results of Axion SWISS Bank SA, refer to the company's Annual Report.

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

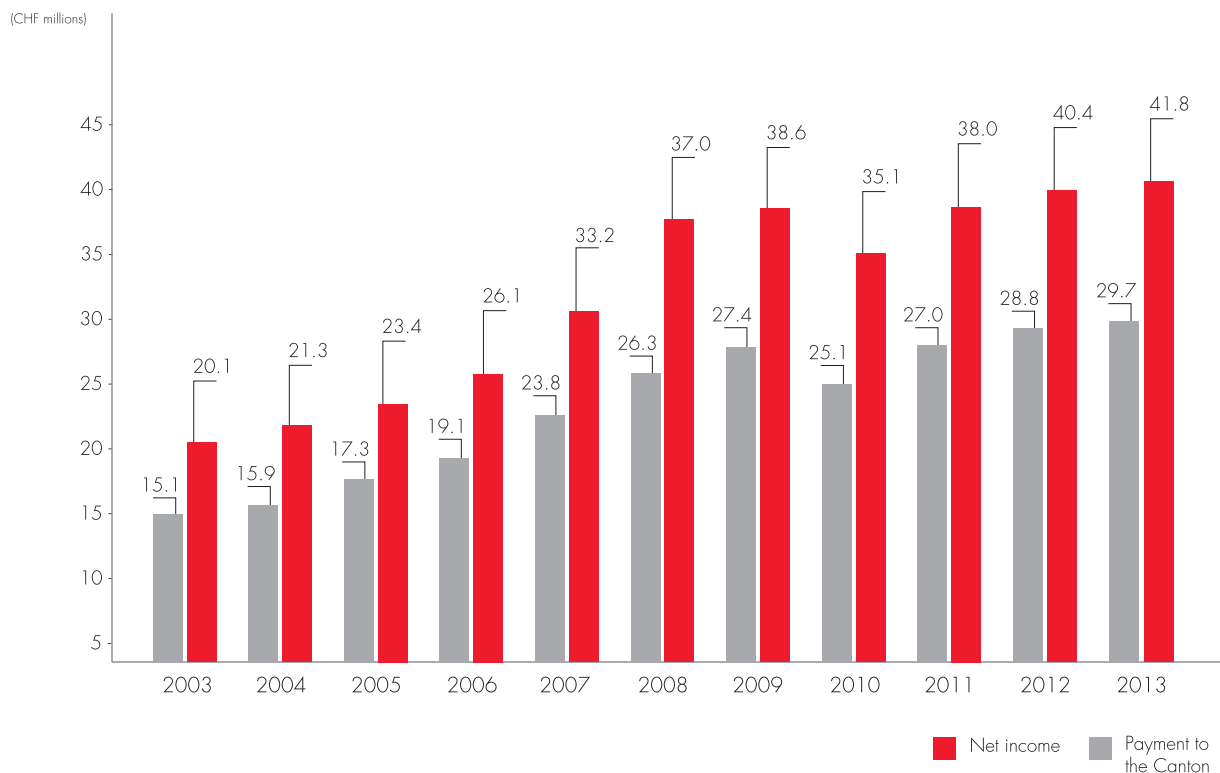
## EVOLUTION OF TOTAL AMOUNTS DUE TO CUSTOMERS



## EVOLUTION OF GROSS PROFIT AND NET INCOME



## EVOLUTION OF THE PAYMENT TO THE CANTON



The efficiency indicator, a measure of the cost to income ratio, further improved. It was down from 67.4% in 2010 to 65.5% in 2011, reaching 63.7% in 2012 and 62.4% in the reporting year. This was attributable to the cost containment measures which have been implemented by the Bank over several years as well as to the positive evolution of net revenues derived from the development of the Bank's business.

Staff was up from 438 full time equivalents (FTEs) at 31 December 2012 to 444.3 FTEs at the end of 2013. It must be noted that, in 2013, the Bank developed two new business areas (Bill Trading and Commodities & Trade Finance) which necessitated the hiring of specialised staff.

The Bank's capital adequacy, as determined by the ratio of required capital to available funds calculated on the basis of the Basel III standards, was reduced from 185.5% in 2012 to 178.1% on 31 December 2013, in spite of the increase in endowment capital by the Canton, and primarily as a result of the growing requirements resulting from higher loan exposure and the introduction of the countercyclical capital buffer by the Federal Council, for an amount of CHF 20.3 million.

Similarly, Tier 1 and Tier 2 (the main capital adequacy indicator fixed by the Bank for International Settlements (BIS)) – which does not take into account the countercyclical capital buffer – were down from 12.2% at the end of 2012 to 11.9% at the end of 2013 and from 14.8% to 14.6% respectively.

The consolidated capital adequacy rate fared slightly better with a coverage ratio of 192.2% at the end of 2012 and 189.1% at 31.12.2013. The indicators of the Bank for International Settlements were set at 12.6% for Tier 1 (12.2% at the end of 2012) and at 15.1% for Tier 2 (15.4% at the end of 2012).

# Group Financial Statements

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# Consolidated Balance Sheet

(CHF thousands)	Notes	31.12.2013	31.12.2012	Change
<b>Assets</b>				
Liquid funds		923,275	659,289	263,986
Amounts due arising from money market papers		9,011	8,648	363
Due from banks		632,717	288,859	343,858
Due from customers	4.1	1,856,207	1,522,841	333,366
Mortgages	4.1, 4.6	6,864,292	6,280,538	583,754
Securities and precious metals held for trading purposes	4.2	23,221	16,266	6,955
Financial investments	4.2, 4.6	401,839	438,420	-36,581
Non consolidated participations	4.3.2	6,674	6,816	-142
Fixed assets	4.4	95,175	92,827	2,348
Intangible assets	4.4	11,809	3,795	8,014
Accrued income and prepaid expenses		18,264	21,754	-3,490
Other assets	4.5	56,974	54,987	1,987
<b>Total assets</b>		<b>10,899,458</b>	<b>9,395,040</b>	<b>1,504,418</b>
Total subordinated assets		6,995	2,000	4,995
Total receivables from non-consolidated participations and from owners of significant holdings		39,100	39,092	8
<i>of which total amounts due from the Canton</i>		<i>10,125</i>	<i>10,133</i>	<i>-8</i>
<b>Liabilities</b>				
Due to banks		637,780	413,366	224,414
Due to customers in savings and investment accounts		2,780,357	2,638,035	142,322
Other amounts due to customers		4,082,829	3,494,669	588,160
Cash Bonds		19,027	29,882	-10,855
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	4.6, 4.8	2,172,000	1,854,000	318,000
Accrued expenses and deferred income		28,846	26,788	2,058
Other liabilities	4.5	351,037	214,683	136,354
Value adjustments and provisions	4.9	18,384	15,559	2,825
Reserves for general banking risks	4.9, 4.10	372,386	372,386	0
Corporate capital	4.10	200,000	110,000	90,000
Reserves and retained earnings	4.10	195,221	184,125	11,096
Minority stakes in equity	4.10	0	1,457	-1,457
Group available earnings	4.10	41,591	40,090	1,501
<i>of which minority shares in Group available earnings</i>		<i>0</i>	<i>-61</i>	<i>61</i>
<b>Total liabilities</b>		<b>10,899,458</b>	<b>9,395,040</b>	<b>1,504,418</b>
Total subordinated liabilities		175,000	175,000	0
Total due to non-consolidated participations and to owners of significant holdings		102,769	81,953	20,816
<i>of which total amounts due to the Canton</i>		<i>99,307</i>	<i>78,748</i>	<i>20,559</i>
<b>Off-balance sheet transactions</b>				
Contingent liabilities	4.1, 5.1	150,542	117,169	33,373
Irrevocable commitments	4.1	85,246	89,394	-4,148
Commitments for calls on shares and other equities	4.1	7,200	7,725	-525
Outstanding derivative financial instruments (contracts volume)	5.2	2,271,250	1,839,039	432,211
Positive replacement values	5.2	35,143	41,856	-6,713
Negative replacement values	5.2	35,028	51,617	-16,589
Fiduciary transactions	5.3	225,875	686,011	-460,136



# Consolidated Income Statement

(CHF thousands)	Notes	2013	2012	Change
<b>Net interest income</b>		<b>111,254</b>	<b>107,992</b>	<b>3,262</b>
Interest and discount income		175,843	178,634	-2,791
Interest and dividend income from trading portfolio	6.1	133	145	-12
Interest and dividend income from financial investments		9,389	9,729	-340
Interest expenses		-74,111	-80,516	6,405
<b>Net fees and commissions income</b>		<b>36,436</b>	<b>35,784</b>	<b>652</b>
Commission income from lending activities		2,221	2,362	-141
Commission income from securities and investment activities		34,148	31,983	2,165
Commission income from other service fee activities		7,459	7,374	85
Commission expenses		-7,392	-5,935	-1,457
<b>Net trading income</b>	6.2	<b>13,264</b>	<b>12,404</b>	<b>860</b>
<b>Other ordinary results</b>		<b>2,534</b>	<b>2,095</b>	<b>439</b>
Income on disposal of financial investments		415	219	196
Partecipation income		860	535	325
<i>of which non-consolidated partecipations</i>		860	535	325
Real estate income		195	175	20
Other ordinary income		1,529	1,306	223
Other ordinary expenses		-465	-140	-325
<b>Net revenue</b>		<b>163,488</b>	<b>158,275</b>	<b>5,213</b>
<b>Operating expenses</b>		<b>-104,264</b>	<b>-102,880</b>	<b>-1,384</b>
Personnel expenses	6.3	-74,685	-73,590	-1,095
Other operating expenses	6.4	-29,579	-29,290	-289
<b>Gross profit</b>		<b>59,224</b>	<b>55,395</b>	<b>3,829</b>
Depreciation of fixed assets	4.4	-13,982	-13,936	-46
Value adjustments, provisions and losses	4.9	-4,095	-3,269	-826
<b>Result before extraordinary items and taxes</b>		<b>41,147</b>	<b>38,190</b>	<b>2,957</b>
Extraordinary income	6.5	1,307	9,854	-8,547
Extraordinary expenses	6.5	-	-7,071	7,071
Imposte Taxes		-863	-883	20
<b>Group net income</b>		<b>41,591</b>	<b>40,090</b>	<b>1,501</b>
<i>of which minority shares in Group available earnings</i>		-	-61	61

# Consolidated Statement of Cash Flows and Treasury

(CHF thousands)	2013		2012	
	Source	Application	Source	Application
<b>Cash flow from operating activities (internal sources)</b>	<b>171,008</b>		<b>116,442</b>	
Group result	41,591		40,090	
Depreciation of fixed assets	13,985		13,936	
Value adjustments and provisions	2,825			13,370
Accrued income and prepaid expenses	3,490		1,164	
Accrued expenses and deferred income	2,058			6,352
Other assets and liabilities	134,367		100,935	
Interest on endowment capital of the previous year		5,500		5,000
Previous financial year dividend		21,808		21,962
Reserve for general banking risks			7,000	
<b>Cash flow resulting from capital transactions</b>	<b>88,543</b>			<b>48</b>
Increase in paid-in capital	90,000			
Changes in minority shares in investee companies		1,457		48
<b>Cash flow from changes in fixed assets and participations</b>		<b>25,891</b>		<b>8,341</b>
Participations	138	1,686		1,257
Fixed assets		15,029		6,870
Intangible assets		9,314		214
<b>Cash flow from banking activities</b>	<b>30,326</b>		<b>129,484</b>	
<b>Medium- and long-term transactions (&gt; 1 year)</b>		<b>253,584</b>		<b>437,750</b>
Due to the bank	25,000			10,000
Other amounts due to customers		106,627		115,008
Cash bonds	475	11,330	4,370	21,344
Bonds and loans from the Swiss Cantonal Banks Central Mortgage Bond Issuing Body	579,000	261,000	156,000	110,000
Bond issues				150,000
Due to customers in savings and investment accounts	142,322		178,375	
Due from customers		94,251	2,107	
Due from banks	20,000			
Mortgages		583,754		353,888
Financial investments	36,581			18,362
<b>Short-term transactions</b>	<b>283,910</b>		<b>567,234</b>	
Due to banks	199,414		122,474	
Due to public sector institutions				20,059
Other amounts due to customers	694,787		417,093	
Amounts due arising from money market papers		363	949	
Due from banks		363,858	73,490	
Due from customers		239,115		15,794
Securities and precious metals held for trading purposes		6,955		10,919
<b>Liquid funds</b>		<b>263,986</b>		<b>237,537</b>
Liquidity variation		263,986		237,537
	<b>289,877</b>	<b>289,877</b>	<b>245,926</b>	<b>245,926</b>

# Notes to the Group Financial Statements

## 1. GROUP ACTIVITIES AND PERSONNEL

### 1.1 Group Activities

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

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

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

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

BancaStato outsources a number of its business services as defined by the FINMA Circular 2008/7 "Outsourcing - Banks", in particular, payment transaction services that have been transferred to Postfinance, and the management of IT systems (central informatics and work stations) which has been delegated to the service provider IT B-Source in Bioggio.

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

#### 1.1.1 Balance sheet transactions

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

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

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

#### 1.1.2 Trading operations

Banca dello Stato del Cantone Ticino performs, on behalf of its customers, the full array of foreign exchange trading services offered by banks. Moreover, it trades on its own account in foreign exchange as well as, to a limited extent, in debt securities (bonds), equity securities (shares and participation certificates) and investment funds.

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

#### 1.1.3 Commission activities and other services

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

## 1.2 Group personnel

As at 31 December 2013, the Group had a total of 513 employees on payroll, i.e. 470.35 full-time equivalents (FTEs) as determined by the parameters set at margin number 148 of the Guidelines concerning the provisions governing financial statements reporting (FINMA Circular 2008/2 "Accounting - Banks"), compared to 505 employees at the end of 2012 (463.05 FTEs).

## 2. CONSOLIDATED FINANCIAL STATEMENTS

### 2.1 General principles

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

### 2.2 Consolidation perimeter

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

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

### 2.3 Consolidation method

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

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

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

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

### 2.4 Consolidation period

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

### 2.5 True and fair view principle

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

### 2.6 Recording of transactions

All transactions are entered at the time they are concluded.

### 2.7 Foreign currency translation

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

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

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

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

EUR 1.2264 (2012: 1. 2067)

USD 0.8906 (2012: 0. 9152).

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

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

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

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

#### 2.8.2 Amounts due from customers and mortgage loans

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

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

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

### 2.8.3 Securities and precious metals trading portfolio

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

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

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

### 2.8.4 Financial investments

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

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

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

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

### 2.8.5 Participations

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

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

### 2.8.6 Immobilizzi materiali

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

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

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

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

### 2.8.7 Intangible fixed assets

Goodwill and setup costs are recognised on the balance sheet applying a straightline depreciation over a 5-year period.

### 2.8.8 Method of depreciation

Fixed assets are valued at cost less appropriate depreciation. Depreciation is calculated by applying a straight-line depreciation method which starts when the items are first utilised.

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

These items are reported on the balance sheet at nominal value. The item "Due to banks" comprises payables from securities repurchase agreements (Reverse REPO) effected with other banks through the Eurex REPO platform.

The guarantees, which are part of the SNB basket, are revaluated on a daily basis and any excess or shortage of coverage is settled directly through the clearing-house (SIX Group AG).

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

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

This item also includes a provision for deferred taxes resulting from consolidation activities, a social security deposit fund for BancaStato's personnel and a fund for other provisions connected to outsourcing activities.

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

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

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

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

#### **2.8.13 Derivative financial instruments**

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

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

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

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

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

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

There were no changes in accounting principles or in the presentation of the financial statements in 2013.

### **3. RISK MANAGEMENT**

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

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

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

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

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

#### **3.1 Credit risks**

Credit risks stem from the inability of a counterparty to fulfil its contractual obligations or from the reduced value of collateral or financial instruments issued by a third party (value of equity-type securities, interest rate instruments, shares in collective capital investments) due to the worsening of its financial standing. The Group's exposure to credit risk is primarily linked to lending activities, mostly mortgage, commercial and Lombard loans granted to clients.

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

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

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

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

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

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

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

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

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

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

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

### 3.2 Market risks

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

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

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

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

The limits for trading are defined in terms of value at risk, position and loss limits.

The Group's exposure to rate risk is primarily caused by the time lapse between fundraising and application. The rate risks related to balance and off-balance sheet operations are managed and monitored centrally by the ALM Committee which was assigned an operational limit. On the basis of the chosen methodology, monitoring refers to the present value of equity and to the variation of net interest income in the 12 months following measurement. A software feature enables Risk Management to provide the ALM Committee with information on 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. For BancaStato, these procedures are laid down in the Risk Policy as approved by the Board of Directors.

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

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

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

### 3.3 Operational risks

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

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

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

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

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

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

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

### 3.4 Other risks

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

### 3.5 Risk assessment

In its meeting of 22 April 2013, the Audit Committee of the Board of Directors of the Parent Bank and, subsequently, the Board of Directors of the Parent Bank in its meeting of 26 April 2013, assessed BancaStato's level of risk. Furthermore, both the Parent Bank's Board of Directors and its Audit Committee analyse the monthly information provided by the Executive Board on credit, market and operational risks, on a quarterly basis.

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



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

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

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

## 4. INFORMATION ON THE BALANCE SHEET

### 4.1 Overview of collateral for loans and off-balance sheet transaction at 31.12.2013

(CHF thousands)	Type of collateral			
	Mortgage	Other collateral	Unsecured	Total
<b>Loans</b>				
Due from customers	155,646	169,637	768,310 <sup>1</sup>	1,093,593
Due from public corporations	321	-	762,293	762,614
Mortgages	6,864,292	-	-	6,864,292
<i>Residential premises</i>	5,119,773			5,119,773
<i>Office and business premises</i>	353,063			353,063
<i>Commercial and industrial buildings</i>	994,632			994,632
<i>Other</i>	396,824			396,824
<b>Total loans</b>	<b>7,020,259</b>	<b>169,637</b>	<b>1,530,603<sup>2</sup></b>	<b>8,720,499</b>
Prior year	6,392,515	116,622	1,294,242	7,803,379
<b>Off-balance sheet transactions</b>				
Contingent liabilities	250	53,076	97,216	150,542
Irrevocable commitments	44,038	-	41,208 <sup>3</sup>	85,246
Commitments for calls on shares and other equities		-	7,200	7,200
<b>Total off-balance sheet transactions</b>	<b>44,288</b>	<b>53,076</b>	<b>145,624</b>	<b>242,988</b>
Prior year		37,488	134,742	214,288

(CHF thousands)	Gross amount	Estimated collateral realization proceeds	Net amount	Specific allowance
<b>Impaired loans</b>				
<b>Year under review</b>	<b>175,312</b>	<b>103,757</b>	<b>71,555</b>	<b>71,555</b>
Prior year	188,907	103,339	85,568	85,568

<sup>1</sup> Including loans to entities related to public institutions for CHF 88.4 million (2012: CHF 95.9 million).

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

<sup>3</sup> Including CHF 33.3 million (2012: CHF 37.1 million) as a deposit guarantee.

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

(CHF thousands)	31.12.2013	31.12.2012
<b>Securities and precious metals held for trading purpose</b>		
Debt securities	2,920	7,604
listed	1,620	7,604
unlisted	1,300	-
Equity-type securities	7,805	7,759
Share in investment funds	4,167	-
Precious metals	8,329	903
<b>Total securities and precious metals held for trading purposes</b>	<b>23,221</b>	<b>16,266</b>
<i>of which securities valid for repurchase agreements in accordance with liquidity regulatory requirements</i>	503	505

(CHF thousands)	Book Value		Fair value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
<b>Financial investments</b>				
Debt securities	385,618	428,671	396,990	447,561
<i>of which valued according to accrual method</i>	385,618	428,671	396,990	447,561
<i>of which carried at lower of cost or market</i>	-	-	-	-
Share in investment funds	6,470	332	6,583	484
Equity-type securities	171	158	251	236
<i>of which significant holdings</i>	-	-	-	-
Precious metals	230	392	230	392
Real estate*	9,350	8,867	9,350	8,867
<b>Total financial investments portfolio</b>	<b>401,839</b>	<b>438,420</b>		
<i>of which securities valid for repurchase agreements in accordance with liquidity regulatory requirements</i>	112,832	122,878		

\* Insured value at 31.12.2013 CHF 16,088 (31.12.2012 CHF 16,427).

## 4.3 Participations

### 4.3.1 Consolidated participations

The following Group companies are entirely consolidated:

Company name	Head office	Activity	Capital (CHF thousands)	31.12.2013 Participating share in %	31.12.2012 Participating share in %
AHSA Holding SA	Lugano	Financial company	7,500 <sup>1</sup>	100.00	80.00
Axion SWISS Bank SA	Lugano	Bank	43,000 <sup>2</sup>	100.00	100.00

<sup>1</sup> In 2013 BancaStato acquired the remaining 20% of the company's capital stock.

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

### 4.3.2 Other non-consolidated participations

(CHF thousands)	31.12.2013	31.12.2012
with quoted value	-	4
without quoted value	6,674	6,812
<b>Total participations</b>	6,674	6,816

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

Company name	Head office	Activity	Capital (CHF thousands)	31.12.2013 Participating share in %	31.12.2012 Participating share in %
<b>Financial and services companies held with cantonal banks</b>					
Aduno Holding SA	Opfikon	Financial company	25,000	0.40	0.40
Caleas SA	Zurich	Financial company	6,000	2.24	2.24
Centrale Mutui fondiari delle B.C.S. SA SCB,s Central Mortgage Bond Issuing Body	Zurich	Mortgage bond issuing institution	825,000	1.10	1.10
Swisscanto Holding AG	Bern	Service company	24,204	2.07	2.07
<b>Financial and services companies held with Swiss banks</b>					
SIX Group AG	Zurich	Service company	19,522	0.15	0.15
Swiss Bankers Prepaid Services SA	Grosshöchstetten	Financial company	10,000	0.20	0.20
<b>Other participations</b>					
Alloggi Ticino SA	Bioggio	Real estate company	15,200	2.11	2.11
Autosilo Piazza del Sole SA	Bellinzona	Autosilo Car park	2,000	10.00	10.00
Guaranty company for the development of the economy in Ticino (liquidated)	Bellinzona	Financial company	0	-	26.25
Swiss Hotel Loan Company	Zurich	Financial company	26,697	1.40	1.40
Tecnopolo Lugano SA	Lugano	Service company	350	14.29	28.57
Teleticino SA	Melide	Radio and television productions	4,950	23.15	23.15

#### 4.4 Breakdown of participation and fixed assets

(CHF thousands)	Purchase value	Accumulated depreciation	Book value 31.12.2012	2013			Book value 31.12.2013
				Investments	Disposal	Depreciation	
<b>Participations, total</b>	<b>15,371</b>	<b>8,555</b>	<b>6,816</b>	<b>-</b>	<b>138</b>	<b>4</b>	<b>6,674</b>
other participations	15,371	8,555	6,816	-	138	4	6,674
<b>Fixed assets, total</b>	<b>342,435</b>	<b>249,608</b>	<b>92,827</b>	<b>15,029</b>	<b>-</b>	<b>12,681</b>	<b>95,175</b>
of which Group premises	172,786	101,085	71,701	1,231	-	3,835	69,097
of which other buildings	16,116	11,405	4,711	-	-	360	4,351
of which other fixed assets	101,931	95,694	6,237	1,160	-	3,211	4,186
of which software	51,602	41,424	10,178	12,638	-	5,275	17,541
<b>Intangible assets, total</b>	<b>7,261</b>	<b>3,466</b>	<b>3,795</b>	<b>9,314</b>	<b>-</b>	<b>1,300</b>	<b>11,809</b>
of which goodwill	6,490	2,695	3,795	9,314	-	1,300	11,809
of which other intangible assets	771	771	-	-	-	-	-
<b>Total</b>	<b>365,067</b>	<b>261,629</b>	<b>103,438</b>	<b>24,343</b>	<b>138</b>	<b>13,985</b>	<b>113,658</b>
Fire insurance value of buildings			206,846				208,331
Fire insurance value of other fixed assets			43,244				43,094

#### 4.5 Breakdown of other assets and liabilities

(CHF thousands)	31.12.2013	31.12.2012
<b>Other assets</b>		
Positive replacement value of derivative financial instruments	35,143	41,856
Compensation account	527	9,689
Indirect taxes	720	1,618
Various other assets	20,584	1,824
<b>Other assets, total</b>	<b>56,974</b>	<b>54,987</b>
<b>Other liabilities</b>		
Negative replacement value of derivative financial instruments	35,029	51,618
Direct/indirect taxes	9,599	9,393
Matured non-redeemed cash bonds	2,948	4,546
Various other liabilities	303,461	149,126
<b>Other liabilities, total</b>	<b>351,037</b>	<b>214,683</b>

## 4.6 Pledged assets

(CHF thousands)	31.12.2013	31.12.2012
<b>Pledged or assigned assets to secure own commitments</b> (excluding advances and repurchase agreements with securities)		
Bank value of securities delivered as collateral in connection with Repo Light credit with SNB (unused)	17,633	21,742
Bank value of securities delivered as collateral to SIX Group AG (unused)	9,126	9,356
Bank value of mortgages set as collateral with the Swiss Cantonal Bank Central mortgage bond issuing body actual commitment with the SCB Central	2,337,660 1,797,000	1,808,037 1,479,000
Book value of assets pledged to secure own commitments	5,231	4,886
<b>Advanced and repurchase agreements with securities</b>		
Book value of receivables from cash deposits in securities borrowing and reverse-repurchase agreements	36,792	24,134
Book value of obligations from cash deposits in securities lending and repurchase agreements	-	-
Book value of securities lent in connection with securities lending or delivered as collateral in connection with borrowing as well as securities transferred in connection with repurchase agreements, at own disposal <i>of which with unlimited right to resell or pledge</i>	39 -	20 -
Fair value of collateral in connection with securities lending or securities borrowed in connection with securities borrowing or received securities in connection with reverse-repurchase agreements, for which the right to resell or repledge is unlimited <i>of which fair value of resold or repledged securities in this context</i>	36,856 -	24,146 -

## 4.7 Commitments to pension funds

The Group applies the principles laid down in the ARR 16. Contributions are paid to the insurance company. The employer's contributions are carried under "Personnel expenses".

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

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

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

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

Mortgage securities at the SCB Central mortgage bond issuing body	Maturity																
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
Interest rate																	
0.125	50																50
0.250			25	25													50
0.375				65													65
0.500					40												40
0.875					2			20	43								65
1.000										6							6
1.125			73				25										98
1.250								34	2		13						49
1.375								43	50			16		169			278
1.500							50								100	25	175
1.625				13											10		23
1.750				83		30						52					165
2.000		30			50												80
2.250	50																50
2.500		20	190						15								225
2.625	30	9															39
2.750	50			15	50												115
2.875	30																30
3.000					30												30
3.125				19													19
3.250	30	9				39											78
3.500					50												50
4.000	17																17
<b>Total mortgage securities at the SCB Central mortgage bond issuing body</b>	<b>257</b>	<b>68</b>	<b>288</b>	<b>220</b>	<b>222</b>	<b>69</b>	<b>75</b>	<b>97</b>	<b>110</b>	<b>6</b>	<b>13</b>	<b>16</b>	<b>52</b>	<b>169</b>	<b>110</b>	<b>25</b>	<b>1'797</b>

Bond issues		Maturity																
Year of issue - non-subordinated loans	Interest rate	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
2007	3.000				200													200
Year of issue - subordinated loans	Interest rate																	
2011	3.750								175									175
<b>Total bond issues</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>200</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>175</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>375</b>
<b>Grand total</b>		<b>257</b>	<b>68</b>	<b>288</b>	<b>420</b>	<b>222</b>	<b>69</b>	<b>75</b>	<b>272</b>	<b>110</b>	<b>6</b>	<b>13</b>	<b>16</b>	<b>52</b>	<b>169</b>	<b>110</b>	<b>25</b>	<b>2'172</b>

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

(CHF thousands)	Balance at 31.12.2012	2013				Balance at 31.12.2013
		Usage in conformity to purpose	Recoveries, impaired interest, currency differences	Dissolution credited to income statement	New provisions charged to income statement	
Value adjustments and provisions for credit risks (counterparty and country risks)	87,942	14,787	-1,272	4,595	5,823	73,111
Value adjustments and provisions for other operational risks	8,158	751	-	2,384	6,266	11,289
Other provisions						
additional pension provision	5,950	1,275	-	-	1,276	5,951
other provisions	709	112	-	135	-	462
provisions for deferred taxes	900	-	-	-	-	900
<b>Total value adjustments and provisions</b>	<b>103,659</b>	<b>16,925</b>	<b>-1,272</b>	<b>7,114</b>	<b>13,365</b>	<b>91,713</b>
Value adjustments directly offset by assets	-88,100					-73,329
<b>Total value adjustments and provisions as per balance sheet</b>	<b>15,559</b>					<b>18,384</b>
<b>Total reserves for general banking risks</b>	<b>372,386</b>					<b>372,386</b>

In compliance with FINMA directives, released surplus provisions for credit risks totalling CHF 0.6 million were entered under "Extraordinary income". (Refer to Notes to the Financial Statements 6.5)

#### 4.10 Statement of equity

(CHF thousands)	
<b>Own equity as at 31.12.2012</b>	
Capital paid	110,000
Reserves and retained earnings	184,125
Reserves for general banking risks	372,386
Minority shares in investee companies	1,457
Group available earnings	40,090
<b>Total equity at 31.12.2012 (before appropriation of available earnings)</b>	<b>708,058</b>
- 5% interest on endowment capital for financial year 2012	-5,500
- Additional payment to the Canton of Ticino for financial year 2012	-23,265
- Acquisition of a minority participation	-1,686
+ Increase in endowment capital	90,000
+ Group net income of reporting year 2013	41,591
<b>Total equity at 31.12.2013 (before appropriation of available earnings)</b>	<b>809,198</b>
of which:	
Endowment capital paid	200,000
Reserves and retained earnings	195,221
Reserves for general banking risks	372,386
Group available earnings	41,591



#### 4.11 Maturity structure of current assets, financial investments and third-party liabilities as at 31.12.2013

(CHF thousands)	at sight	callable	maturity				without maturity	Total
			within 3 months	within 3 to 12 months	within 1 to 5 years	more than 5 years		
<b>Current assets</b>								
Liquid funds	923,275	-	-	-	-	-	-	923,275
Amounts due arising from money market papers	6,706	-	2,305	-	-	-	-	9,011
Due from banks	512,759	-	95,430	24,528	-	-	-	632,717
Due from customers	17,698	319,524	459,138	184,638	503,448	371,761	-	1,856,207
Mortgages	9,442	305,893	735,921	671,457	3,358,235	1,783,344	-	6,864,292
Securities and precious metals held for trading purposes	23,221	-	-	-	-	-	-	23,221
Financial investments	6,871	-	57,451	9,600	285,707	32,860	9,350	401,839
<b>Total current assets</b>	<b>1,499,972</b>	<b>625,417</b>	<b>1,350,245</b>	<b>890,223</b>	<b>4,147,390</b>	<b>2,187,965</b>	<b>9,350</b>	<b>10,710,562</b>
Prior year	929,216	662,925	1,010,728	762,275	3,772,996	2,067,854	8,867	9,214,861
<b>Third-party liabilities</b>								
Due to banks	201,508	-	307,272	75,000	24,000	30,000	-	637,780
Due to customers in savings and investment accounts	655,805	2,052,915	5,079	15,604	34,545	16,409	-	2,780,357
Other amounts due to customers	3,535,292	22,211	24,359	123,018	315,622	62,327	-	4,082,829
Cash bonds	50	-	2,109	6,485	9,647	736	-	19,027
Bonds and loans from the SCB Central mortgage bond issuing body	-	-	30,000	227,000	998,000	917,000	-	2,172,000
<b>Total third-party liabilities</b>	<b>4,392,655</b>	<b>2,075,126</b>	<b>368,819</b>	<b>447,107</b>	<b>1,381,814</b>	<b>1,026,472</b>	<b>-</b>	<b>9,691,993</b>
Prior year	3,413,862	1,987,414	422,862	394,440	1,400,752	810,622	-	8,429,952

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

(CHF thousands)	31.12.2013	31.12.2012
Due from companies / entities related to the Canton	15,006	15,434
Due to companies / entities related to the Canton	42,426	46,335
Due from the Group's governing bodies	67,956	60,157

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

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

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

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

(CHF thousands)	31.12.2013		31.12.2012	
	Domestic	Foreign	Domestic	Foreign
<b>Assets</b>				
Liquid funds	915,952	7,323	655,554	3,735
Amounts due arising from money market papers	8,960	51	8,641	7
Due from banks	476,489	156,228	151,420	137,439
Due from customers	1,671,804	184,403	1,427,997	94,844
Mortgages	6,864,292	-	6,280,538	-
Securities and precious metals held for trading purposes	10,496	12,725	3,315	12,951
Financial investments	131,749	270,090	139,039	299,381
Non-consolidated participations	6,666	8	6,808	8
Fixed assets	95,175	-	92,827	-
Intangible assets	11,809	-	3,795	-
Accrued income and prepaid expenses	18,122	142	21,582	172
Other assets	56,134	840	54,756	231
<b>Total assets</b>	<b>10,267,648</b>	<b>631,810</b>	<b>8,846,272</b>	<b>548,768</b>
<b>Liabilities</b>				
Due to the bank	552,319	85,461	340,290	73,076
Due to customers in savings and investment accounts	2,498,862	281,495	2,403,272	234,763
Other amounts due to customers	2,676,596	1,406,233	2,586,625	908,044
Cash bonds	19,027	-	29,882	-
Bonds and loans from the Swiss Cantonal Bank Central mortgage bond issuing body	2,172,000	-	1,854,000	-
Accrued expenses and deferred income	28,846	-	26,788	-
Other liabilities	350,448	589	210,856	3,827
Value adjustments and provisions	18,384	-	15,559	-
Reserves for general banking risks	372,386	-	372,386	-
Corporate capital	200,000	-	110,000	-
Minority share in equity	-	-	1,457	-
Reserves and retained earnings	195,221	-	184,125	-
Group available earnings	41,591	-	40,090	-
<b>Total liabilities</b>	<b>9,125,680</b>	<b>1,773,778</b>	<b>8,175,330</b>	<b>1,219,710</b>

#### 4.14 Geographic breakdown of assets

(CHF thousands)	31.12.2013		31.12.2012	
		Share in %		Share in %
<b>Assets abroad</b>				
Europe	415,023	3.81	403,711	4.30
North America	126,586	1.16	81,302	0.87
Other countries	90,201	0.83	63,755	0.68
<b>Total assets abroad</b>	<b>631,810</b>	<b>5.80</b>	<b>548,768</b>	<b>5.84</b>
Switzerland	10,267,648	94.20	8,846,272	94.16
<b>Total assets</b>	<b>10,899,458</b>	<b>100.00</b>	<b>9,395,040</b>	<b>100.00</b>

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

(CHF thousands)	Currency				Total
	CHF	USD	EUR	Other	
<b>Assets</b>					
Liquid funds	895,539	1,399	25,160	1,177	923,275
Amounts due arising from money market papers	8,960	9	42	-	9,011
Due from banks	17,960	387,312	88,299	139,146	632,717
Due from customers	1,619,943	63,940	157,821	14,503	1,856,207
Mortgages	6,864,292	-	-	-	6,864,292
Securities and precious metals held for trading purposes	4,086	-	10,806	8,329	23,221
Financial investments	166,847	43,213	191,549	230	401,839
Non-consolidated participations	6,674	-	-	-	6,674
Fixed assets	95,175	-	-	-	95,175
Intangible assets	11,809	-	-	-	11,809
Accrued income and prepaid expenses	12,169	644	5,439	12	18,264
Other assets	40,765	1,118	14,585	506	56,974
<b>Total assets</b>	<b>9,744,219</b>	<b>497,635</b>	<b>493,701</b>	<b>163,903</b>	<b>10,899,458</b>
Forward transactions and currency options	108,609	297,313	881,567	42,107	1,329,596
<b>Total assets positions</b>	<b>9,852,828</b>	<b>794,948</b>	<b>1,375,268</b>	<b>206,010</b>	<b>12,229,054</b>
<b>Liabilities</b>					
Due to banks	236,148	85,092	315,846	694	637,780
Due to customers in savings and investment accounts	2,690,755	-	89,602	-	2,780,357
Other amounts due to customers	2,473,422	631,285	826,707	151,415	4,082,829
Cash bonds	19,027	-	-	-	19,027
Bonds and loans from the Swiss Cantonal Bank Central mortgage bond issuing body	2,172,000	-	-	-	2,172,000
Accrued expenses and deferred income	28,722	39	80	5	28,846
Other liabilities	350,139	54	767	77	351,037
Value adjustments and provisions	18,384	-	-	-	18,384
Reserves for general banking risks	372,386	-	-	-	372,386
Corporate capital	200,000	-	-	-	200,000
Minority share in equity	-	-	-	-	-
Reserves and retained earnings	195,221	-	-	-	195,221
Group available earnings	41,591	-	-	-	41,591
<b>Total liabilities</b>	<b>8,797,795</b>	<b>716,470</b>	<b>1,233,002</b>	<b>152,191</b>	<b>10,899,458</b>
Forward transactions and currency operations	1,054,602	70,159	147,898	54,711	1,327,370
<b>Total liability positions</b>	<b>9,852,397</b>	<b>786,629</b>	<b>1,380,900</b>	<b>206,902</b>	<b>12,226,828</b>
<b>Net position per currency</b>	<b>431</b>	<b>8,319</b>	<b>-5,632</b>	<b>-892</b>	<b>2,226</b>
Net position per currency (previous financial year)	12,553	-4,600	-34,846	4,118	-22,775

## 5. INFORMATION ON OFF-BALANCE SHEET TRANSACTIONS

### 5.1 Contingent liabilities

(CHF thousands)	31.12.2013	31.12.2012
Credit guarantees	124,612	114,371
Irrevocable commitments under documentary credits	25,930	2,798
<b>Total contingent liabilities</b>	<b>150,542</b>	<b>117,169</b>

### 5.2 Derivative financial instruments open at year end

(CHF thousands)	Trading instruments			Hedging instruments		
	Replacement value		Contract volume	Replacement value		Contract volume
	positive	negative		positive	negative	
<b>Interest rate instruments</b>						
IRS	-	-	-	32,521	33,045	1,064,000
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,521</b>	<b>33,045</b>	<b>1,064,000</b>
<b>Foreign exchange</b>						
Forward contracts	898	854	167,412	-	-	-
Swaps	709	366	157,402	971	762	856,907
OTC Options	44	1	25,529	-	-	-
<b>Total</b>	<b>1,651</b>	<b>1,221</b>	<b>350,343</b>	<b>971</b>	<b>762</b>	<b>856,907</b>

<b>Total open derivative financial instruments</b>	<b>1,651</b>	<b>1,221</b>	<b>350,343</b>	<b>33,492</b>	<b>33,807</b>	<b>1,920,907</b>
Total prior year	2,516	2,736	363,182	39,340	48,881	1,475,857

At closing date there were no netting agreements.

### 5.3 Fiduciary transactions

(CHF thousands)	31.12.2013	31.12.2012
Fiduciary placements	201,027	646,547
Fiduciary loans	24,848	39,464
<b>Total fiduciary transactions</b>	<b>225,875</b>	<b>686,011</b>

## 6. INFORMATION ON THE INCOME STATEMENT

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

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

### 6.2 Breakdown of results from trading operations

(CHF thousands)	2013	2012
Foreign exchange trading	11,721	10,523
Trading in foreign banknotes	1,309	1,320
Trading in precious metals	-31	295
Trading in securities	265	266
<b>Total</b>	<b>13,264</b>	<b>12,404</b>

### 6.3 Breakdown of personnel expenses

(CHF thousands)	2013	2012
Salary and compensation	57,698	56,172
Contribution to pension institutions	7,802	7,766
Other social benefits	6,879	7,509
Other personnel expenses	2,306	2,143
<b>Total</b>	<b>74,685</b>	<b>73,590</b>

### 6.4 Breakdown of other operating expenses

(CHF thousands)	2013	2012
Expenses for premises	5,962	6,220
Expenses for EDP, machines, furniture, vehicles and other facilities	9,309	8,810
Other operating expenses	14,308	14,260
<b>Total</b>	<b>29,579</b>	<b>29,290</b>

### 6.5 Other information on the income statement

(CHF thousands)	2013	2012
<b>Extraordinary income</b>		
Income from released credit risk provisions	561	9,360
Income from disposal of permanent participations	24	90
Other extraordinary income	722	404
<b>Total</b>	<b>1,307</b>	<b>9,854</b>

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

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

### Credit Risks:

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

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

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

### Market Risks:

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

### Operational Risks:

- Basis: Basic indicator approach (BIA)

## 7.1 Composition of regulatory capital

(in migliaia di franchi)			
<b>Balance Sheet</b>	<b>as per balance sheet closing</b>	<b>as per scope of consolidation</b>	<b>Notes</b>
<b>Assets</b>			
Liquid funds	923,275	923,275	
Amounts due arising from money market papers	9,011	9,011	
Due from banks	632,717	632,717	
Due from customers	1,856,207	1,856,207	
Mortgages	6,864,292	6,864,292	
Securities and precious metals held for trading purposes	23,221	23,221	
Financial investments	401,839	401,839	
Non consolidated participations	6,674	6,674	
Fixed assets	95,175	95,175	
Intangible assets	11,809	11,809	7.1.1-4
<i>of which goodwill</i>	11,208	11,208	7.1.1-4
<i>of which other intangible assets</i>	601	601	7.1.1-4
Accrued income and prepaid expenses	18,264	18,264	
Other assets	56,974	56,974	
<b>Total assets</b>	<b>10,899,458</b>	<b>10,899,458</b>	
<b>Third-party funds</b>			
Due to banks	637,780	637,780	
Due to customers in savings and investment accounts	2,780,357	2,780,357	
Other amounts due to customers	4,082,829	4,082,829	
Cash bonds	19,027	19,027	
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	2,172,000	2,172,000	
Accrued expenses and deferred income	28,846	28,846	
Other liabilities	380,405	380,405	
Value adjustments and provisions	18,384	18,384	
<b>Own funds (after appropriation of available earnings)</b>			
Reserve for general banking risks	372,386	372,386	7.1.1-3
Authorised capital	200,000	200,000	7.1.1-1
<i>of which CET 1 quality</i>	200,000	200,000	7.1.1-1
Reserves and retained earnings	207,444	207,444	7.1.1-2
<b>Total liabilities</b>	<b>10,899,458</b>	<b>10,899,458</b>	
<b>of which subordinated liabilities available as complementary capital (T2)</b>	<b>157,500</b>	<b>157,500</b>	<b>7.1.1-5</b>

### 7.1.1 Recognised regulatory capital

(in migliaia di franchi)	<b>Net figures</b>	<b>Impact of transitory arrangements</b>	<b>Notes</b>
1 Authorised capital	200,000	-	7.1
2 Reserves and retained earnings	207,444	-	7.1
3 Reserve for general banking risks	372,386	-	7.1
<b>= Eligible core capital</b>	<b>779,830</b>	<b>-</b>	
4 - Other elements to be deducted from eligible core capital	-11,809	-	7.1
<b>= Net eligible core capital (net Tier 1)</b>	<b>768,021</b>	<b>-</b>	
5 + complementary and supplementary capital	157,500	-	7.1
<b>= Regulatory capital</b>	<b>925,521</b>	<b>-</b>	
<b>Total risk-weighted positions</b>	<b>6,119,553</b>		

### Ratios

(as a % of risk-weighted positions)	<b>31.12.2013</b>
CET 1 ratio	12.6%
T1 ratio	12.6%
Total regulatory capital ratio	15.1%
CET 1 requirements on the basis of transitional arrangements CAO	3.8%
Of which capital buffer	0.0%
Of which countercyclical capital buffer (% of risk-weighted positions)	0.3%
CET 1 available for the coverage of minimum requirements and buffers, after deduction of AT 1 and AT2 requirements covered by CET 1	10.6%
CET 1 objective based on FINMA Circular 11/2 plus countercyclical capital buffer	7.7%
Available CET 1	11.3%
Objective of own T1 funds based on FINMA Circular 11/2 plus countercyclical capital buffer	9.3%
Available T1	12.9%
Objective of regulatory capital based on FINMA Circular 11/2 plus countercyclical capital buffer	11.5%
Available regulatory capital	15.1%



## 7.2 Required capital

(CHF thousands)	31.12.2013	31.12.2012
Credit risks	427,589	374,264
<i>of which price risk related to equity-type securities in the banking book</i>	1,550	726
<i>of which requirements for credit valuation adjustments</i>	1,034	-
Non-counterparty-related risks	30,049	27,460
Market risks	8,088	6,243
<i>of which on interest rate instruments (general and specific market risk)</i>	51	335
<i>of which on equity securities</i>	1,594	2,054
<i>of which on currencies and precious metals</i>	5,996	3,272
<i>of which on commodities</i>	447	582
Operational risks	23,690	22,870
Other capital requirements	600	-
<b>Required capital - gross</b>	<b>490,016</b>	<b>430,837</b>
Value adjustments and global provisions <sup>1</sup>	-452	-744
<b>Required capital - net</b>	<b>489,564</b>	<b>430,093</b>
<b>Capital requirement covering ratio based on Swiss legislation<sup>2</sup></b>	<b>189.1%</b>	<b>192.2%</b>
<b>Countercyclical capital buffer<sup>3</sup></b>	<b>20,307</b>	<b>-</b>
<b>BIS Ratio</b>	<b>15.1%</b>	<b>15.4%</b>
<b>BIS Ratio in consideration of requirements of the countercyclical capital buffer<sup>4</sup></b>	<b>14.8%</b>	<b>-</b>

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

<sup>2</sup> Eligible capital as a percentage of required capital (net).

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

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

### 7.3 Credit exposure by counterparty

(CHF thousands)	Central governments and central banks	Banks and securities traders	Public authorities and institutions	Companies	Private clients and small businesses	Equity securities	Exposure without counterparty	Other exposures	<b>Total</b>
<b>Loan commitments</b>									
<b>Balance sheet transactions</b>									
Due from banks	-	632,717	-	-	-	-	-	-	632,717
Due from customers	442	89,629	779,477	386,509	585,482	-	14,668	-	1,856,207
Mortgages	6,161	32,722	23,043	204,243	6,598,123	-	-	-	6,864,292
Financial fixed assets / Debt securities	8,850	31,529	135,030	220,835	1,304	10,319	-	-	407,867
Other assets / Positive replacement values	-	10,563	27,415	62	20,683	-	-	-	58,722
Value adjustments and general provisions	-	-168	-	-795	-6,576	-	-	-	-7,539
<b>Off-balance sheet transactions</b>									
Contingent liabilities	133	19,253	410	55,155	42,456	-	-	-	117,407
Irrevocable commitments	-	21,863	19,094	862	19,025	-	-	-	60,844
Commitments for calls on shares and other equity	-	-	18,000	-	-	-	-	-	18,000
Forward foreign exchange and options transactions (add-on)	7	11,355	7,403	171	1,659	-	-	-	20,595
<b>Total current year</b>	<b>15,593</b>	<b>849,462</b>	<b>1,009,873</b>	<b>867,042</b>	<b>7,262,155</b>	<b>10,319</b>	<b>14,668</b>	<b>-</b>	<b>10,029,113</b>
Total prior year	17,079	511,867	880,226	893,509	6,535,658	2,302	25,548	2,728	8,868,917

## 7.4 Regulatory credit risk mitigation

(in CHF thousands)	secured by recognised financial collateral	secured by guarantee and credit derivatives	secured by mortgage collateral	<b>Total</b>
<b>Loan commitments</b>				
Central governments	433	8,850	-	9,283
Banks	-	410,108	-	410,108
Public authorities and institutions	-	-	20,890	20,890
Companies	53,606	21,099	230,421	305,126
Private clients and small businesses	104,481	21,994	6,810,678	6,937,153
Equity-type securities	-	-	-	-
Other exposures	-	-	-	-
<b>Derivative financial instruments</b>				
Central governments	-	-	-	-
Banks	-	-	-	-
Public authorities and institutions	-	-	-	-
Companies	-	-	-	-
Private clients and small businesses	-	-	-	-
Equity-type securities	-	-	-	-
Other exposures	-	-	-	-
<b>Total current year</b>	<b>158,520</b>	<b>462,051</b>	<b>7,061,989</b>	<b>7,682,560</b>
Total prior year	93,275	58,293	6,457,937	6,609,505

## 7.5 Credit exposure by risk weighting category

(CHF thousands)	0%	25%	35%	50%	75%	100%	125%	150%	≥ 250%	Total
<b>Loan commitments</b>										
<b>Balance sheet transactions</b>										
Due from banks	36,792	594,969	-	-	-	957	-	-	-	632,717
Due from customers	15,623	202,358	137,502	649,404	172,718	666,709	-	11,893	-	1,856,207
Mortgages	6,161	30,013	4,686,848	59,690	1,296,520	720,404	-	64,657	-	6,864,292
Financial assets / Debt securities	8,850	122,975	-	19,133	6,829	239,761	8,477	-	1,842	407,867
Other assets / Positive replacement values	57	29,829	-	26	7,260	21,550	-	-	-	58,722
Value adjustments and general provisions	-	-	-	-	-7,462	-77	-	-	-	-7,539
<b>Off-balance sheet transactions</b>										
Contingent liabilities	4,503	16,834	3,018	2,946	9,539	80,331	-	236	-	117,407
Irrevocable commitments	90	38,090	5,546	2,721	9,187	5,209	-	-	-	60,844
Commitments for calls on shares and other equities	-	-	-	-	-	18,000	-	-	-	18,000
Forward foreign exchange transactions (add - on)	1,717	17,035	-	237	1,355	247	-	4	-	20,595
<b>Total current year</b>	<b>73,793</b>	<b>1,052,103</b>	<b>4,832,914</b>	<b>734,157</b>	<b>1,495,946</b>	<b>1,753,091</b>	<b>8,477</b>	<b>76,791</b>	<b>1,842</b>	<b>10,029,113</b>
Total prior year	56,743	589,150	4,561,008	761,715	1,294,504	1,532,085	331	68,788	4,593	8,868,917

## 7.6 Presentation of the principal characteristics of regulatory capital instruments

(in CHF thousands)		
1	Issuer	Banca dello Stato del Cantone Ticino
2	ISIN number	CH0144075386
3	Competent court	Zurich
<b>Regulatory treatment</b>		
4	Calculated in the transitional arrangement of Basel III (CET 1 /AT1 /T2)	T2
5	Considered at individual / group / individual and group levels	individual and group
6	Equity-type security / debt security / hybrid instrument / other	lower Tier 2 bond
7	Amount recognised in the regulatory capital (refer to the last report sent to the BNS)	157,500
8	Product nominal value	175,000
9	Balance sheet item	Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body
10	Issuing date	15.12.2011
11	Perpetual / with maturity	with maturity
12	Maturity date	15.12.2021
13	Callable on issuer's decision	possible <sup>1</sup>
<b>Coupons</b>		
14	Fixed /variable / initially fixed then variable / initially variable then fixed	fixed
15	Remuneration rate	3.75%
17	Payment of interest totally discretionary / partially discretionary / compulsory	compulsory
18	Step up or reimbursement incentives	no
19	Non cumulative / cumulative	non cumulative
20	Non convertible / convertible	non convertible
22	Subordination hierarchy in case of liquidation	non subordinated claims
23	Characteristics preventing full recognition according to Basel III	n/a

<sup>1</sup> Only at specific conditions as laid down in the issue brochure.

### **7.7 Geographic breakdown of credit risks**

The exposure in terms of required capital for credit positions domiciled abroad represents less than 1.5% of the total eligible capital for credit risks.

### **7.8 Geographic breakdown of impaired loans**

The exposure in terms of required capital for impaired loans domiciled abroad represents less than 1.5% of the total eligible capital for credit risks of all impaired loans.

### **7.9 Credit derivatives transactions**

At 31 December 2013 the Group did not have any position on credit derivatives.

### **7.10 Interest rate risk in the balance sheet**

At 31 December 2013, a sudden 100 basis point parallel shift in the yield curve would have an impact of 3.1% on the net present value of equities (value effect).

At the same date, year-end, the impact of a sudden 100 basis point parallel shift in the yield curve (1 basis point floor) would cause a CHF 3 million impact on net interest income for the next 12 months (income effect).

# Auditors' Report



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

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

As statutory auditor, we have audited the consolidated financial statements of Banca dello Stato del Cantone Ticino, which comprise the balance sheet, income statement, statement of cash flows and notes (pages 31-62), for the year ended 31 December 2013.

### *Board of Directors' responsibility*

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

### *Auditor's responsibility*

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

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

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# Auditors' Report



## *Opinion*

In our opinion, the consolidated financial statements for the year ended 31 December 2013 give a true and fair view of the financial position in accordance with the provisions governing the preparation of financial statements for banks, the Swiss law and the Cantonal Law on the Banca dello Stato del Cantone Ticino.

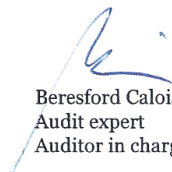
## **Report on other legal requirements**

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


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

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

PricewaterhouseCoopers SA



Beresford Caloia  
Audit expert  
Auditor in charge



Glenda Brändli  
Audit expert

Lugano, 17 March 2014



# Individual Financial Statements

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# Balance Sheet (before appropriation of available earnings)

(CHF thousands)	Notes	31.12.2013	31.12.2012	Change
<b>Assets</b>				
Liquid funds		836,792	574,606	262,186
Amounts due arising from money market papers		9,011	8,648	363
Due from banks		586,547	196,917	389,630
Due from customers		1,763,941	1,454,307	309,634
Mortgages	4.2	6,864,292	6,280,538	583,754
Securities and precious metals held for trading purposes		18,294	13,740	4,554
Financial investments		396,140	434,671	-38,531
Participations		64,674	63,316	1,358
Fixed assets		94,934	92,577	2,357
Intangible assets		10,101	819	9,282
Accrued income and prepaid expenses		17,604	20,700	-3,096
Other assets	4.1	43,789	54,916	-11,127
<b>Total assets</b>		<b>10,706,119</b>	<b>9,195,755</b>	<b>1,510,364</b>
Total subordinated loans		6,995	2,000	4,995
Total amounts due from the Canton of Ticino		10,125	10,133	-8
Total amount due from Group entities		769	1,150	-381
<b>Liabilities</b>				
Due to banks		1,039,074	467,328	571,746
Due to customers in savings and investment accounts		2,780,357	2,638,035	142,322
Other amounts due to customers		3,491,520	3,246,219	245,301
Cash Bonds		19,027	29,882	-10,855
Bonds and loans from the Swiss Cantonal Banks Central mortgage bond issuing body	4.2	2,172,000	1,854,000	318,000
Accrued expenses and deferred income		26,652	25,256	1,396
Other liabilities	4.1	350,132	213,707	136,425
Value adjustments and provisions	4.3	17,269	14,249	3,020
Reserves for general banking risks	4.3, 4.5	372,386	372,386	-
Endowment capital	4.4, 4.5	200,000	110,000	90,000
General legal reserve	4.5	195,928	184,296	11,632
Net income	4.5	41,774	40,397	1,377
<b>Total liabilities</b>		<b>10,706,119</b>	<b>9,195,755</b>	<b>1,510,364</b>
Total subordinated liabilities		175,000	175,000	-
Total amounts due to the Canton of Ticino		99,307	78,748	20,559
Total amounts due to Group entities		418,821	66,371	352,450
<b>Off-balance sheet transactions</b>				
Contingent liabilities		151,105	126,070	25,035
Irrevocable commitments		84,620	89,066	-4,446
Commitments for calls on shares and other equities		7,200	7,725	-525
Outstanding derivative financial instruments (contracts volume)		2,174,162	1,822,762	351,400
Positive replacement value		34,609	41,891	-7,282
Negative replacement value		34,840	51,379	-16,539
Fiduciary transactions	5.1	22,867	20,114	2,753

# Income Statement

(CHF thousands)	Notes	2013	2012	Change
<b>Net interest income</b>		<b>109,319</b>	<b>106,128</b>	<b>3,191</b>
Interest and discount income		174,105	176,476	-2,371
Interest and dividend income from trading portfolio		65	46	19
Interest and dividend income from financial investments		9,227	9,686	-459
Interest expense		-74,078	-80,080	6,002
<b>Net fees and commissions income</b>		<b>27,761</b>	<b>27,500</b>	<b>261</b>
Commission income from lending activities		2,123	2,265	-142
Commission income from securities and investment activities		25,058	23,448	1,610
Other fees and commission income		6,632	6,602	30
Commission expenses		-6,052	-4,815	-1,237
<b>Net trading income</b>	<b>6.1</b>	<b>12,367</b>	<b>11,277</b>	<b>1,090</b>
<b>Other ordinary results</b>		<b>4,008</b>	<b>3,285</b>	<b>723</b>
Income on disposal of financial investments		395	149	246
Participation income		1,858	1,536	322
Real estate income		195	175	20
Other ordinary income		2,025	1,565	460
Other ordinary expenses		-465	-140	-325
<b>Net revenues</b>		<b>153,455</b>	<b>148,190</b>	<b>5,265</b>
<b>Operating expenses</b>		<b>-95,728</b>	<b>-94,423</b>	<b>-1,305</b>
Personnel expenses		-68,739	-67,715	-1,024
Other operating expenses		-26,989	-26,708	-281
<b>Gross profit</b>		<b>57,727</b>	<b>53,767</b>	<b>3,960</b>
Depreciation of fixed assets		-12,761	-12,538	-223
Value adjustments, provisions and losses	4.4	-4,058	-3,162	-896
<b>Result before extraordinary items and taxes</b>		<b>40,908</b>	<b>38,067</b>	<b>2,841</b>
Extraordinary income	6.2	1,148	9,744	-8,596
Extraordinary expenses		-	-7,070	7,070
Taxes		-282	-344	62
<b>Net income</b>		<b>41,774</b>	<b>40,397</b>	<b>1,377</b>

# Proposed Appropriation of Available Earnings

(CHF thousands)	31.12.2013	31.12.2012	Change
<b>Proposed appropriation of available earnings</b>			
Net income	41,774	40,397	1,377
Retained earnings	-	-	-
<b>Balance sheet profit</b>	<b>41,774</b>	<b>40,397</b>	<b>1,377</b>
<b>Proposal of the Board of Directors</b>			
Allocation to the general legal reserve	12,091	11,632	459
5% interest on endowment capital	5,500	5,500	-
Additional payment to the Canton	24,183	23,265	918
<b>Retained earnings brought forward</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Notes to the Individual Financial Statements

## 1. ACTIVITIES OF THE BANK

### 1.1 In general

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

The Canton is responsible for all the Bank's liabilities that are not covered by its equity (Art. 4 LBSCT). Pursuant to Art. 12 LBSCT, Banca dello Stato del Cantone Ticino is a full service bank and conducts its business primarily within the Canton of Ticino. The development of the Bank's operating activities in 2013 is described in the report drawn up by the Board of Directors.

The Bank outsources a number of its business services as defined by the FINMA Circular 2008/7 "Outsourcing – Banks"; in particular, payment transaction services that have been transferred to Postfinance and the management of IT systems (central informatics and work stations) which has been delegated to the service provider IT B-Source in Bioggio.

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

### 1.2 Personnel

As at 31 December 2013, the Bank had a total of 486 employees on payroll (444.25 FTEs) as determined by the parameters set at margin number 148 of the Guidelines concerning the provisions governing financial statements reporting (FINMA Circular 2008/2 "Accounting – Banks"), compared to 479 staff at the end of 2012 (437.95 FTEs).

## 2. ACCOUNTING AND EVALUATION PRINCIPLES

### 2.1 General principles

The financial statements of Banca dello Stato del Cantone Ticino as at 31 December 2013 were prepared in accordance with applicable legal and regulatory provisions as well as the true and fair view principle, in compliance with the provisions of the Swiss Code of Obligations and the Swiss Banking legislation, in particular the guidelines of the Swiss Financial Market Supervisory Authority FINMA and the Swiss listing rules. All business transactions are recorded at the time they are closed.

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

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

#### 2.2.1 Participations

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

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

### 2.3 Foreign currency translation

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

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

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

EUR 1.2264 (2012: 1.2067)

USD 0.8906 (2012: 0.9152)

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

There were no changes in accounting principles or in the presentation of the financial statements in 2013.

## 3. RISK MANAGEMENT

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

## 4. INFORMATION ON THE BALANCE SHEET

### 4.1 Breakdown of other assets and liabilities

(CHF thousands)	31.12.2013	31.12.2012
<b>Other assets</b>		
Positive replacement value of derivative financial instruments	34,609	41,891
Compensation account	527	9,689
Indirect taxes	635	1,529
Various other assets	8,018	1,807
<b>Other assets, total</b>	<b>43,789</b>	<b>54,916</b>
<b>Other liabilities</b>		
Negative replacement value of derivative financial instruments	34,840	51,379
Indirect taxes	8,919	8,677
Matured non-redeemed cash bonds	2,948	4,546
Various other liabilities	303,425	149,105
<b>Other liabilities, total</b>	<b>350,132</b>	<b>213,707</b>

### 4.2 Pledged assets

(CHF thousands)	31.12.2013	31.12.2012
<b>Pledged or assigned assets to secure own commitments</b> (excluding advances and repurchase agreements with securities)		
Book value of securities delivered as collateral in connection with Repo Light credit with the SNB (unused)	17,633	21,742
Book value of securities delivered as collateral to SIX Group AG (unused)	9,126	9,356
Book value of mortgages set as collateral with the Swiss Cantonal Banks Central mortgage bond issuing body	2,337,660	1,808,037
commitment with the Swiss Cantonal Banks Central mortgage bond issuing body	1,797,000	1,479,000

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

(CHF thousands)	Balance at 31.12.2012	2013				Balance at 31.12.2013
		Usage in conformity to purpose	Recoveries, impaired interest currency differences	Release credited to income statement	New provisions charged to income statement	
Value adjustments and provisions for credit risks (counterparty and country risks)	87,882	14,770	-1,272	4,595	5,790	73,035
Value adjustments and provisions for other operational risks	8,158	751	-	2,384	6,266	11,289
Other provisions						
additional pension provision	5,950	1,275	-	-	1,276	5,951
other provisions	359	112	-	-		247
<b>Total value adjustment and provisions</b>	<b>102,349</b>	<b>16,908</b>	<b>-1,272</b>	<b>6,979</b>	<b>13,332</b>	<b>90,522</b>
Value adjustments directly offset by assets	-88,100					-73,253
<b>Total value adjustments and provisions as per balance sheet</b>	<b>14,249</b>					<b>17,269</b>
<b>Total reserves for general banking risks</b>	<b>372,386</b>					<b>372,386</b>

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

In compliance with FINMA provisions, released excess provisions for credit risks (CHF 0.6 million) were booked under "Extraordinary income" (refer to Section 6.2 of the Notes to the Financial Statements).

### 4.4 Endowment capital

(CHF thousands)	31.12.2013	31.12.2012
Endowment capital	200,000	110,000
Granted limit	240,000	110,000
Interest rate applicable to endowment capital: Endowment capital has no maturity date	5%	5%

#### 4.5 Statement of changes in equity

(CHF thousands)	
<b>Equity at 31.12.2012</b>	
Endowment capital paid	110,000
General legal reserve	184,296
Reserves for general banking risks	372,386
Balance sheet net income	40,397
<b>Total equity at 31.12.2012 (before appropriation of available earnings)</b>	<b>707,079</b>
- 5% interest on endowment capital for financial year 2012	-5,500
- Additional payment to Canton Ticino for financial year 2012	-23,265
+ Net income of reporting year 2013	41,774
+ Increase in endowment capital	90,000
<b>Total equity at 31.12.2013 (before appropriation of available earnings)</b>	<b>810,088</b>
of which:	
Endowment capital paid	200,000
General legal reserve	195,928
Reserves for general banking risks	372,386
Balance sheet profit	41,774

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

(CHF thousands)	31.12.2013	31.12.2012
Due from companies/entities related to the Canton	15,006	15,434
Due to companies/entities related to the Canton	42,426	46,335
Due from the Bank's governing bodies	67,956	60,157

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

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

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

### 5. INFORMATION ON OFF-BALANCE SHEET TRANSACTIONS

#### 5.1 Fiduciary transactions

(CHF thousands)	31.12.2013	31.12.2012
Fiduciary placements with third party banks	22,867	20,114
<b>Total fiduciary transactions</b>	<b>22,867</b>	<b>20,114</b>



## 6. INFORMATION ON THE INCOME STATEMENT

### 6.1 Breakdown of results from trading operations

(CHF thousands)	2013	2012
Foreign exchange trading	10,863	9,532
Trading in foreign banknotes	1,280	1,307
Trading in precious metals	-23	255
Trading in securities	247	183
<b>Total</b>	<b>12,367</b>	<b>11,277</b>

### 6.2 Other information on the income statement

(CHF thousands)	2013	2012
<b>Extraordinary income</b>		
Income from released provisions for credit risks <sup>1</sup>	561	9,360
Gains or losses from permanent holdings	24	90
Other extraordinary income	563	294
<b>Total</b>	<b>1,148</b>	<b>9,744</b>
<b>Extraordinary expenses</b>		
Allocation to the reserve for general banking risks	-	7,000
Other extraordinary expenses	-	70
<b>Total</b>	<b>-</b>	<b>7,070</b>

<sup>1</sup> Surplus from released provisions for credit risks (capital and interest) as compared to the new requirements for provisions in 2012 due primarily to the release of a no longer necessary lump sum provision for credit risks.



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

## Report of the statutory Auditor on the financial statements

As statutory auditor, we have audited the financial statements of Banca dello Stato del Cantone Ticino, Bellinzona, which comprise the balance sheet, income statement and notes (pages 65 to 73), for the year ended 31 December 2013.

### *Board of Directors' responsibility*

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

### *Auditor's responsibility*

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

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

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*Opinion*

In our opinion, the financial statements for the year ended 31 December 2013 give a true and fair view of the financial position in accordance with the provisions governing the preparation of financial statements for banks, the Swiss law and the Cantonal Law on the Banca dello Stato del Cantone Ticino.

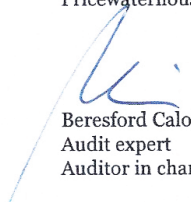
**Report on other legal requirements**

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


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

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

PricewaterhouseCoopers SA



Beresford Caloia  
Audit expert  
Auditor in charge



Glenda Brändli  
Audit expert

Lugano, 17 March 2014

# Board of Directors

# Public Mandate Control Commission

## **Chairman**

Dr. Fulvio Pelli

## **Deputy Chairman**

Dr. Roberto Grassi

## **Secretary**

Carlo Danzi

## **Members**

Marco Fantoni

Giovanni Jelmini

Michele Morisoli

Raoul Paglia

## **Chairman**

Raffaele De Rosa

## **Deputy Chairman**

Marco Chiesa

## **Members**

Daniele Caverzasio

Pelin Kandemir Bordoli

Christian Vitta

# External Auditors as defined by the Swiss Banking Law

PricewaterhouseCoopers SA

# Internal Auditors

## **Chief Auditor**

Gabriele Guglielmini

## **Deputy**

Guido Gianetti

# Executive Board

## President of the Executive Board

Bernardino Bulla

## Members of the Executive Board

Renato Arrigoni

Fabrizio Cieslakiewicz

Claudio Genasci

# Members of the Management

## Bellinzona Head Office

Domenico Albertoni

Daniele Albisetti

Romano Bär

Adrian Baumberger

Mauro Bazzotti

Lucamaria Beeler

Renzo Beffa

Mary Bernardasci

Enrico Bertozzi

Carlo Briccola

Dario Caramanica

Medardo Caretti

Curzio De Gottardi

Maurizio Derada

Giovanni Duca

Adolfo Genzoli

Luca Ghiringhelli

Manuel Giambonini

Giancarlo Jemini

Patrick Lafranchi

Mauro Locatelli

Donato Lucchini

Marco Molteni

Fabio Pedrazzini

Massimo Pedrini

Massimo Penzavalli

Ivo Pini

Giulio Ruggeri

Michele Schandroch

Lorenzo Squellati

Norman Stampanoni

Fabrizio Stöckli

Carlo Tomasini

Ferruccio Unternährer

Mirko Zoppi

## Lugano Branch

Roberto Barbera

Luca Bordonzotti

Attilio Buttà

Luigi Campagna

Roberto Danzi

Andrea Ferrari

Claudio Frigo

Daniela Lepori Moresi

Gabriele Mantegazzi

Alberto Pedrazzi

Carlo Ruggia

Luca Todesco

Tiziana Zanchi-Temperelli

## Locarno Branch

Boris Ceschi

Fabrizio Conti-Rossini

Claudio Gnesa

Stephan Mair

Marco Meschiari

Marco Pellanda

## Chiasso Branch

Claudio Cereghetti

Fabrizio Croci

Mario Grassi

Gilberto Pittaluga

Marco Soragni

## Head Office

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

## Branches

Corso S. Gottardo 4  
**6830 Chiasso**

Via Naviglio Vecchio 4  
**6600 Locarno**

Via Pioda 7  
**6900 Lugano**

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# Agencies

Via Cantonale  
**6982 Agno**

**6780 Airolo**

Viale Papio 5  
**6612 Ascona**

Via Pini 2  
**6710 Biasca**

Via Leoncavallo  
**6614 Brissago**

Via Pretorio 3  
**6675 Cevio**

**6715 Dongio**

**6760 Faido**

Largo Libero Olgiati 81a  
**6512 Giubiasco**

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

**6900 Lugano-Piazza Riforma**

Via Lavizzari 18  
**6850 Mendrisio**

Via Pietro Fontana  
**6950 Tesserete**

## ONLINE AGENCY

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Tel 091 803 33 33  
agenziavicina@bancastato.ch  
c/o Sede Centrale

## ATM

Parco Commerciale  
**6916 Grancia**  
(24h/24)

Via San Francesco 1  
**6600 Locarno-Città vecchia**  
(24h/24)

Via Emmaus 1  
(Centro Comm. Cattori)  
**6616 Losone**  
(shopping mall opening hours)

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