

Annual Report

2017

 **Axion** | SWISS Bank

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



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# Report of the Board of Directors

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In 2017, the world economy recorded the most remarkable growth since 2011. The United States, the Eurozone, China, Japan, Russia and Brazil all underwent a phase of accelerated economic growth. This, according to some estimates, pushed the world GDP up to +3.8%, as compared to 3.1% recorded in 2016. This expansion proved to be highly synchronized at the global level, with positive growth in each of the G20 economies.

Stock markets overall reacted positively. Solid economic expansion, coupled with low inflation rates, allowed central banks to maintain their relatively expansive monetary policy.

In 2018, particular care should be given to the preservation of capital. Monetary policy is moving toward maintaining tighter control and, as the year evolves, central banks will likely begin to drain liquidity from the system. Yields in the fixed rate segment have never been so low, with negative returns regarding liquidity in Swiss francs and Euro. We advise a reduction in high yield and non-investment grade corporate bonds, thus sacrificing yield in favour of increased liquidity and quality. The valuation of shares proves interesting, particularly if compared to bond yields; until interest rates begin to move upward, and inflation remains consistently below 3%, we see room for further growth in indexes. At the geographical level, European shares exhibit the most interesting valuations and, on the sectoral level, our preferred focus would be technologies.

Overall, solid growth and a lack of evidence of an imminent economic slowdown lead us to remain moderately optimistic with regard to global share markets. However, investors must not neglect to diversify their portfolios among various asset classes and regions so as to mitigate risks associated with tightened monetary policies, political developments and technological, social and environmental changes.

In 2017, Axion SWISS Bank SA continued its growth trend. Managed assets reached 4.378 billion Swiss francs (+10.23%) and, as regards yields, Axion SWISS Bank SA closed 2017 with an operating result of 2.98 million Swiss francs (+19.0%) and a net income of 2.278 million Swiss francs (+16.2%), net of amortization for the current year following the acquisition of the corporate division Société Générale Private Banking (Lugano-Svizzera) SA.

These results allowed for 2.161 million Swiss francs in paid out dividends and the allocation of 116 thousand Swiss francs to the legal reserve. In their comment on the 2017 annual report, the Auditors reiterated their opinion that the balance structure of Axion SWISS Bank SA is well-balanced, its financial position sound and its performance rated as positive.

The year 2018 is proving to be positive as regards financial results, while at the same time the market volatility index is showing a notable increase. It will also witness the start of a strategic project to further consolidate asset management, a fundamental step towards our goal of bolstering managed assets and advisory mandates.

The Board of Directors has taken note of the reports of both the Internal and External Auditors. It furthermore expresses its appreciation for the work performed by the Bank's Executive Board and wishes its valued clients and staff a successful 2018.





# 1. Balance Sheet

(CHF thousands)	Reference to annex	31.12.2017	31.12.2016	Change
<b>Assets</b>				
Liquid assets		708,353	910,680	-202,327
Amounts due from banks		253,006	142,788	110,218
Amounts due from customers	6.9.1	280,113	261,378	18,735
Trading portfolio assets	6.9.2	6,944	3,212	3,732
Positive replacement value of derivative financial instruments	6.9.3	5,131	5,164	-33
Financial investments	6.9.4	6,925	4,544	2,381
Accrued income and prepaid expenses		897	896	1
Tangible fixed assets	6.9.5	2,989	3,213	-224
Intangible assets	6.9.6	10,530	15,100	-4,570
Other assets	6.9.7	463	2,663	-2,200
<b>Total assets</b>		<b>1,275,351</b>	<b>1,349,638</b>	<b>-74,287</b>
Total subordinated claims		-	-	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		-	-	-
<b>Liabilities</b>				
Amounts due to banks		81,592	31,028	50,564
Amounts due in respect of customer deposits		1,121,695	1,245,183	-123,488
Negative replacement values of derivative financial instruments	6.9.3	7,483	10,041	-2,558
Accrued expenses and deferred income		6,835	7,057	-222
Other liabilities	6.9.7	2,009	1,107	902
Provisions	6.9.10	100	-	100
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		5,859	5,761	98
Result 2017		2,278	1,961	317
<b>Total liabilities</b>		<b>1,275,351</b>	<b>1,349,638</b>	<b>-74,287</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	10,754	10,162	592
Irrevocable commitments	6.9.1	12,767	6,593	6,174

## 2. Income Statement

(CHF thousands)	Reference to annex	2017	2016	Change
<b>Income and expenses arising from ordinary banking operations</b>				
<b>Result from interest operations</b>				
Interest and discount income		9,005	6,380	2,625
Interest and dividend income from trading portfolios		-	47	-47
Interest and dividend income from financial investments		133	126	7
Interest expense		-521	-1,308	787
<b>Gross result from interest operations</b>		<b>8,617</b>	<b>5,245</b>	<b>3,372</b>
Changes in value adjustments for default risks and losses from interest operations		-10	-26	16
<b>Net result from interest operations</b>		<b>8,607</b>	<b>5,219</b>	<b>3,388</b>
<b>Result from commission business and services</b>				
Commission income from securities trading and investment activities		23,114	20,467	2,647
Commission income from lending activities		103	125	-22
Commission income from other services		2,470	2,337	133
Commission expenses		-6,776	-5,997	-779
<b>Result from trading activities and fair value option</b>	6.11.22	<b>3,565</b>	<b>3,485</b>	<b>80</b>
<b>Other result from ordinary activities</b>				
Result from the disposal of financial investments		-	329	-329
Other ordinary income		56	63	-7
<b>Net revenues</b>		<b>31,139</b>	<b>26,028</b>	<b>5,111</b>
<b>Operating expenses</b>				
Personnel expenses	6.11.24	-15,510	-14,645	-865
General and administrative expenses	6.11.25	-7,197	-5,220	-1,977
<b>Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets</b>		<b>-5,322</b>	<b>-3,614</b>	<b>-1,708</b>
<b>Changes to provisions and other value adjustments, and losses</b>		<b>-130</b>	<b>-44</b>	<b>-86</b>
<b>Operating result</b>		<b>2,980</b>	<b>2,505</b>	<b>475</b>
<b>Extraordinary income</b>	6.11.26.02	<b>8</b>	<b>58</b>	<b>-50</b>
<b>Taxes</b>	6.11.27	<b>-710</b>	<b>-602</b>	<b>-108</b>
<b>Profit (result 2017)</b>		<b>2,278</b>	<b>1,961</b>	<b>317</b>

### 3. Proposed Appropriation of Available Earnings

(CHF thousands)	31.12.2017	31.12.2016	Change
<b>Appropriation of available earnings</b>			
Profit (result 2017)	2,278	1,961	317
Profit carried forward	-	-	-
<b>Earnings at the end of period</b>	<b>2,278</b>	<b>1,961</b>	<b>317</b>
<b>Proposal of the Board of Directors</b>			
Allocation to statutory retained earnings reserve	116	98	18
Distribution from distributable profit	2,161	1,863	298
<b>New amount carried forward</b>	<b>1</b>	<b>-</b>	<b>1</b>

## 4. Cash Flow Statement

(CHF thousands)	2017		2016	
	Cash inflow	Cash outflow	Cash inflow	Cash outflow
<b>Cash flow from operating activities (internal financing)</b>	<b>8,716</b>	<b>-</b>	<b>7,560</b>	<b>-</b>
Profit (result 2017)	2,278	-	1,961	-
Depreciation and amortisation of fixed assets	5,322	-	3,614	-
Provisions and other value adjustments	100	-	-	-
Accrued income and prepaid expenses	-	1	540	-
Accrued expenses and deferred income	-	222	5,196	-
Other assets and liabilities	3,102	-	-	2,393
Prior year dividend	-	1,863	-	1,358
<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>528</b>	<b>-</b>	<b>21,797</b>
Tangible fixed assets	-	528	-	3,677
Intangible assets	-	-	-	18,120
<b>Cash flow from banking operations</b>	<b>-</b>	<b>210,515</b>	<b>818,488</b>	<b>-</b>
<b>Medium and long-term business (&gt;1 year)</b>	<b>472</b>	<b>-</b>	<b>24,045</b>	<b>-</b>
Amounts due to banks	-	-	20,000	-
Amounts due from customers	2,853	-	1,693	-
Financial investments	-	2,381	2,352	-
<b>Short-term business</b>	<b>-</b>	<b>210,987</b>	<b>794,443</b>	<b>-</b>
Amounts due to banks	50,564	-	2,362	-
Negative replacement values of derivate financial instruments	-	2,558	9,775	-
Amounts due in respect of customer deposits	-	123,488	533,898	-
Positive replacement values of derivate financial instruments	33	-	-	4,257
Amounts due from banks	-	110,218	396,116	-
Amounts due from customers	-	21,588	-	146,661
Trading portfolio assets	-	3,732	3,210	-
<b>Liquidity</b>	<b>202,327</b>	<b>-</b>	<b>-</b>	<b>804,251</b>
Liquid assets	202,327	-	-	804,251
	<b>211,043</b>	<b>211,043</b>	<b>826,048</b>	<b>826,048</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 1<sup>st</sup> January 2017</b>	43,000	5,761	4,500	-	1,961	<b>55,222</b>
<b>Appropriation of retained earnings 2016</b>						
<i>Assignment to Statutory retained earnings reserve</i>	-	+98	-	-	-98	-
<i>Dividend from 2016 earnings</i>	-	-	-	-	-1,863	<b>-1,863</b>
Profit (result 2017)	-	-	-	-	+2,278	<b>2,278</b>
<b>Total equity as at 31.12.2017</b>	<b>43,000</b>	<b>5,859</b>	<b>4,500</b>	<b>-</b>	<b>2,278</b>	<b>55,637</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 2017 Axion SWISS Bank SA closed its Liaison Office in Istanbul.

#### 6.1.2 Staff

On December 31<sup>st</sup> 2017, total staff amounted to 59 employees (58.1 FTEs), compared to 72 at the end of 2016 (70.6 FTEs).

#### 6.1.3 Outsourcing

Axion SWISS Bank SA outsources a number of different services, as defined by the FINMA 2008/7 "Outsourcing – banks" Circular, to Avaloq Sourcing (Switzerland & Liechtenstein) SA, Bioggio. These services consist of activities connected to customer transaction processing, securities administration, printing and distributing banking documents as well as the management of IT services (centralised informatics and workstations).

With regard to services subject to FINMA Circular 2008/7 "Outsourcing – banks", Axion SWISS Bank SA also outsources to its parent bank, Banca dello Stato del Cantone Ticino, operations related to financial accounting, analytical accounting, foreign currency trading, treasury, payment transaction services, securities administration, project management, physical and logical security, specific aspects of IT as well as some activities connected to risk management, internal controls and legal and compliance matters. Axion SWISS Bank SA also transfers to Banca dello Stato del Cantone Ticino its internal auditing activities, the administration of human resources, and logistics that are not subject to the above-mentioned FINMA Circular.

Moreover, beyond the activities addressed by this circular, Axion SWISS Bank SA devolves to third parties the management and maintenance of its building and supplies.

### 6.2 ACCOUNTING AND VALUATION PRINCIPLES

#### 6.2.1 General principles

These annual financial statements were 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 and fair value option».

#### **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 fair value option» 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 recognized in the income statement under «Other results 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» envis-

aged 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 was 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). As of January 1<sup>st</sup> 2018, this will be transferred to the LPP Swiss Life Joint Foundation. 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 2017.

#### **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 2017 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 2,008,000.

#### 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 1.1703 (2016: 1.0724)

USD 0.9747 (2016: 1.0158)

GBP 1.3174 (2016: 1.2538)

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 and fair value option».

### 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 provisions of 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> 2017.

#### **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 31.12.2017

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
<b>Loans (before netting with value adjustments)</b>				
Amounts due from customers	-	277,328	2,821	280,149
<b>Total loans (before netting with value adjustments)</b>	-	<b>277,328</b>	<b>2,821</b>	<b>280,149</b>
Previous year		258,817	2,585	261,402
<b>Total loans (after netting with value adjustments)</b>	-	<b>277,302</b>	<b>2,811</b>	<b>280,113</b>
Previous year	-	258,817	2,561	261,378
<b>Off-balance sheet</b>				
Contingent liabilities	-	10,731	23	10,754
Irrevocable commitments	-	11,331	1,436 <sup>1</sup>	12,767
<b>Total off-balance sheet</b>	-	<b>22,062</b>	<b>1,459</b>	<b>23,521</b>
Previous year	-	10,150	6,605	16,755

(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>2,280</b>	<b>2,244</b>	<b>36</b>	<b>36</b>
<i>of which secured against collateral</i>	2,128	2,102	26	26
<i>of which unsecured</i>	152	142	10	10
<b>Previous 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

<sup>1</sup> including CHF 1.4 million (2016: 0.6 million) as part of the deposit guarantee.

### 6.9.2 Breakdown of trading portfolios and other financial instruments at fair value

(CHF thousands)

	31.12.2017	31.12.2016
<b>Assets</b>		
<b>Trading portfolio assets</b>		
Debt securities, money market securities	2,269	1,363
<i>of which listed</i>	2,269	1,363
Shares of investment funds	4,675	1,849
<b>Total trading portfolio assets</b>	<b>6,944</b>	<b>3,212</b>
<i>of which determined using a valuation model</i>	-	-
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	-	-

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

(CHF thousands)

	Trading instruments			Hedging instruments		
	Replacement values positive	Replacement values negative	Contract volume	Replacement values positive	Replacement values negative	Contract volume
<b>Foreign currencies / precious metals</b>						
Forward contracts	483	661	80,805	-	-	-
Swaps	2,495	2,495	222,162	911	3,085	570,469
OTC Options	1,242	1,242	181,503	-	-	-
<b>Total currencies / precious metals</b>	<b>4,220</b>	<b>4,398</b>	<b>484,470</b>	<b>911</b>	<b>3,085</b>	<b>570,469</b>
<b>Total before netting agreements</b>	<b>4,220</b>	<b>4,398</b>	<b>484,470</b>	<b>911</b>	<b>3,085</b>	<b>570,469</b>
<i>of which determined using a valuation model</i>	4,220	4,398		911	3,085	
Total previous year	5,088	5,032		76	5,009	
<i>of which determined using a valuation model</i>	5,088	5,032		76	5,009	

Positive replacement values (cumulated)

Negative replacement values (cumulated)

<b>Total (after netting agreements)</b>	<b>5,131</b>	<b>7,483</b>
Total previous year	5,164	10,041

#### Breakdown by counterparty

(CHF thousands)

Central clearing houses

Banks and securities dealers

Other customers

Positive replacement values (after netting agreements)	-	3,647	1,484
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No netting contracts existed on derivatives open as at 31.12.2017 and at 31.12.2016.

#### 6.9.4 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Debt securities	6,925	4,508	6,952	4,659
<i>of which intended to be held to maturity</i>	6,925	4,508	6,952	4,659
<i>of which not intended to be held to maturity</i>	-	-	-	-
Equity securities	-	36	-	36
<i>of which qualified participations     (at least 10% of capital or votes)</i>	-	-	-	-
<b>Total financial investments</b>	<b>6,925</b>	<b>4,544</b>	<b>6,952</b>	<b>4,695</b>
<i>of which securities eligible for repo transactions in     accordance with liquidity requirements</i>	500	500	511	518

Breakdown of counterparties by rating (CHF thousands)	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Debt securities: book values	500	974	5,050	401	-	-

The evaluation of debt securities is based on the rating categories of Standard & Poor's.

#### 6.9.5 Presentation of tangible fixed assets

(CHF thousands)	Acquisition cost	Accumulated depreciation	Book value 31.12.2016	Additions	2017 Disposals	Depreciation	Book value 31.12.2017
Acquired software	5,246	2,464	2,782	477	-	618	2,641
Other tangible fixed assets	4,552	4,121	431	51	-	134	348
<b>Total tangible fixed assets</b>	<b>9,798</b>	<b>6,585</b>	<b>3,213</b>	<b>528</b>	<b>-</b>	<b>752</b>	<b>2,989</b>

### 6.9.6 Presentation of intangible assets

(CHF thousands)	Cost value	Accumulated amortisation	Book value 31.12.2016	Additions	2017 Disposals	Depreciation	Book value 31.12.2017
Goodwill	18,120	3,020	15,100	-	-	4,570 <sup>1</sup>	10,530
<b>Total intangible assets</b>	<b>18,120</b>	<b>3,020</b>	<b>15,100</b>	<b>-</b>	<b>-</b>	<b>4,570</b>	<b>10,530</b>

<sup>1</sup> The goodwill pertaining to the acquisition, in March 2016, of a portion of the assets of Société Générale Private Banking (Suisse), Lugano is depreciated on a straight-line basis over a 5-year period. At the end of 2017, the intangible assets on the balance sheet underwent an extraordinary depreciation of approximately CHF 0.9 million due to the reduced global value of some of the acquired assets.

### 6.9.7 Breakdown of other assets and other liabilities

(CHF thousands)		
<b>Other assets</b>	31.12.2017	31.12.2016
Indirect taxes	26	282
Other different assets	437	2,381 <sup>1</sup>
<b>Total other assets</b>	<b>463</b>	<b>2,663</b>
<b>Other liabilities</b>		
Direct/indirect taxes	749	1'062
Compensation account	737	-
Other different liabilities	523 <sup>2</sup>	45
<b>Total other liabilities</b>	<b>2,009</b>	<b>1,107</b>

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

<sup>2</sup> of which a balance of CHF 132 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)	31.12.2017		31.12.2016	
	Book values	Effective commitments	Book values	Effective commitments
<b>Pledged / assigned assets</b> (excluding securities financing transactions)				
Amounts due from banks	8,113	8,113	5,231	5,231
Amounts due from clients	1,961	9	1,978	125
<b>Total assets pledged / assigned</b>	<b>10,074</b>	<b>8,122</b>	<b>7,209</b>	<b>5,356</b>

At end-year closing on 31.12.2017 and 31.12.2016 Axion SWISS Bank SA had no assets under reservation of ownership.

## 6.9.9 Disclosures on the economic situation of own pension schemes

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

Axion SWISS Bank SA has no obligations towards pension schemes.

### 6.9.9.2 Disclosures on the economic situation of own pension schemes

#### a) Employer contribution reserves (ECR)

There were no employer contribution reserves as at 31.12.2017.

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

	Overfunding / underfunding at end 2017	Economic interest of the bank		Change in economic interest (economic benefit /obligation) versus previous year	Contributions paid for 2017	Pension expenses in personnel expenses	
		31.12.2017	31.12.2016			31.12.2017	31.12.2016
Pension plans with overfunding	11.3%	-	-	-	938	1,091	1,079

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 (31.12.2017) this collective scheme coverage ratio amounted to 111.3% based on Art. 44/2 OPP 2 (31.12.2016: 108.3%).

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

As of 1.1.2018 the pension scheme will be transferred to "LPP Swiss Life Joint Foundation".

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

(CHF thousands)	2017						Situation at 31.12.2017
	Situation at 31.12.2016	Use in conformity with designated purpose	Currency differences	Past due interest recoveries	New creations charged to income	Releases to income	
Other provisions	-	-	-	-	100	-	100
<b>Total provisions</b>	-	-	-	-	100	-	100
<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>24</b>	-	-	-	36	-24	<b>36</b>
<i>of which value adjustments for default risks in respect of impaired loans</i>	24	-	-	-	36	-24	36

The reserves for general risks were not taxed.

### 6.9.11 Presentation of the Bank's capital

(CHF thousands)	31.12.2017			31.12.2016		
	Total par value	No. of shares	Capital eligible for dividend	Total par value	No. of shares	Capital eligible for dividend
<b>Bank's capital</b>						
Bank's capital	43,000	43,000	43,000	43,000	43,000	43,000
<i>of which paid up</i>	43,000	43,000	43,000	43,000	43,000	43,000
<b>Total Bank's capital</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>

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

(CHF thousands)	Amount due from		Amount due to	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Holders of qualified participations	232,407	105,891	70,109	25,978
Group companies	-	-	-	-
Transactions with members of governing bodies	42	153	804	939

These amounts comprise any off-balance sheet operations. Amounts due from, and due to, holders of qualified participations and members of governing bodies are concluded at market conditions.

### 6.9.13 Disclosure of holders of significant participations

(CHF thousands)	31.12.2017		31.12.2016	
	Nominal	% of equity	Nominal	% of equity
<b>Holders of significant participations</b>				
Banca dello Stato del Cantone Ticino	43,000	100	43,000	100
With voting rights				

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

(CHF thousands)

	At sight	Cancellable	within 3 months	Due within 3 to 12 months	within 1 to 5 years	after 5 years	No maturity	Total
<b>Assets / Financial instruments</b>								
Liquid assets	708,353	-	-	-	-	-	-	708,353
Amounts due from banks	112,045	-	140,961	-	-	-	-	253,006
Amounts due from customers	43	208,532	53,021	15,183	3,334	-	-	280,113
Trading portfolio assets	6,944	-	-	-	-	-	-	6,944
Positive replacement values of derivative financial instruments	5,131	-	-	-	-	-	-	5,131
Financial investments	-	-	-	585	6,340	-	-	6,925
<b>Total</b>	<b>832,516</b>	<b>208,532</b>	<b>193,982</b>	<b>15,768</b>	<b>9,674</b>	<b>-</b>	<b>-</b>	<b>1,260,472</b>
Previous year	1,061,844	210,308	30,072	15,133	9,677	732	-	1,327,766
<b>Debt capital / Financial instruments</b>								
Amounts due to banks	60,492	-	1,100	-	20,000	-	-	81,592
Amounts due in respect of customer deposits	1,121,695	-	-	-	-	-	-	1,121,695
Negative replacement values of derivative financial instruments	7,483	-	-	-	-	-	-	7,483
<b>Total</b>	<b>1,189,670</b>	<b>-</b>	<b>1,100</b>	<b>-</b>	<b>20,000</b>	<b>-</b>	<b>-</b>	<b>1,210,770</b>
Previous year	1,266,252	-	-	-	20,000	-	-	1,286,252

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

(CHF thousands)	31.12.2017		31.12.2016	
	Switzerland	Foreign	Switzerland	Foreign
<b>Assets</b>				
Liquid assets	708,353	-	910,680	-
Amounts due from banks	229,210	23,796	115,328	27,460
Amounts due from customers	64,737	215,376	46,186	215,192
Trading portfolio assets	1,721	5,223	1,215	1,997
Positive replacement values of derivative financial instruments	4,092	1,039	1,811	3,353
Financial investments	-	6,925	36	4,508
Accrued income and prepaid expenses	696	201	634	262
Tangible fixed assets	2,989	-	3,213	-
Intangible assets	10,530	-	15,100	-
Other assets	463	-	2,663	-
<b>Total assets</b>	<b>1,022,791</b>	<b>252,560</b>	<b>1,096,866</b>	<b>252,772</b>
<b>Liabilities</b>				
Amounts due to banks	68,444	13,148	21,391	9,637
Amounts due in respect of customer deposits	193,566	928,129	207,131	1,038,052
Negative replacement values of derivative financial instruments	5,639	1,844	8,738	1,303
Accrued expenses and deferred income	6,743	92	7,057	-
Other liabilities	2,009	-	1,107	-
Provisions	100	-	-	-
Reserves for general banking risks	4,500	-	4,500	-
Share capital	43,000	-	43,000	-
Statutory retained earnings reserve	5,859	-	5,761	-
Profit	2,278	-	1,961	-
<b>Total liabilities</b>	<b>332,138</b>	<b>943,213</b>	<b>300,646</b>	<b>1,048,992</b>

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

(CHF thousands)	31.12.2017		31.12.2016	
	Absolute	Share as %	Absolute	Share as %
<b>Assets held abroad</b>				
<b>Europe</b>	<b>147,196</b>	<b>11.54</b>	<b>142,640</b>	<b>10.57</b>
Italy	62,680		59,611	
United Kingdom	36,862		15,408	
Malta	19,519		14,776	
Luxembourg	8,800		18,558	
Germany	4,682		90	
Liechtenstein	4,375		636	
Croatia	3,401		10,095	
Bulgaria	-		11,075	
<i>Other countries</i>	<i>6,877</i>		<i>12,391</i>	
<b>North America</b>	<b>1,694</b>	<b>0.13</b>	<b>7,938</b>	<b>0.59</b>
United States	1,691		7,938	
<i>Other countries</i>	<i>3</i>		<i>-</i>	
<b>Asia</b>	<b>77,954</b>	<b>6.11</b>	<b>75,213</b>	<b>5.57</b>
Kazakhstan	68,338		66,912	
<i>Other countries</i>	<i>9,616</i>		<i>8,301</i>	
<b>Caribbean</b>	<b>19,089</b>	<b>1.50</b>	<b>25,189</b>	<b>1.87</b>
Panama	14,137		19,935	
British Virgin Islands	4,173		4,197	
<i>Other countries</i>	<i>779</i>		<i>1,057</i>	
<b>Oceania</b>	<b>5,297</b>	<b>0.42</b>	<b>24</b>	<b>-</b>
<b>Other countries</b>	<b>1,330</b>	<b>0.10</b>	<b>1,768</b>	<b>0.13</b>
<b>Total assets abroad</b>	<b>252,560</b>	<b>19.80</b>	<b>252,772</b>	<b>18.73</b>
Switzerland	1,022,791	80.20	1,096,866	81.27
<b>Total assets</b>	<b>1,275,351</b>	<b>100.00</b>	<b>1,349,638</b>	<b>100.00</b>

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

(CHF thousands)		31.12.2017		31.12.2016	
Bank's own country rating	Rating Standard & Poor's	Net foreign exposure	Share as %	Net foreign exposure	Share as %
1 Excellent and high quality	AAA to AA-	66,676	26.4%	52,823	20.9%
2 Greater quality than average	A+ to A-	20,735	8.2%	15,923	6.3%
3 Medium quality	BBB+ to BBB-	146,227	57.9%	161,123	63.7%
4 Default risk	BB+ to BB	8,231	3.3%	16,385	6.5%
5 Default risk material	BB-	778	0.3%	745	0.3%
6 Speculative, high default risk	B+ to B-	434	0.2%	723	0.3%
7 Poor quality, very high risk	CCC+ to D	8	0.0%	465	0.2%
Unrated		9,471	3.7%	4,585	1.8%
<b>Total</b>		<b>252,560</b>	<b>100.0%</b>	<b>252,772</b>	<b>100.0%</b>

Standard & Poor's ratings have been used since 2017. Values relating to the previous year have been updated.

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

(CHF thousands)	Currencies				
	CHF	EUR	USD	Other	Total
<b>Assets</b>					
Liquid assets	667,261	40,878	172	42	708,353
Amounts due from banks	102,505	56,955	42,536	51,010	253,006
Amounts due from customers	39,942	131,902	98,218	10,051	280,113
Trading portfolio assets	2,074	4,674	196	-	6,944
Positive replacement values of derivative financial instruments	3,889	290	935	17	5,131
Financial investments	1,903	584	4,438	-	6,925
Accrued income and prepaid expenses	712	49	132	4	897
Tangible fixed assets	2,989	-	-	-	2,989
Intangible assets	10,530	-	-	-	10,530
Other assets	458	3	2	-	463
<b>Total assets shown in balance sheet</b>	<b>832,263</b>	<b>235,335</b>	<b>146,629</b>	<b>61,124</b>	<b>1,275,351</b>
Delivery entitlements from spot exchange, forward forex and forex options transactions	37,793	373,245	569,614	74,287	1,054,939
<b>Total assets</b>	<b>870,056</b>	<b>608,580</b>	<b>716,243</b>	<b>135,411</b>	<b>2,330,290</b>
<b>Liabilities</b>					
Amounts due to banks	52,805	20,734	428	7,625	81,592
Amounts due in respect of customer deposits	155,270	367,700	520,665	78,060	1,121,695
Negative replacement values of derivative financial instruments	6,241	290	935	17	7,483
Accrued expenses and deferred income	6,834	1	-	-	6,835
Other liabilities	1,896	88	25	-	2,009
Provisions	100	-	-	-	100
Reserves for general banking risks	4,500	-	-	-	4,500
Share capital	43,000	-	-	-	43,000
Statutory retained earnings reserve	5,859	-	-	-	5,859
Profit	2,278	-	-	-	2,278
<b>Total liabilities shown in balance sheet</b>	<b>278,783</b>	<b>388,813</b>	<b>522,053</b>	<b>85,702</b>	<b>1,275,351</b>
Delivery obligations from spot exchange, forward forex and forex options transactions	593,243	219,901	194,069	49,649	1,056,862
<b>Total liabilities</b>	<b>872,026</b>	<b>608,714</b>	<b>716,122</b>	<b>135,351</b>	<b>2,332,213</b>
<b>Net position per currency</b>	<b>-1,970</b>	<b>-134</b>	<b>121</b>	<b>60</b>	<b>-1,923</b>
Previous year	-4,981	1,173	-1,617	548	-4,877

## 6.10 INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

### 6.10.19 Breakdown of contingent liabilities and contingent assets

(CHF thousands)	31.12.2017	31.12.2016
<b>Contingent liabilities</b>		
Guarantees to secure credits and similar	10,754	10,162
<b>Total contingent liabilities</b>	<b>10,754</b>	<b>10,162</b>

### 6.10.20 Breakdown of fiduciary transactions

(CHF thousands)	31.12.2017	31.12.2016
Fiduciary investments	144,725	84,852
Fiduciary loans	8,334	6,653
<b>Total fiduciary transactions</b>	<b>153,059</b>	<b>91,505</b>

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

(CHF thousands)	31.12.2017	31.12.2016
<b>a) Breakdown of assets</b>		
Assets in collective investment schemes managed by the Bank	-	-
Assets under discretionary asset management agreements or advisory	810,877	695,389
Other managed assets	3,567,381	3,276,618
<b>Total assets (including double counting)</b>	<b>4,378,258</b>	<b>3,972,007</b>
<i>of which double counting</i>	-	-
<b>b) Presentation of the development of assets</b>		
Total assets (including double counting) at beginning	3,972,007	2,059,808
+/- Net new money inflow or net new money outflow	87,311	1,738,026
+/- Price gains / losses, interest, dividends and currency gains / losses	318,940	174,173
<b>Total assets (including double counting) at end</b>	<b>4,378,258</b>	<b>3,972,007</b>

The figures for 2016 have been corrected: the figure for "Other managed assets" was reduced by CHF 267.6 million in order to better reflect client assets.

"Assets under discretionary asset management agreements or advisory" are assets for which clients have chosen a specific investment 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, and 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 CHF1.7 billion.

## 6.11 INFORMATION ON THE INCOME STATEMENT

### 6.11.22 Breakdown of the result from trading activities and fair value option

(CHF thousands)	2017	2016
Result from trading activities from:		
Foreign currencies	138	3,050
Banknote trading	3,386	-53
Commodities / precious metals	-	204
Securities trading	41	284
<b>Total result from trading activities</b>	<b>3,565</b>	<b>3,485</b>

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

(CHF thousands)	2017	2016
<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)	5,652	4,897
Negative interest on liabilities (decrease in interest expenses)	259	37

#### 6.11.24 Breakdown of personnel expenses

(CHF thousands)	2017	2016
Salaries	12,771	12,208
<i>of which expenses relating to share-based compensation and alternative forms of variable compensation</i>	-	-
Social insurance benefits	2,125	1,911
Other personnel expenses	614	526
<b>Total personnel expenses</b>	<b>15,510</b>	<b>14,645</b>

#### 6.11.25 Breakdown of general and administrative expenses

(CHF thousands)	2017	2016
Office space expenses	1,296	1,155
Expenses for information and communications technology	3,626	1,558
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	28	25
Fees of audit firm	358	309
<i>of which for financial and regulatory audits</i>	336	264
<i>of which for other services</i>	22	45
Other operating expenses	1,889	2,173
<b>Total general and administrative expenses</b>	<b>7,197</b>	<b>5,220</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

There were no extraordinary income or extraordinary expenses during the reporting year.

##### 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

There were no value adjustments or provisions no longer required during the reporting year.

##### 6.11.26.06 Value adjustments of tangible fixed assets

During the reporting year, there were no adjustments on tangible fixed assets.

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

(CHF thousands)	31.12.2017	31.12.2016
Current taxes	710	602
<b>Total taxes</b>	<b>710</b>	<b>602</b>
<b>Average tax rate weighted on the basis of the operating result</b>	<b>23.8%</b>	<b>24.0%</b>



## ***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 10 to 33), for the year ended 31 December 2017.

#### ***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 2017 comply with Swiss law and the company's articles of incorporation.

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

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

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

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

PricewaterhouseCoopers SA

Glenda Brändli

Audit expert  
Auditor in charge

Lorenza Bertone

Audit expert

Lugano, 12 March 2018





# I. Information on the Bank's Capital and on Liquidity (unaudited data)

## Methods for the calculation of the Bank's capital

**Credit risk:** international approach (AS-BRI).

**Market risk:** standard market risk approach.

**Operational risk:** basic indicator approach.

## I.I PRESENTATION OF REGULATORY CAPITAL

(CHF thousands)	Net figures 2017	Net figures 2016	Reference
Share capital	43,000	43,000	I.II
Retained earnings reserve	5,975	5,859	I.II
Reserves for general banking risks	4,500	4,500	I.II
Profit carried forward	1	-	
<b>Total common equity Tier 1 capital</b>	<b>53,476</b>	<b>53,359</b>	<b>I.II</b>
Other elements to be deducted from Tier 1 capital	-11,430	-15,100	I.II
<b>Total common equity Tier 1 capital (net CET 1)</b>	<b>42,046</b>	<b>38,259</b>	<b>I.II</b>
Additional Tier 1 capital (AT1)	20,000	20,000	I.II
<b>Total net Tier 1 capital</b>	<b>62,046</b>	<b>58,259</b>	<b>I.II</b>
+ Tier 2 capital (T2)	-	-	I.II
<b>Total recognised regulatory capital</b>	<b>62,046</b>	<b>58,259</b>	<b>I.II</b>
<b>Total risk-weighted positions</b>	<b>192,015</b>	<b>225,462</b>	

## I.II SOME RATIOS

(in % of risk-weighted positions)	31.12.2017	31.12.2016
Ratio of common equity Tier 1 capital (net CET1)	21.9%	17.0%
Ratio of net Tier 1 capital	32.3%	25.8%
Ratio of total recognised regulatory capital	32.3%	25.8%
Objective of regulatory capital in accordance with Circular FINMA 11/2 "Capital buffer and capital planning - banks"	11.2%	11.2%

### I.III LEVERAGE EFFECT RATIO AND CALCULATION OF GLOBAL EXPOSURE SUBJECT TO LEVERAGE EFFECT RATIO

(CHF thousands)	31.12.2017	31.12.2016
<b>1 Global exposure subject to leverage ratio (comparison with balance sheet assets)</b>	<b>1,305,257</b>	<b>1,368,743</b>
+ Total assets as per Annual Report	1,275,351	1,349,638
- Adjustments on assets deducted from net Tier 1 and connected to entities that are outside the scope of regulatory consolidation	-11,430	-15,100
+ Adjustments on derivatives	14,144	10,060
+ Adjustments on off-balance sheet transactions	27,192	24,145
<b>2 Global exposure subject to leverage effect ratio</b>	<b>1,305,257</b>	<b>1,368,743</b>
<b>2.1 Balance sheet exposure</b>	<b>1,258,790</b>	<b>1,329,374</b>
+ Balance sheet exposure excluding derivatives and SFTs	1,270,220	1,344,474
- Assets deducted from considered Tier 1 capital	-11,430	-15,100
<b>2.2 Exposure in derivatives</b>	<b>19,275</b>	<b>15,224</b>
+ Positive replacement value of all transactions in derivatives, after taking into account margin payments	5,131	5,164
+ Add-ons for derivatives	14,144	10,060
<b>2.3 Other off-balance sheet exposures</b>	<b>27,192</b>	<b>24,145</b>
+ Off-balance sheet exposure based on gross nominal values, before credit equivalent conversion factor	158,064	143,396
- Adjustment for conversion into credit equivalents	-130,872	-119,251
<b>3 Net Tier 1 capital</b>	<b>62,046</b>	<b>58,259</b>
<b>4 Basel III Leverage effect ratio</b>	<b>4.8%</b>	<b>4.3%</b>

### I.IV LIQUIDITY COVERAGE RATIO (LCR)

(CHF thousands)	Q1 2017 <sup>1</sup>	Q2 2017 <sup>1</sup>	Q3 2017 <sup>1</sup>	Q4 2017 <sup>1</sup>
High quality liquid assets (HQLA) <sup>2</sup>	625,983	591,014	713,433	732,796
of which level 1 assets	624,700	589,752	712,180	731,532
of which level 2 assets	1,283	1,262	1,253	1,264
Net cash outflows	100,453	149,741	253,489	242,708
<b>Short-term liquidity coverage ratio</b>	<b>623.2%</b>	<b>394.7%</b>	<b>281.4%</b>	<b>301.9%</b>
Previous year	278.3%	331.5%	708.4%	654.7%

<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".

### I.V INFORMATION ON DISCLOSURE REQUIREMENTS ON CAPITAL AND LIQUIDITY

The obligation of disclosure with respect to capital requirements in conformity with FINMA Circular 2016/1 "Disclosure - banks" is fulfilled on a consolidated basis. This information is published in the 2017 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** Bernardino Bulla, Lugano

**Deputy Chairman** Alberto Lotti, Melide

**Members** Renato Arrigoni, Cagiallo<sup>2</sup>  
Giancarlo Codoni, Collina d'Oro<sup>1,2,3</sup>  
Donato Cortesi, Lugano – Villa Luganese<sup>1,2</sup>  
Claudio Genasci, Agarone – Cugnasco Gerra  
Giovanni Jelmini, Mendrisio

**President of the Executive Board** Marco Tini

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

**Members of the Management** Mohammed Bensbih  
Giorgio Bernasconi  
Gianmarco Bianchini  
Stefano Calderari  
Claudio D'Antonoli  
Luigi Di Pirro  
Paolo Ferrario  
Lucia Forzano  
Antonella Giglio Terraneo  
Ioulia Gribouk  
Enzo Guanziroli  
Manuela Induni  
Raffaello Lanzillo  
Alberto Laurenzi  
Massimo Locatelli  
Mike Moghini  
Alberto Moscato  
Alberto Riva  
Giovanni Sansossio  
Matteo Scacchi  
Reto Simonett  
Davide Vezzaro

**Statutory Auditors** PwC SA, Lugano

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

<sup>1</sup> Independent members

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

<sup>3</sup> Temporary resignation from 30.05.2017



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 **Axion** | SWISS Bank

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