

Annual Report

2016

 **Axion** | SWISS Bank

Gruppo  **BancaStato**  
BANCA DELLO STATO DEL CANTONE TICINO









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LAC Lugano Arte e Cultura







# Report of the Board of Directors

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For financial markets, 2016 was a year of both major challenges and opportunities. Economic and political events translated into brief periods of high volatility, beginning in the first weeks of January, with the financial shock in China and the depreciation of the yuan, which was soon followed by the fall in crude oil prices. In spite of the severe reactions of the markets, the feeling soon spread among investors that these problems, although substantive, were manageable, with few fearing a global recession. In the world of politics, the Brexit referendum and the result of the US elections were certainly exceptional events.

The political and financial worlds were taken by surprise, but both soon overcame the initial shock. In the post-Brexit period, markets made use of the temporary downward trend to enter positions while, after the Trump election, they quickly welcomed the idea of a conservative agenda in Congress, whose focus was directed more towards fiscal stimuli, tax cuts and deregulation. One explanation for the financial markets' stamina stems from persistently low interest rates. The continuous hunt for investments that offered at least a minimum return is such that even negative news would trigger only short-lived nervousness, all this in a context of a progressive improvement in economic fundamentals. Despite all uncertainties and unpredictability, particularly in the US, economic development stayed on course, laying the groundwork for the real economy.

Moreover, the monetary policies of central banks remained expansive in several countries. In December, after long delays, the Fed took the first step towards a rise in interest rates and a gradual normalisation of its monetary policy. In the meantime, the ECB maintained its extremely expansive policy. To counter the risk of deflation, the ECB extended the program for the acquisition of maturing State securities, which was initially planned to end in March 2017, until at least the end of 2017, and confirmed its key rate at an historical low. As a consequence, the policies of central banks on both sides of the Atlantic have become increasingly divergent. While the US demonstrated solid economic growth over the entire year, in Europe, encouraging signals only materialised in the last quarter. In this continent, economic growth will continue to rely on fiscal support even though the effects of stimulating measures did not, up until now, live up to expectations.

The Swiss economy was able to, once again, show its strength and its capacity to absorb major shocks. However, the SNB could not avoid extending its budget, intervening on the appreciation of the Swiss franc in a context of continued negative rates and near-zero inflation at the end of 2016.

In this context, during the first quarter of 2016, and within the framework of the strategy aimed at strengthening its asset administration business, Axion SWISS Bank SA acquired a portion of client portfolios as well as employees and the infrastructure of Société Générale Private Banking (Lugano-Svizzera) SA (SGL), bolstering its position in terms of size and competence.

It is important to stress the successful outcome of this acquisition also with regard to the integration of staff. The Board of Directors wishes to thank the Executive Board and all personnel for their dedication. Assets managed totalled CHF 4.24 billion at the end of December and net cash inflow was CHF 1.78 billion, primarily owing to the acquisition of a number of SGL clients.

With regard to earnings, Axion SWISS Bank SA closed 2016 with an operating result of CHF 2.50 million and CHF 1.96 million in net income, a clear improvement with respect to 2015 (+37.3%) - net of depreciation for the current financial year following the acquisition of the SGL company branch.

These results allowed for CHF 1.86 million in paid-out dividends and the allocation of CHF 98 thousand to the legal reserve. In their report on the 2016 financial statements, the Auditors concluded that the balance sheet structure of Axion SWISS Bank SA was well-balanced, its financial situation sound and its performance positive.

The year 2017 began with signs of optimism both with regard to markets and the further improvement of the Bank's strengths, most notably its Asset Management which remains its core business.

The Board of Directors has taken note of the reports of both the internal and external Auditors. It expresses its appreciation and positive evaluation of the work performed by the Bank's Executive Board and wishes its valued clients and staff a successful 2017.







# 1. Balance Sheet

(CHF thousands)	Reference to annex	31.12.2016	31.12.2015	Change
<b>Assets</b>				
Liquid assets		910,680	106,429	804,251
Amounts due from banks		142,788	538,904	-396,116
Amounts due from customers	6.9.1	261,378	116,410	144,968
Trading portfolio assets	6.9.2	3,212	6,422	-3,210
Positive replacement value of derivative financial instruments	6.9.3	5,164	907	4,257
Financial investments	6.9.4	4,544	6,896	-2,352
Accrued income and prepaid expenses		896	1,436	-540
Tangible fixed assets	6.9.5	3,213	130	3,083
Intangible assets	6.9.6	15,100	-	15,100
Other assets	6.9.7	2,663	103	2,560
<b>Total assets</b>		<b>1,349,638</b>	<b>777,637</b>	<b>572,001</b>
Total subordinated claims		-	-	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		-	-	-
<b>Liabilities</b>				
Amounts due to banks		31,028	8,666	22,362
Amounts due in respect of customer deposits		1,245,183	711,285	533,898
Negative replacement values of derivative financial instruments	6.9.3	10,041	266	9,775
Accrued expenses and deferred income		7,057	1,861	5,196
Other liabilities	6.9.7	1,107	940	167
Reserves for general banking risks	6.9.10	4,500	4,500	-
Bank's capital	6.9.11	43,000	43,000	-
Statutory retained earnings reserve		5,761	5,690	71
Profit carried forward		-	1	-1
Profit		1,961	1,428	533
<b>Total liabilities</b>		<b>1,349,638</b>	<b>777,637</b>	<b>572,001</b>
Total subordinated liabilities		20,510	-	20,510
<i>of which subject to mandatory conversion and/or debt waiver</i>		20,510	-	20,510
<b>Off-balance sheet transactions</b>				
Contingent liabilities	6.9.1 and 6.10.19	10,162	14,677	-4,515
Irrevocable commitments	6.9.1	6,593	748	5,845



## 2. Income Statement

(CHF thousands)	Reference to annex	2016	2015	Change
<b>Income and expenses arising from ordinary banking operations</b>				
<b>Result from interest operations</b>				
Interest and discount income		6,380	2,846	3,534
Interest and dividend income from trading portfolios		47	31	16
Interest and dividend income from financial investments		126	123	3
Interest expense		-1,308	-804	-504
<b>Gross result from interest operations</b>		<b>5,245</b>	<b>2,196</b>	<b>3,049</b>
Changes in value adjustments for default risks and losses from interest operations		-26	-80	54
<b>Net result from interest operations</b>		<b>5,219</b>	<b>2,116</b>	<b>3,103</b>
<b>Result from commission business and services</b>				
Commission income from securities trading and investment activities		20,467	8,166	12,301
Commission income from lending activities		125	105	20
Commission income from other services		2,337	1,151	1,186
Commission expenses		-5,997	-1,763	-4,234
<b>Result from trading activities</b>	6.11.22	<b>3,485</b>	<b>1,203</b>	<b>2,282</b>
<b>Other result from ordinary activities</b>				
Result from the disposal of financial investments		329	277	52
Other ordinary income		63	81	-18
<b>Net revenues</b>		<b>26,028</b>	<b>11,336</b>	<b>14,692</b>
<b>Operating expenses</b>				
Personnel expenses	6.11.24	-14,645	-6,113	-8,532
General and administrative expenses	6.11.25	-5,220	-3,200	-2,020
<b>Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets</b>		<b>-3,614</b>	<b>-85</b>	<b>-3,529</b>
<b>Changes to provisions and other value adjustments, and losses</b>		<b>-44</b>	<b>-27</b>	<b>-17</b>
<b>Operating result</b>		<b>2,505</b>	<b>1,911</b>	<b>594</b>
<b>Extraordinary income</b>	6.11.26.02	<b>58</b>	<b>-</b>	<b>58</b>
<b>Taxes</b>	6.11.27	<b>-602</b>	<b>-483</b>	<b>-119</b>
<b>Profit</b>		<b>1,961</b>	<b>1,428</b>	<b>533</b>

### 3. Proposed Appropriation of Available Earnings

(CHF thousands)	31.12.2016	31.12.2015	Change
<b>Appropriation of available earnings</b>			
Profit	1,961	1,428	533
Profit carried forward	-	1	-1
<b>Earnings at the end of period</b>	<b>1,961</b>	<b>1,429</b>	<b>532</b>
<b>Proposal of the Board of Directors</b>			
Allocation to statutory retained earnings reserve	98	71	27
Distribution from distributable profit	1,863	1,358	505
<b>New amount carried forward</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 4. Cash Flow Statement

(CHF thousands)	2016		2015	
	Cash inflow	Cash outflow	Cash inflow	Cash outflow
<b>Cash flow from operating activities (internal financing)</b>	<b>7,560</b>			<b>1,255</b>
Profit	1,961	-	1,428	-
Depreciation and amortisation of fixed assets	3,614	-	85	-
Provisions and other value adjustments	-	-	-	215
Accrued income and prepaid expenses	540	-	-	103
Accrued expenses and deferred income	5,196	-	-	312
Other assets and liabilities	-	2,393	-	317
Prior year dividend	-	1,358	-	1,821
<b>Cash flow from shareholder's equity transactions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Bank's capital	-	-	-	-
<b>Cash flow to transactions in respect of participations, fixed assets and intangible assets</b>	<b>-</b>	<b>21,797</b>	<b>-</b>	<b>41</b>
Tangible fixed assets	-	3,677	-	41
Intangible assets	-	18,120	-	-
<b>Cash flow from banking operations</b>	<b>818,488</b>	<b>-</b>	<b>19,730</b>	<b>-</b>
<b>Medium and long-term business (&gt;1 year)</b>	<b>24,045</b>	<b>-</b>	<b>1,485</b>	<b>-</b>
Amounts due to banks	20,000	-	-	-
Amounts due from customers	1,693	-	3,095	-
Financial investments	2,352	-	-	1,610
<b>Short-term business</b>	<b>794,443</b>	<b>-</b>	<b>18,245</b>	<b>-</b>
Amounts due to banks	2,362	-	-	2,156
Negative replacement values of derivate financial instruments	9,775	-	-	485
Amounts due in respect of customer deposits	533,898	-	18,366	-
Positive replacement values of derivate financial instruments	-	4,257	1,967	-
Amounts due from banks	396,116	-	22,962	-
Amounts due from customers	-	146,661	-	19,329
Trading portfolio assets	3,210	-	-	3,080
<b>Liquidity</b>	<b>-</b>	<b>804,251</b>	<b>-</b>	<b>18,434</b>
Liquid assets	-	804,251	-	18,434
	<b>826,048</b>	<b>826,048</b>	<b>19,730</b>	<b>19,730</b>

## 5. Statement of Changes in Equity

(CHF thousands)	Bank's capital	Statutory retained earnings reserve	Reserves for general banking risks	Profit carried forward	Result of the period	Total
<b>Equity as at 01.01.2016</b>	43,000	5,690	4,500	1	1,428	54,619
<b>Appropriation of retained earnings 2015</b>						
<i>Assignment to Statutory retained earnings reserve</i>	-	+71	-	-1	-70	-
<i>Dividend from 2015 earnings</i>	-	-	-	-	-1,358	-1,358
Result 2016	-	-	-	-	+1,961	1,961
<b>Total equity as at 31.12.2016</b>	<b>43,000</b>	<b>5,761</b>	<b>4,500</b>	<b>0</b>	<b>1,961</b>	<b>55,222</b>



## 6. Annex

### 6.1 ACTIVITIES AND STAFF

#### 6.1.1 Activities

Axion Swiss Bank SA is a Lugano-based limited company whose primary business focuses on portfolio management for private and institutional clients. The Bank is active in several related business areas, such as intermediation in securities and currency transactions in the principal international markets, investment advice and the granting of loans. Lending activities are mostly limited to Lombard loans secured by assets on deposit with the Bank and to loans secured by first demand guarantees issued by primary financial institutions. In the first quarter of 2016, within the framework of a strategy aimed at strengthening its asset administration business, Axion Swiss Bank SA acquired a portion of infrastructure and client assets of Société Générale Private Banking (Lugano-Svizzera) SA.

#### 6.1.2 Staff

On December 31<sup>st</sup> 2016, total staff amounted to 72 employees (70.6 FTEs), compared to 30 at the end of 2015 (28.3 FTEs).

#### 6.1.3 Outsourcing

Axion Swiss Bank SA outsources specific services as defined by the FINMA 2008/7 «Outsourcing – banks» Circular. This includes the activities connected to payment transactions, securities administration, Back Office stock exchange, currency and treasury as well as financial accounting and specific aspects of risk management and of legal/compliance that were transferred to Banca dello Stato del Cantone Ticino.

The internal audit and salaries administration functions have also been delegated to Banca dello Stato del Cantone Ticino. As per FINMA Circular 2008/7, these contracts are not considered as outsourcing contracts.

### 6.2 ACCOUNTING AND VALUATION PRINCIPLES

#### 6.2.1 General principles

This annual financial statement was prepared in accordance with the FINMA provisions (statutory financial statements with reliable representation).

Accounting and valuation principles 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 FINMA Circular 2015/1 «Accounting - banks».

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

#### 6.2.2 General valuation principles

Annual financial statements are prepared on a going concern basis. Balance sheet items and off-balance sheet items are valued

individually.

Axion Swiss Bank SA does not apply the transitional provision provided by article 69.2 of the Banking Ordinance, which allows the introduction of individual valuations of tangible fixed assets and intangible assets at the latest by January 1<sup>st</sup> 2020.

In principle, neither assets and liabilities nor expenses and income can be offset.

Receivables and commitments are netted only in the context of the deduction of value adjustments from the corresponding active position.

#### 6.2.3 Financial instruments

##### 6.2.3.1 Liquidity

Liquidity is priced at nominal value.

##### 6.2.3.2 Amounts due from banks and amounts due from customers

These items are reported at their nominal value.

For identifiable risks, value adjustments are directly netted with assets.

Debit interests and commissions unpaid for more than 90 days are booked under «Changes in value adjustments for default risks and losses from interest operations».

The value adjustments for risks of default that are no longer economically necessary and at the same time are not used for other similar requirements are released through the income statement via the item «Changes in value adjustments for default risks and losses from interest operations».

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

Commitments are entered in the balance sheet at their nominal value. Credits in precious metals are evaluated at fair value on the condition that the respective precious metal is traded on a liquid and efficient market.

##### 6.2.3.4 Trading portfolio assets and liabilities arising from trading activities

The valuation of the portfolio of securities held for trading is at fair value. If, in exceptional cases, fair value cannot be determined, the valuation and recognition will be based on the principle of lower value.

Gains and losses, as well as adjustments to the above rate changes and revenues from interest and dividend, are represented in the item «Result from trading activities».

##### 6.2.3.5 Positive and negative replacement values of derivative financial instruments

Derivative financial instruments are used mostly on request and on behalf of customers. Operations on own account are for trading and hedging purposes.

For derivatives outstanding at year-end, positive and negative replacement values are calculated. They are priced at market value, and any profit or loss thus generated is recorded as «Result from trading activities» and «Result from interest operations».

Positive replacement values are recognised in the balance sheet under the item «Positive replacement values of derivative financial instruments», and negative replacement values as «Negative replacement values of derivative financial instruments».

#### **6.2.3.6 Financial investments**

Bonds intended to be held until maturity are recognised at acquisition cost, and the premium/discount (interest component) is accrued over the term (accrual method). Changes in value for default risks are immediately charged to the item «Changes in value adjustments for default risks and losses from interest operations». In the case of sale or redemption prior to maturity, any profit or loss corresponding to the interest component is accrued over the remaining term to maturity. The valuation of other securities is based on the principle of the lower of cost or market, and the changes in value are recognised in the income statement under «Other result from ordinary activities».

#### **6.2.4 Tangible fixed assets**

Tangible fixed assets are recognised at purchase cost less depreciation calculated using the straight line *pro-rata temporis* method based on the expected period of use. Depreciation starts when the fixed assets are first utilised.

The depreciation rates are set at 20% yearly for all tangible fixed assets, except for vehicles, where the yearly rate is 33.3%. Fixed assets which are no longer used, or have undergone extraordinary depreciation, are written down (impairment).

Impairment testing is carried out annually on the balance sheet date. Any additional depreciation (impairment) is charged to the income statement.

#### **6.2.5 Intangible assets**

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

#### **6.2.6 Provisions**

This item comprises the «Value adjustments and provisions» envisaged at the balance sheet closing date in accordance with a prudent valuation of other risks, while value adjustments on asset items are deducted directly from the same.

#### **6.2.7 Reserves for general banking risks**

In compliance with the accounting directives of the FINMA (Circular FINMA 2015/1 Accounting - banks), the «Reserves for general

banking risk» represent the reserves established as a precaution to cover latent risks inherent in the banking business. As laid down in article 21c of the Swiss Federal Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Traders (CAO), such reserves are considered own capital. Any addition or release is booked in the income statement under the item «Changes in reserves for general banking risks».

The full amount shown on the balance sheet is not subject to taxation. Respectively, no deferred taxes have been considered.

#### **6.2.7.1 Taxes**

Taxes are calculated and booked based on the annual results and charged to the financial year under review under «Accrued expenses and deferred income».

#### **6.2.8 Off-balance sheet transactions**

Contingent liabilities are disclosed at their nominal value under off-balance sheet transactions.

#### **6.2.9 Amounts due to and from related companies**

These amounts are recorded at nominal value and are priced at market rates.

#### **6.2.10 Liabilities relating to own pension schemes**

The Bank does not run own pension schemes. This activity is instead entrusted to an external private insurance company (Vita Joint Foundation by Zurich Insurance). All employees are covered in case of death or disability starting on January 1<sup>st</sup> of the year after they turn 17, and for retirement benefits starting on January 1<sup>st</sup> of the year after their 24<sup>th</sup> birthday.

The scheme is based on defined contributions. The Bank is therefore only obligated to pay premiums as calculated by the insurance company. These are recognised under «Personnel expenses». There are neither economic benefits nor economic obligations as defined by Swiss GAAP ARR 16.

#### **6.2.11 Changes in accounting and valuation principles**

There were no changes in accounting and valuation principles in 2016.

#### **6.2.12 Recording of business transactions**

All transactions concluded by the balance sheet date are recorded daily and evaluated according to accepted accounting principles. The result of all completed transactions is integrated into the income statement.

#### **6.2.13 Treatment of past due interest**

Interest is past due when it is more than 90 days overdue. Past due interest is not considered as interest income. A provision is recorded and compensated directly by assets.

#### 6.2.14 Commission expense

Commission expense for the 2016 financial year comprises outsourced services connected to payment transactions, securities administration, as well as stock exchange, currency and treasury Back Office, for a total amount of CHF 975,000.00.

#### 6.2.15 Foreign currency translation

All assets and liabilities denominated in currencies other than the Swiss franc are converted at the exchange rate prevailing at the balance sheet closing date.

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

EUR 1.0724 (2015: 1.0877)

USD 1.0158 (2015: 1.0012)

GBP 1.2538 (2015: 1.4765)

Costs and revenues are taken to the income statement at the exchange rates of the recording day. Gains and losses from currency conversion are booked under «Result from trading activities».

### 6.3 RISK MANAGEMENT

Risk management aims to identify, measure and monitor banking risks in order to preserve the assets of the Bank and facilitate its profitability.

The Board of Directors has performed an analysis of the main business risks Axion Swiss Bank SA is exposed to. This risk assessment is based on data and tools used by the Bank to manage risks, as described further in this section, as well as on forward-looking considerations on potential future risks.

In this respect, the Board of Directors has duly considered the existing internal control system which was implemented to manage and mitigate risks.

Moreover, risks are managed and monitored on the basis of the Bank's Operating Rules and Regulations, the Organisation and Risk Management Regulations and internal guidelines which set the corresponding risk limits, as well as according to the Swiss Federal Law on Banks and Savings Banks and its respective Implementing Ordinance.

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

#### 6.3.1 Credit risk

The credit risk management policy is applied to all potential situations of loss occasioned by counterparty insolvency. Credit risk is primarily connected with client lending business. The Bank limits credit risks by relying primarily on counterparties secured by high quality securities or on the basis of guarantees issued by leading banks. The loan to value ratio is defined by a specific internal guideline and the value of collateral is monitored daily.

Country risk is kept within set limits.

Interbank business, which is derived from client and own business, is carried out within a predefined limit system with primary Swiss and international banks. The maximum amount set depends on the counterparty's solvency and is under constant monitoring. Counterparty limits are reviewed at least once a year. Compliance to these limits is controlled on a regular basis.

#### 6.3.2 Market risk

The organization of risk management related to interest and market rates is in line with the Bank's structure and business. The refinancing of asset items is carried out mainly through transactions with suitable maturities. Set limits are adhered to on an ongoing basis and in conformity with FINMA guidelines.

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

The exposure to market risks connected to trading operations is limited and mostly in relation to client requirements. In this respect, prudent limits of maximum exposure have been established and are monitored on an ongoing basis.

#### 6.3.3 Liquidity risk

Liquidity is managed according to the strictest criteria of prudence and in compliance with the limits set by the Swiss Ordinance on Banks and Savings Banks.

#### 6.3.4 Operational risk

The management of operational risk consists primarily in the adoption of risk mitigating measures aimed at eliminating or reducing risk. In-house rules and guidelines define the organisation of work and limit the extent of such risk. A system of controls at various levels, as well as specific structures designed to oversee the application of established rules and procedures have been implemented to limit the exposure to operational risk. Key controls are documented in a standardised manner.

#### 6.3.5 Legal, reputational, and compliance risks

The Bank operates with due care for image and reputational risks in conformity with applicable legal provisions. The Bank's personnel are trained and updated on any legal development, with special emphasis on amendments to AMLO-FINMA. The Bank has adopted an internal compliance control system based on multilevel monitoring.

#### **6.4 METHODS USED FOR IDENTIFYING RISKS OF LOSS AND FOR DETERMINING THE NEED FOR PROVISIONING**

Credits are monitored in a differentiated manner according to established procedures based on the risk profile. In order to guarantee the periodic and seamless monitoring of all assumed credit risks, all credit facilities must be renewed.

Commitments and values of collateral for loans backed by securities are monitored on a daily basis. If the value of collateral falls below the loan value, the latter is reduced or additional guarantees are required. In the absence of a settlement, the securities are utilised and the credit position is closed out.

Non-performing and impaired loans are assessed individually, considering existing collateral at its liquidation value. Any risk of default is provisioned individually. The provision represents the expected loss with the counterparty with regard to the corresponding transaction.

#### **6.5 VALUATION OF COLLATERAL**

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

To calculate the value of liquid and negotiable securities, the Bank applies a discount to the market value to cover the market risk associated with these securities. Discounts may vary depending upon the type of product, the counterparty's rating, the residual duration of the financial instrument and the currency.

For life insurance policies or bank guarantees, these discounts are determined on the basis of the product and counterparty.

#### **6.6 BUSINESS POLICY REGARDING THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments are used primarily by request and on behalf of customers. Operations on own account are performed for trading and hedging purposes.

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

In general, recognition in the income statement of the result of a hedging transaction follows the same principles applied to the secured underlying. Consequently, results from hedging operations with derivative financial instruments within the framework of the structural management of the balance sheet are booked on a pro rata basis (accrual method).

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

This instrument is used as an alternative to either an interbank investment in foreign currency of excess liquidity, particularly in the case of uncertainty regarding the quality of foreign counterparts or interbank refinancing in foreign currency. With a treasury swap, the Bank can transform excess liquidity in foreign currency into Swiss francs, for a fixed period, thus enabling its placement in domestic currency without incurring an exchange rate risk, or convert excess liquidity in domestic currency into foreign currency to finance loans in foreign currency.

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

No significant event occurred after the closing of the balance sheet date that could have led to changes in the balance sheet or the income statement as at December 31<sup>st</sup> 2016.

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

PricewaterhouseCoopers AG, Lugano were designated as Auditors. The mandate was given for the first time in 2010. The external Auditors are still in office.



The numbering below is based on the new FINMA regulation (see Circular 2015/1 Accounting - banks).

## 6.9 INFORMATION ON THE BALANCE SHEET

### 6.9.1 Presentation of collateral for loans and off-balance sheet transactions, as well as impaired loans at 31.12.2016

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
<b>Loans (before netting with value adjustments)</b>				
Amounts due from customers	-	258,817	2,585	261,402
<b>Total loans (before netting with value adjustments)</b>	-	<b>258,817</b>	<b>2,585</b>	<b>261,402</b>
Previous year	-	116,374	81	116,455
<b>Total loans (after netting with value adjustments)</b>	-	<b>258,817</b>	<b>2,561</b>	<b>261,378</b>
Previous year	-	116,360	50	116,410
<b>Off-balance sheet</b>				
Contingent liabilities	-	10,150	12	10,162
Irrevocable commitments	-	-	6,593	6,593
<b>Total off-balance sheet</b>	-	<b>10,150</b>	<b>6,605</b>	<b>16,755</b>
Previous year	-	14,666	759	15,425

(CHF thousands)	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
<b>Impaired loans</b>				
<b>Current year</b>	<b>56</b>	<b>32</b>	<b>24</b>	<b>24</b>
<i>of which secured against collateral</i>	-	-	-	-
<i>of which unsecured</i>	56	32	24	24
<b>Previous year</b>	<b>81</b>	<b>36</b>	<b>45</b>	<b>45</b>
<i>of which secured against collateral</i>	-	-	-	-
<i>of which unsecured</i>	81	36	45	45

## 6.9.2 Breakdown of trading portfolios

(CHF thousands)

Assets	31.12.2016	31.12.2015
<b>Trading portfolio assets</b>		
Debt securities, money market securities	1,363	4,605
of which listed	1,363	2,211
Shares of investment funds	1,849	1,817
<b>Total trading portfolio assets</b>	<b>3,212</b>	<b>6,422</b>

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

(CHF thousands)

	Trading instruments			Hedging instruments		
	Replacement values		Contract volume	Replacement values		Contract volume
	positive	negative		positive	negative	
<b>Interest rate instruments</b>						
Options (OTC)	-	-	5,362	-	-	-
<b>Total interest rate instruments</b>	<b>-</b>	<b>-</b>	<b>5,362</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Foreign exchange / precious metals</b>						
Forward contracts	1,807	1,959	195,933	-	-	-
Swaps	415	207	48,234	76	5,009	675,839
Options (OTC)	2,866	2,866	70,335	-	-	-
<b>Total foreign exchange / precious metals</b>	<b>5,088</b>	<b>5,032</b>	<b>314,502</b>	<b>76</b>	<b>5,009</b>	<b>675,839</b>
<b>Total</b>	<b>5,088</b>	<b>5,032</b>	<b>319,864</b>	<b>76</b>	<b>5,009</b>	<b>675,839</b>
Total previous year	907	266	112,507	-	-	-

### Breakdown by counterparty (CHF thousands)

	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	-	3'621	1'543

No netting contracts existed on derivatives open as at 31.12.2016 and at 31.12.2015.

#### 6.9.4 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Debt securities	4,508	6,778	4,659	6,789
<i>of which intended to be held to maturity</i>	4,508	6,778	4,659	6,789
<i>of which not intended to be held to maturity</i>	-	-	-	-
Shares of investment funds	-	118	-	594
Equity-type securities	36	-	36	-
<i>of which qualified participations</i>	-	-	-	-
<b>Total financial investments</b>	<b>4,544</b>	<b>6,896</b>	<b>4,695</b>	<b>7,383</b>
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	500	-	518	-

Breakdown of counterparties by rating	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
(CHF thousands)						
Debt securities: book values	500	1'316	2'692	-	-	-

The evaluation of debt securities is based on the rating categories of Standard & Poor's (if not available, Moody's).

#### 6.9.5 Presentation of tangible fixed assets

(CHF thousands)	Acquisition cost	Accumulated depreciation	Book value 31.12.2015	2016			Book value 31.12.2016
				Additions	Disposals	Depreciation	
Acquired software	2,052	2,003	49	3,194	-	461	2,782
Other tangible fixed assets	4,069	3,988	81	483	-	133	431
<b>Total tangible fixed assets</b>	<b>6,121</b>	<b>5,991</b>	<b>130</b>	<b>3,677</b>	<b>-</b>	<b>594</b>	<b>3,213</b>

### 6.9.6 Presentation of intangible assets

(CHF thousands)							
	Cost value	Accumulated amortisation	Book value 31.12.2015	Additions	Disposals	2016 Amortisation	Book value 31.12.2016
Goodwill	-	-	-	18,120	-	3,020	15,100
<b>Total intangible assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,120</b>	<b>-</b>	<b>3,020</b>	<b>15,100</b>

### 6.9.7 Breakdown of other assets and other liabilities

(CHF thousands)		
<b>Other assets</b>	31.12.2016	31.12.2015
Indirect taxes	282	43
Other different assets	2,381 <sup>1</sup>	60
<b>Total other assets</b>	<b>2,663</b>	<b>103</b>
<b>Other liabilities</b>		
Direct/indirect taxes	1,062	932
Other different liabilities	45	8
<b>Total other liabilities</b>	<b>1,107</b>	<b>940</b>

<sup>1</sup> of which a balance of CHF 2,380 in banking operations awaiting execution

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

(CHF thousands)				
	31.12.2016		31.12.2015	
	Book values	Effective commitments	Book values	Effective commitments
<b>Pledged / assigned assets</b> (excluding advances and repurchase agreements with securities)				
Securities pledged to secure bank operations	-	-	4,677	48
Amounts due from banks	7,209	5,356	4,708	2,715
<b>Total assets pledged / assigned</b>	<b>7,209</b>	<b>5,356</b>	<b>9,385</b>	<b>2,763</b>



### 6.9.9 Economic situation of own pension schemes

#### a) Disclosure of the economic situation of own pension schemes

The Bank does not run an own pension scheme.

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

	Overfunding / underfunding at end 2016	Economic interest of the bank		Change in economic interest (economic benefit / obligation) versus previous year	Contributions paid for the current period	Pension expenses in personnel expenses	
		31.12.2016	31.12.2015			31.12.2016	31.12.2015
Pension plans with overfunding	8.3%	-	-	-	927	1,079	468

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

For pension and social security purposes Axion Swiss Bank SA has insured its staff through the Zurich "Vita Joint Foundation". In its last communication (31.12.2016) this collective scheme coverage ratio amounted to 108.3% based on Art. 44/2 OPP 2 (31.12.2015: 110.9%).

No economic liabilities or economic benefits towards the pension scheme existed at year end. The Vita Joint Foundation did not hold any reserves pertaining to employers' contributions for the Bank.

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

(CHF thousands)		2016					Situation at 31.12.2016
	Situation at 31.12.2015	Use in conformity with designated purpose	Currency differences	Past due interest, recoveries	Releases to income	New creations charged to income	
<b>Reserves for general banking risks</b>	<b>4,500</b>	-	-	-	-	-	<b>4,500</b>
<b>Value adjustments for default and country risks</b>	<b>45</b>	<b>23</b>	-	-	<b>13</b>	<b>15</b>	<b>24</b>
of which value adjustments for default risks in respect of impaired loans	45	23	-	-	13	15	24
<b>Total value adjustments for default and country risks</b>	<b>45</b>	<b>23</b>	-	-	<b>13</b>	<b>15</b>	<b>24</b>

The reserves for general risks are not taxed.

### 6.9.11 Presentation of the Bank's capital

(CHF thousands)	31.12.2016			31.12.2015		
	Total par value	No. of shares	Capital eligible for dividend	Total par value	No. of shares	Capital eligible for dividend
<b>Share capital</b>						
Bank capital	43,000	43,000	43,000	43,000	43,000	43,000
of which paid up	43,000	43,000	43,000	43,000	43,000	43,000

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

(CHF thousands)	Amount due from		Amount due to	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Holders of qualified participations	105,891	422,795	25,978	166
Group companies	-	-	-	-
Transactions with members of governing bodies	153	-	939	-

### 6.9.13 Disclosure of holders of significant participations

(CHF thousands)	31.12.2016		31.12.2015	
	Nominal	% of equity	Nominal	% of equity
<b>Holder of significant participations</b>				
Banca dello Stato del Cantone Ticino With voting rights	43,000	100	-	-
AHSA Holding SA With voting rights	-	-	43,000	100

As at 31.12.2015 Banca dello Stato del Cantone Ticino owned 100% of AHSA Holding SA.  
At 31.12.2016 AHSA Holding SA was in liquidation.

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

(CHF thousands)	At sight	Cancellable	Due				No maturity	Total
			within 3 months	within 3 to 12 months	within 1 to 5 years	after 5 years		
<b>Assets / Financial instruments</b>								
Liquid assets	910,680	-	-	-	-	-	-	910,680
Amounts due from banks	142,788	-	-	-	-	-	-	142,788
Amounts due from customers	-	210,308	30,072	14,811	6,187	-	-	261,378
Trading portfolio assets	3,212	-	-	-	-	-	-	3,212
Positive replacement values of derivative financial instruments	5,164	-	-	-	-	-	-	5,164
Financial investments	-	-	-	322	3,490	732	-	4,544
<b>Total</b>	<b>1,061,844</b>	<b>210,308</b>	<b>30,072</b>	<b>15,133</b>	<b>9,677</b>	<b>732</b>	<b>-</b>	<b>1,327,766</b>
Previous year	266,164	94,787	395,818	5,881	12,580	738	-	775,968
<b>Debt capital / Financial instruments</b>								
Amounts due to banks	11,028	-	-	-	20,000.00	-	-	31,028
Amounts due in respect of customer deposits	1,245,183	-	-	-	-	-	-	1,245,183
Negative replacement values of derivative financial instruments	10,041	-	-	-	-	-	-	10,041
<b>Total</b>	<b>1,266,252</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,000.00</b>	<b>-</b>	<b>-</b>	<b>1,286,252</b>
Previous year	720,217	-	-	-	-	-	-	720,217

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

(CHF thousands)	31.12.2016		31.12.2015	
	Switzerland	Foreign	Switzerland	Foreign
<b>Assets</b>				
Liquid assets	910,680	-	106,429	-
Amounts due from banks	115,328	27,460	453,663	85,241
Amounts due from customers	46,186	215,192	23,930	92,480
Trading portfolio assets	1,215	1,997	2,211	4,211
Positive replacement values of derivative financial instruments	1,811	3,353	890	17
Financial investments	36	4,508	-	6,896
Accrued income and prepaid expenses	634	262	1,187	249
Tangible fixed assets	3,213	-	130	-
Intangible assets	15,100	-	-	-
Other assets	2,663	-	103	-
<b>Total assets</b>	<b>1,096,866</b>	<b>252,772</b>	<b>588,543</b>	<b>189,094</b>
<b>Liabilities</b>				
Amounts due to banks	21,391	9,637	-	8,666
Amounts due in respect of customer deposits	207,131	1,038,052	75,169	636,116
Negative replacement values of derivative financial instruments	8,738	1,303	121	145
Accrued expenses and deferred income	7,057	-	1,861	-
Other liabilities	1,107	-	940	-
Reserves for general banking risks	4,500	-	4,500	-
Bank's capital	43,000	-	43,000	-
Statutory retained earnings reserve	5,761	-	5,690	-
Profit carried forward	-	-	1	-
Profit	1,961	-	1,428	-
<b>Total liabilities</b>	<b>300,646</b>	<b>1,048,992</b>	<b>132,710</b>	<b>644,927</b>

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

(CHF thousands)	31.12.2016		31.12.2015	
	Amount	Share as %	Amount	Share as %
<b>Assets held abroad</b>				
<b>Europe</b>	<b>142,640</b>	<b>10.57</b>	<b>84,786</b>	<b>10.90</b>
Italy	59,611		17,124	
Luxembourg	18,558		14,838	
United Kingdom	15,408		16,799	
Malta	14,776		1,137	
Bulgaria	11,075		7,160	
Croatia	10,095		6,894	
Turkey	5,654		3,208	
Netherlands	509		12,264	
Other countries	6,954		5,362	
<b>North America</b>	<b>7,938</b>	<b>0.59</b>	<b>50,802</b>	<b>6.53</b>
United States	7,938		46,231	
Other countries	-		4,571	
<b>Asia</b>	<b>75,213</b>	<b>5.57</b>	<b>39,531</b>	<b>5.08</b>
Kazakhstan	66,912		35,136	
United Arab Emirates	5,634		2,852	
Other countries	2,667		1,543	
<b>Caribbean</b>	<b>25,189</b>	<b>1.87</b>	<b>12,553</b>	<b>1.61</b>
Panama	19,935		12,130	
Other countries	5,254		423	
<b>Other countries</b>	<b>1,792</b>	<b>0.13</b>	<b>1,422</b>	<b>0.18</b>
<b>Total assets abroad</b>	<b>252,772</b>	<b>18.73</b>	<b>189,094</b>	<b>24.31</b>
Switzerland	1,096,866	81.27	588,543	75.69
<b>Total assets</b>	<b>1,349,638</b>	<b>100.00</b>	<b>777,637</b>	<b>100.00</b>

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

(CHF thousands)

Bank's own country rating	Rating Moody's	31.12.2016		31.12.2015	
		Net foreign exposure	Share as %	Net foreign exposure	Share as %
1 Excellent and high quality	Aaa - Aa3	53,130	21.0%	101,058	53.4%
2 Greater quality than average	A1 - A3	18,707	7.4%	4,072	2.2%
3 Medium quality	Baa1 - Baa3	158,337	62.6%	76,473	40.4%
4 Default risk	Ba1 - Ba2	16,146	6.4%	7,469	3.9%
5 Default risk material	Ba3	20	0.0%	-	0.0%
6 Speculative, high default risk	B1 - B3	1,678	0.7%	3	0.0%
7 Poor quality, very high risk	Caa1 - C	477	0.2%	15	0.1%
Unrated	-	4,277	1.7%	4	0.0%
<b>Total</b>		<b>252,772</b>	<b>100.0%</b>	<b>189,094</b>	<b>100.0%</b>



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

(CHF thousands)

(CHF thousands)	Currencies				Total
	CHF	USD	EUR	Other	
<b>Assets</b>					
Liquid assets	873,391	74	37,201	14	910,680
Amounts due from banks	7,504	15,102	49,865	70,317	142,788
Amounts due from customers	37,629	95,284	113,892	14,573	261,378
Trading portfolio assets	1,363		1,849	-	3,212
Positive replacement values of derivative financial instruments	2,922	277	1,484	481	5,164
Financial investments	2,241	1,015	1,288	-	4,544
Accrued income and prepaid expenses	695	71	127	3	896
Tangible fixed assets	3,213	-	-	-	3,213
Intangible assets	15,100	-	-	-	15,100
Other assets	283	-	2,380	-	2,663
<b>Total assets shown in balance sheet</b>	<b>944,341</b>	<b>111,823</b>	<b>208,086</b>	<b>85,388</b>	<b>1,349,638</b>
Delivery entitlements from spot exchange, forward forex and forex options transactions	25,965	640,055	335,504	60,805	1,062,329
<b>Total assets</b>	<b>970,306</b>	<b>751,878</b>	<b>543,590</b>	<b>146,193</b>	<b>2,411,967</b>
<b>Liabilities</b>					
Amounts due to banks	21,477	4,001	5,191	359	31,028
Amounts due in respect of customer deposits	186,539	579,292	405,407	73,945	1,245,183
Negative replacement values of derivative financial instruments	7,945	1,693	271	132	10,041
Accrued expenses and deferred income	7,055	-	-	2	7,057
Other liabilities	1,066	22	19	-	1,107
Reserves for general banking risks	4,500	-	-	-	4,500
Bank's capital	43,000	-	-	-	43,000
Statutory retained earnings reserve	5,761	-	-	-	5,761
Profit carried forward	0	-	-	-	0
Profit	1,961	-	-	-	1,961
<b>Total liabilities shown in balance sheet</b>	<b>279,304</b>	<b>585,008</b>	<b>410,888</b>	<b>74,438</b>	<b>1,349,638</b>
Delivery obligations from spot exchange, forward forex and forex options transactions	695,983	168,487	131,529	71,207	1,067,206
<b>Total liabilities</b>	<b>975,287</b>	<b>753,495</b>	<b>542,417</b>	<b>145,645</b>	<b>2,416,844</b>
<b>Net position per currency</b>	<b>-4,981</b>	<b>-1,617</b>	<b>1,173</b>	<b>548</b>	<b>-4,877</b>
Previous year	621	83	-93	29	640

## 6.10 INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

### 6.10.19 Breakdown of contingent liabilities and contingent assets

(CHF thousands)	31.12.2016	31.12.2015
<b>Contingent liabilities</b>		
Guarantees to secure credits and similar	10,162	14,677
<b>Total contingent liabilities</b>	<b>10,162</b>	<b>14,677</b>

### 6.10.20 Breakdown of fiduciary transactions

(CHF thousands)	31.12.2016	31.12.2015
Fiduciary investments with third-party companies	84,852	74,382
Fiduciary loans	6,653	26,721
<b>Total fiduciary transactions</b>	<b>91,505</b>	<b>101,103</b>

### 6.10.21 Breakdown of assets and presentation of their development

(CHF thousands)	31.12.2016	31.12.2015
<b>a) Breakdown of assets</b>		
Assets in collective investment schemes managed by the Bank	-	-
Assets under discretionary asset management agreements	695,389	138,022
Other managed assets	3,544,247	2,146,151
<b>Total assets (including double counting)</b>	<b>4,239,636</b>	<b>2,284,173</b>
of which double counting	100,344	61,842
<b>b) Presentation of the development of assets</b>		
Total assets (including double counting) at beginning	2,284,173	2,218,898
+/- Net new money inflow or net new money outflow	1,781,290	1,400
+/- Price gains / losses, interest, dividends and currency gains / losses	174,173	63,875
<b>Total assets (including double counting) at end</b>	<b>4,239,636</b>	<b>2,284,173</b>

By "assets under discretionary management" we mean assets for which clients have chosen a specific management profile. Net increase / decrease of client assets is not affected by interest paid by clients or by the performance of clients' portfolios. Net flows are defined as the difference between cash and securities being transferred in and transferred out. Loans to clients are not subtracted from total assets. "Other managed assets" are client assets for which there is no discretionary or advisory mandate, for which the Bank's involvement is not limited to depositary business, but includes other services. Custody-only assets are not included in the above table. In the first quarter of 2016 Axion Swiss Bank SA acquired a portion of the clients of Société Générale Private Banking (Lugano-Svizzera) SA for a total amount of approximately CHF 1.7 billion.

## 6.11 INFORMATION ON THE INCOME STATEMENT

### 6.11.22 Breakdown of the result from trading activities

(CHF thousands)		
	2016	2015
Result from trading activities from:		
Foreign currencies	3,050	1,019
Banknote trading	-53	78
Commodities / precious metals	204	8
Securities trading	284	98
<b>Total result from trading activities</b>	<b>3,485</b>	<b>1,203</b>

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

(CHF thousands)		
	2016	2015
<b>Refinancing income in the item "Interest and discount income"</b>		
Interest and dividend income from trading portfolio are not offset with costs for refinancing that portfolio.		
<b>Negative interest</b>		
Negative interest on assets (decrease in interest and discount income)	4,897	389
Negative interest on liabilities (decrease in interest expenses)	37	-

### 6.11.24 Breakdown of personnel expenses

(CHF thousands)		
	2016	2015
Salaries	12,208	5,087
<i>of which expenses relating to share-based compensation and alternative forms of variable compensation</i>	-	-
Social insurance benefits	1,911	834
Other personnel expenses	526	192
<b>Total personnel expenses</b>	<b>14,645</b>	<b>6,113</b>

### 6.11.25 Breakdown of general and administrative expenses

(CHF thousands)	2016	2015
Office space expenses	1,155	741
Expenses for information and communications technology	1,558	748
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	25	12
Fees of audit firm	309	205
<i>of which for financial and regulatory audits</i>	264	205
<i>of which for other services</i>	45	-
Other operating expenses	2,173	1,494
<b>Total general and administrative expenses</b>	<b>5,220</b>	<b>3,200</b>

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

#### 6.11.26.01 Material losses

There were no significant losses during the reporting year.

#### 6.11.26.02 Extraordinary income and extraordinary expenses

An extraordinary income of CHF 0.058 million was recorded as a result of the sale of 4 bank-owned vehicles.

#### 6.11.26.03 Hidden reserves

There were no significant releases of hidden reserves during the reporting year.

#### 6.11.26.04 Reserves for general banking risks

There were no changes in the reserves for general banking risks during the reporting year.

#### 6.11.26.05 Value adjustments and provisions no longer required

During the reporting year, there were no adjustments or no longer required provisions.

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

(CHF thousands)	31.12.2016	31.12.2015
Current taxes	602	483
<b>Total taxes</b>	<b>602</b>	<b>483</b>
<b>Average tax rate weighted on the basis of the operating result</b>	<b>24.0%</b>	<b>25.3%</b>

## 7. Information on the Bank's Capital

### 7.1 PRESENTATION OF RECOGNISED REGULATORY CAPITAL

(CHF thousands)	Net figures 2016	Net figures 2015	Reference
1 Bank's capital	43,000	43,000	7.2
2 Retained earnings reserve	5,859	5,761	7.2
3 Reserves for general banking risks	4,500	4,500	7.2
<b>Total common equity Tier 1 capital</b>	<b>53,359</b>	<b>53,261</b>	<b>7.2</b>
4 Other elements to be deducted from Tier 1 capital	-15,100	-	7.2
<b>Total common equity Tier 1 capital (net CET 1)</b>	<b>38,259</b>	<b>53,261</b>	<b>7.2</b>
5 Additional Tier 1 capital (AT1)	20,000	-	7.2
<b>Total net Tier 1 capital</b>	<b>58,259</b>	<b>53,261</b>	<b>7.2</b>
6 + Tier 2 capital	-	-	7.2
<b>Total recognised regulatory capital</b>	<b>58,259</b>	<b>53,261</b>	<b>7.2</b>
<b>Total risk-weighted positions</b>	<b>225,462</b>	<b>211,662</b>	

### 7.2 SOME RATIOS

(in % of risk-weighted positions)	31.12.2016
Ratio of common equity Tier 1 capital (net CET1)	17.0%
Ratio of net Tier 1 capital	25.8%
Ratio of total recognised regulatory capital	25.8%
Objective of regulatory capital in accordance with Circular FINMA 11/2 "Capital buffer and capital planning - banks"	11.2%

### 7.3 INFORMATION ON THE LEVERAGE EFFECT RATIO AT 31.12.2016

(CHF thousands)

<b>1</b>	<b>Comparison of balance sheet assets and overall liabilities in relation to the leverage effect ratio</b>	<b>1,368,743</b>
1.1	Total assets	1,349,638
1.2	Adjustments assets deducted from Bank equity	-15,100
1.3	Adjustments derivatives	10,060
1.4	Adjustment of off-balance sheet transactions	24,145
<b>2</b>	<b>Global exposure subject to leverage effect ratio</b>	<b>1,368,743</b>
<b>2.1</b>	<b>Balance sheet exposure</b>	<b>1,329,374</b>
2.1.1	Balance sheet operations excluding derivatives and SFTs	1,344,474
2.1.2	Assets deducted from Bank equity	-15,100
<b>2.2</b>	<b>Exposure in derivatives</b>	<b>15,224</b>
2.2.1	Positive replacement value of all transactions in derivatives, after taking into account margin payments	5,164
2.2.2	Add-ons for derivatives	10,060
<b>2.3</b>	<b>Other off-balance sheet exposures</b>	<b>24,145</b>
2.3.1	Off-balance sheet exposure based on gross nominal values, before conversion factor	143,396
2.3.2	Adjustment for conversion into credit equivalents of off-balance sheet transactions	-119,251
<b>3</b>	<b>Net Tier 1 capital</b>	<b>58,259</b>
<b>4</b>	<b>Leverage effect ratio</b>	<b>4.3%</b>

### 7.4 LIQUIDITY COVERAGE RATIO (LCR)

(CHF thousands)

	<b>Q1 2016<sup>1</sup></b>	<b>Q2 2016<sup>1</sup></b>	<b>Q3 2016<sup>1</sup></b>	<b>Q4 2016<sup>1</sup></b>
High quality liquid assets (HQLA) <sup>2</sup>	327,115	851,330	866,106	892,816
of which level 1 assets	326,272	850,498	865,278	891,960
of which level 2 assets	843	832	828	856
Net cash outflows	117,558	256,804	122,269	136,368
<b>Liquidity coverage ratio</b>	<b>278.3%</b>	<b>331.5%</b>	<b>708.4%</b>	<b>654.7%</b>

<sup>1</sup> Average quarter value calculated on the basis of monthly statistics.

<sup>2</sup> As per FINMA Circular 2015/2 "Liquidity Risks - banks".

### 7.5 INFORMATION ON LIQUIDITY AND CAPITAL REQUIREMENTS

The obligation of disclosure with respect to capital requirements in conformity with FINMA Circular 2015/1 "Disclosure - banks" is fulfilled on a consolidated basis. This information is published in the 2016 Annual Report of the BancaStato Group (see [www.bancastato.ch](http://www.bancastato.ch)).



# Bank Governing Bodies and Institutions

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**Chairman of the Board of Directors** Roberto Grassi, Sorengo

**Deputy Chairman** Alberto Lotti, Melide

**Members** Renato Arrigoni, Cagiallo<sup>2</sup>  
Bernardino Bulla, Lugano<sup>2</sup>  
Giancarlo Codoni, Collina d'Oro<sup>1,2</sup>  
Donato Cortesi, Lugano - Villa Luganese<sup>1</sup>

**President of the Executive Board** Marco Tini

**Members of the Executive Board** Giampiero Marangio  
Guido Marcionetti  
Renzo Triulzi

**Members of Management** Mauro Albenga  
Mohammed Bensbih  
Giorgio Bernasconi  
Gianmarco Bianchini  
Stefano Calderari  
Cristina Corecco  
Claudio D'Antonoli  
Luigi Di Pirro  
Paolo Ferrario  
Antonella Giglio Terraneo  
Enzo Guanzioli  
Manuela Induni  
Raffaello Lanzillo  
Alberto Laurenzi  
Massimo Locatelli  
Mike Moghini  
Alberto Moscato  
Rositsa Peneva  
Alberto Riva  
Giovanni Sansossio  
Reto Simonett  
Davide Vezzaro

**Liaison office Istanbul** Asli Öztürk

**Statutory Auditors** PwC SA Lugano

**Internal Auditors** of Banca dello Stato del Cantone Ticino

<sup>1</sup> Independent members

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









## ***Report of the statutory auditor to the General Meeting of AXION SWISS BANK SA Lugano***

### ***Report of the statutory auditor on the financial statements***

As statutory auditor, we have audited the financial statements of AXION SWISS BANK SA, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 12 to 36), for the year ended 31 December 2016.

#### ***Board of Directors' responsibility***

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

#### ***Auditor's responsibility***

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

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

#### ***Opinion***

In our opinion, the financial statements for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

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



### ***Report on other legal requirements***

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

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Glenda Brändli

Audit expert  
Auditor in charge

Luca Vitali

Audit expert

Lugano, 23 February 2017









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