Axion SWISS Bank

Excellence and performance
in Private Banking

2020

Annual Report

BancaStato

The original text written in Italian constitutes the controlling form of this Report.

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However positive the performance of financial markets may have been, there is the desire to consign the ill-fated 2020 to history. The year kicked off with the first phase of a US-China commercial agreement and thus appeared to be on track in terms of reduced tensions as compared to previous years but, before long, a new variant of the virus emerged as yet another unknown factor to be reckoned with. At the outset, the perception was that the virus would affect only Asian countries, as had once happened in 2003. However, as the end of February drew nearer, it became clear that this health emergency would spread to the rest of the world. In March, the number of Covid infections increased, at first in Europe and then later in the US. At the same time, the world's stock exchange listings experienced their fastest corrections in history, which led to losses exceeding 35% within a few weeks. Mindful of the 2008 crash, the central banks intervened swiftly by implementing unprecedented measures in support of the markets. The Federal Reserve cut short-term interest rates twice, bringing them down to zero. One thousand five hundred billion dollars was pumped into the system, and a new 700-billion-dollar Quantitative Easing (QE) was launched. This later turned into an "unlimited" QE. After an initial QE policy of 120 billion euro which gravely disappointed the markets, the European Central Bank made the decision to intervene with an extraordinary acquisition plan, the PEPP or Pandemic Emergency Purchase Programme, for a total of no less than 750 billion euro which has now reached 1,850 billion euro. These moves, together with those of the major world governments who have also implemented unprecedented tax policies, have restored liquidity into the system and rebuilt investors' confidence. This triggered a historical recovery of financial markets, initially under the lead of the technologies sector (the major beneficiary of the pandemic and of the novel remote working environment) and later, in November, through securities that were more closely related to the economic cycle, thanks to the arrival of the Covid-19 vaccines (first and foremost Pfizer-BioNTech, Moderna and AstraZeneca).

Clearly, the intervention of the central banks did not succeed in fending off the recession which had commenced in February 2020 and which was unprecedented in terms of its speed and depth, as well as the way this downturn came about. It marked the first case of a self-induced recession driven by business closures and curtailed demand due to the lockdown and to the imposition of social distancing measures. The recovery coincided with the easing of these restrictions around May and, after a collapse in the second quarter, it was characterised by a sharp summer rebound as a result of the tax stimuli effected in spring and business reopenings. With the exception of China, the year ended with negative GDP growth, although with the prospect of a strong recovery in 2021.

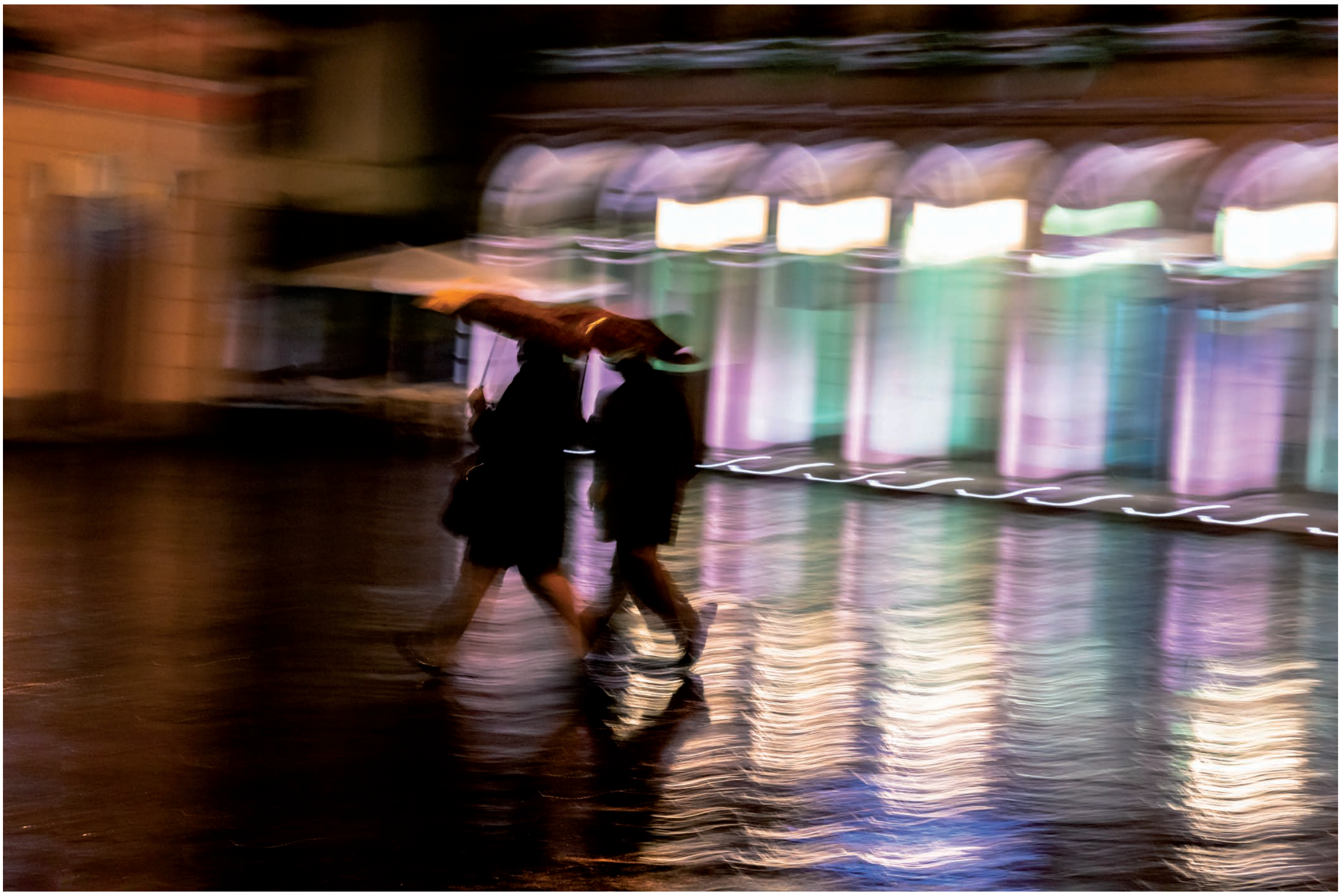
Worth mentioning are some of the "firsts" in 2020 markets. These include negative oil prices (as low as -40.00 dollars), the volatility index of American shares (VIX Index) which soared from 12% to 86% in a month to then drop to around 20%, the price of gold breaking through 2,000.00 dollars an ounce, and finally the Greek ten-year bond's yield which fell below 0.5%.

A number of uncertainties continue to remain the focus of political and economic discussions. Firstly, the presumed decoupling, the disconnect between the performance of financial markets and the state of prevailing uncertainty in the economies of various countries. This argument, however, does not consider the fact that markets, by their very nature, foreshadow the cycle which is expected to recover with the new year, albeit in a differentiated manner in the various areas. In fact, the recovery is already happening in a sustained manner in China, and has also been observed in the rest of Northern Asia.

Even though the so-called "second wave" of the Covid-19 pandemic is still radically conditioning the economic scenario, the arrival of vaccines, combined with increasingly vigorous monetary and tax initiatives adopted by several countries, is contributing to increased confidence and optimism.

As the US seeks to turn the page on the Trump Administration, there is a great deal of trust in the long-awaited Biden "Green Revolution" that is supported by nearly two thousand billion dollars in new investments and an across-the-board consensus. It is therefore expected that 2021 will see the sanctioning of ESG (Environmental, Social and Governance) investments that are environmentally, socially, and ethically sustainable, and that entail governance and management responsibility in several economic and other sectors.

One important topic remains, and that is the growing debt of governments as well as many private entities due to the pandemic. In this regard, leading world central banks have an important role as guarantors of a balanced financial system, thanks to a near unlimited access to liquidity. One interesting aspect of the upcoming year is surely the unknown variable that is increasingly taking center stage: inflation. Even though central banks will strive to maintain a near-zero, or negative, interest rate policy for a longer stretch of time, slight inflationary trends may occur in the second quarter,



driven by strong QE policies, increases in the price of raw materials and pressure on the US job market. It remains to be seen if these trends will translate into a rise in interest rates (as is in part already the case with US State securities) without destabilising financial markets, and particularly stock markets which appear to be the only ones with any prospect of a positive comeback next year.

An economic recovery is anticipated in Switzerland, although no earlier than in the second quarter of 2021. A clear rebound of the local economy is thus only expected to materialise in the summer, provided there are no lockdown extensions. The economy in Europe is labouring; its macroeconomic data are worrisome, particularly with regard to employment, and it is hoped that the expected Recovery Plan will become fully operational. In this environment, the Swiss National Bank (SNB) is poised to maintain its negative rates at -0.75%, their level since January 2015, as it continues to expand its balance sheet in order to avoid an undue appreciation of the Swiss franc, particularly against the US dollar.

Investments in shares will continue to be the obvious choice in 2021, dictated by good growth prospects and a lack of alternatives with respect to other asset classes where bond yields, which are very often negative, are of no interest.

In terms of earning power, the growth of Axion SWISS Bank SA was adversely affected in 2020 as a result of both the performance of interest rates against the dollar and the Covid-19 pandemic. The year closed with an operating result of 4.1 million Swiss francs (-23.3%) and 3.2 million Swiss francs in net income, -24.6% below its 2019 figure.

A major item of news in 2020 was the conclusion of a cooperation agreement with the parent company for the management of investment funds, as Axion SWISS Bank SA has been chosen as the competence center for asset management for the entire BancaStato Group. This has brought about the creation and launch of two new branches of ASB Sicav, BancaStato Yield and BancaStato Balanced, which have been designed especially for BancaStato and its clients, and which are managed entirely by Axion SWISS Bank SA. These new funds have collected over 100 million Swiss francs during the first months following their launch (September – December 2020), thus contributing to the revenues of both the Group and Axion SWISS Bank SA.

In 2020, the new Law on Financial Services came into effect in Switzerland. Within the framework of its Advisory project, which was implemented in 2017, Axion SWISS Bank SA had already adapted its organisational structure to comply with most of the new law's obligations. During 2020, the last informatics components were finalised to ensure compliance with the new law. These projects will be brought to conclusion in the first months of 2021.

Clients' managed assets (excluding double countings) amounted to 5.1 billion Swiss francs at the end of December, a 6.1% increase resulting from the performance of financial markets and from net cash flow which evolved positively in 2020 as well, totalling 351 million Swiss francs or 7.1%.

These results allowed for 2,953 million Swiss francs in paid out dividend (a 23.4% decrease compared to 2019) and the allocation of 241 thousand Swiss francs to the legal reserve.

With regard to the ongoing development and advancement of the Bank's strengths, there is substantial progress in the implementation of several strategic projects designed to improve internal processes, and thus customer services, focusing also on developments in the area of informatics and instruments of remote interaction.

Cooperation with the BancaStato Group will continue to increase as a means of advancing and exploiting synergies within the Group through a common strategic plan.

The Board of Directors has taken note of the reports of both the Internal and Statutory Auditors. It furthermore expresses its appreciation and its positive view of the work performed by the Bank's Executive Board, and wishes its valued clients and staff a successful 2021.

1. Balance Sheet

(CHF thousands)	Reference to annex	31.12.2020	31.12.2019	Change
Assets				
Liquid assets		368,801	225,758	143,043
Amounts due from banks		736,815	558,620	178,195
Amounts due from customers	5.9.1	321,346	282,072	39,274
Trading portfolio assets	5.9.2	3,667	3,982	-315
Positive replacement value of derivative financial instruments	5.9.3	4,483	1,949	2,534
Financial investments	5.9.4	25,965	24,935	1,030
Accrued income and prepaid expenses		747	790	-43
Participations		49	49	-
Tangible fixed assets		2,192	2,440	-248
Intangible assets		455	3,489	-3,034
Other assets	5.9.5	380	140	240
Total assets		**1,464,900**	**1,104,224**	**360,676**
Total subordinated claims		510	-	510
of which subject to mandatory conversion and/or debt waiver		-	-	-
Liabilities				
Amounts due to banks		39,449	30,827	8,622
Amounts due in respect of customer deposits		1,351,073	1,000,292	350,781
Negative replacement values of derivative financial instruments	5.9.3	5,953	4,426	1,527
Accrued expenses and deferred income		8,109	8,169	-60
Other liabilities	5.9.5	1,429	1,094	335
Provisions	5.9.8	1,492	1,362	130
Reserves for general banking risks	4. and 5.9.8	4,500	4,500	-
Bank's capital	4. and 5.9.9	43,000	43,000	-
Statutory retained earnings reserve	4.	6,700	6,317	383
Profit carried forward	4.	-	-	-
Profit (result of the period)	4.	3,195	4,237	-1,042
Total liabilities		**1,464,900**	**1,104,224**	**360,676**
Total subordinated liabilities		20,512	20,510	2
of which subject to mandatory conversion and/or debt waiver		*20,512*	*20,510*	*2*
Off-balance sheet transactions				
Contingent liabilities	5.9.1	15,231	16,616	-1,385
Irrevocable commitments	5.9.1	21,217	15,368	5,849

2. Income Statement

(CHF thousands)	Reference to annex	2020	2019	Change
Income and expenses arising from ordinary banking operations				
Result from interest operations				
Interest and discount income		4,593	12,985	-8,392
Interest and dividend income from financial investments		294	411	-117
Interest expense		379	-302	681
Gross result from interest operations		**5,266**	**13,094**	**-7,828**
Changes in value adjustments for default risks and losses from interest operations		-26	-49	23
Net result from interest operations		**5,240**	**13,045**	**-7,805**
Result from commission business and services		**22,210**	**19,303**	**2,907**
Commission income from securities trading and investment activities		26,611	23,197	3,414
Commission income from lending activities		135	170	-35
Commission income from other services		2,000	2,150	-150
Commission expenses		-6,536	-6,214	-322
Result from trading activities and fair value option	5.11.15	**4,765**	**3,689**	**1,076**
Other result from ordinary activities		**40**	**61**	**-21**
Result from the disposal of financial investments		24	-	24
Other ordinary income		16	62	-46
Other ordinary expenses		-	-1	1
Net revenues		**32,255**	**36,098**	**-3,843**
Operating expenses		**-24,312**	**-25,336**	**1,024**
Personnel expenses	5.11.17	-17,309	-17,673	364
General and administrative expenses	5.11.18	-7,003	-7,663	660
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		**-4,006**	**-4,302**	**296**
Changes to provisions and other value adjustments, and losses		**118**	**-1,173**	**1,291**
Operating result		**4,055**	**5,287**	**-1,232**
Extraordinary income	5.11.19.02	**1**	**-**	**1**
Taxes	5.11.20	**-861**	**-1,050**	**189**
Profit (result of the period)		**3,195**	**4,237**	**-1,042**

3. Proposed Appropriation of Available Earnings

(CHF thousands)	31.12.2020	31.12.2019	Change
Appropriation of available earnings			
Profit (result of the period)	3,195	4,237	-1,042
Profit carried forward	-	-	-
Distributable profit	**3,195**	**4,237**	**-1,042**
Proposal of the Board of Directors			
Allocation to statutory retained earnings reserve	241	383	-142
Distribution from distributable profit	2,953	3,854	-901
New amount carried forward	**1**	**-**	**1**

4. 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**
Equity as at 1st January 2020	**43,000**	**6,317**	**4,500**	**-**	**4,237**	**58,054**
Appropriation of retained earnings 2019						
Assignment to statutory retained earnings reserve	-	*+383*	-	-	*-383*	**-**
Profit carried forward				-	-	**-**
Dividend from 2019 profit	-	-	-	-	*-3,854*	***-3,854***
Profit (result of the period)	-	-	-	-	+3,195	**3,195**
Total equity as at 31st December 2020	**43,000**	**6,700**	**4,500**	**-**	**3,195**	**57,395**

5. Annex

5.1 ACTIVITIES AND STAFF

5.1.1 Activities

Axion SWISS Bank SA is a Lugano-based limited company whose main business focus is portfolio management and advisory services for both 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, and the granting of loans. This latter activity is mostly geared towards Lombard-type lending facilities and securities-backed loans collateralised by deposit accounts.

5.1.2 Staff

On December 31st 2020, total staff amounted to 66 employees (65.5 FTEs), compared to 68 at the end of 2019 (67.3 FTEs).

5.1.3 Outsourcing

Axion SWISS Bank SA outsources a number of different services, as defined by the FINMA Circular 2018/3 "Outsourcing – banks and insurers", to Avaloq Sourcing (Switzerland & Liechtenstein) SA, Bioggio. These services consist of activities connected to customer transaction processing, securities administration, printing and distributing banking documents, and the management of IT services (centralised informatics and workstations).

With regard to services subject to FINMA Circular 2018/3 "Outsourcing – banks and insurers", Axion SWISS Bank SA has outsourced 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.

Costs related to payment transactions, securities administration and back office stock/foreign exchange/treasury are posted under the item "Commission expense". They totalled CHF 804,000 in 2020 (2019: CHF 804,000). Costs related to other outsourced services are carried under "General and administrative expenses".

The Bank makes use of the "Sherpany" application which is administered by a third party. It manages the documentation related to specific committees which may comprise sensitive information.

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 the building of which the Bank is a lessee, as well as its supplies.

5.2 STATEMENT DISCLOSURE AND VALUATION PRINCIPLES

5.2.1 General principles

These annual financial statements were prepared in accordance with the FINMA provisions (Reliable assessment statutory single-entity financial statements).

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 the FINMA Accounting Ordinance (FINMA-AO) and the FINMA Circular 2020/01 "Accounting - Banks".

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

5.2.2 General valuation principles

The 2020 annual financial statements have been prepared on a going concern basis.

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

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.

5.2.3 Financial instruments

5.2.3.1 Liquid assets

Liquid assets are booked at nominal value.

5.2.3.2 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

corresponding assets.
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".
Debit interests and lending commissions unpaid for more than 90 days are booked, from an economic perspective, under "Interest and discount income" and are contextually adjusted under "Changes in value adjustments for default risks and losses from interest operations" as well as directly netted with assets.

5.2.3.3 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.

5.2.3.4 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 the above-mentioned 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".

5.2.3.5 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 booked under "Result from trading activities and fair value option" or, as regards cash swap operations, under "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".

5.2.3.6 Participations

This item comprises company equity stakes, in terms of capital, held as long-term investments.
Participations are recorded on the balance sheet at acquisition value less economically necessary depreciation, independently of the stake held.

5.2.3.7 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) and posted under the item "Interest and dividend income from financial investments". 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 results from ordinary activities".

5.2.4 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.

5.2.5 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.

5.2.6 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, as well as provisions for contractual commitments towards managers. Value adjustments on asset items are deducted directly from the same.

5.2.7 Reserves for general banking risks

In compliance with the accounting directives of the FINMA (Circular 2020/1 "Accounting – Banks"), the "Reserves for general banking risks" 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.

5.2.7.1 Taxes

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

5.2.8 Off-balance sheet transactions

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

5.2.9 Changes in accounting and valuation principles

There were no changes in accounting and valuation principles in 2020.

5.2.10 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.
The principal exchange rates applied at the end of the financial year were as follows:
EUR 1.0821 (2019: 1.0868)
USD 0.8848 (2019: 0.9687)
GBP 1.2084 (2019: 1.2824)
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".

5.3 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 framework strategy of its Operating Rules and Regulations and its Organisation and Risk Management Regulations.
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.

5.3.1 Credit risk

Credit risk is primarily connected with client and interbank lending business. The Bank limits client credit risk by granting primarily Lombard-type loans and credit facilities against securities and implementing appropriate lending values. The loan to value ratio is defined by rules and regulations, and by a specific internal guideline. Moreover, the value of collateral is monitored daily.
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 and country risk limits are reviewed at least once a year. Compliance to these limits is monitored on a regular basis.

5.3.2 Market risk

The organisation 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.

5.3.3 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.

Liquidity risk is managed and monitored actively by setting a tolerance to risk, minimum reserves of liquidity, and a system of limits and indicators as well as by diversifying refinancing (source, currencies and durations) and by implementing stress scenarios. The emergency liquidity plan is a key aspect of the crisis management scheme. It includes intervention measures to counter any liquidity crisis, taking into account liquidity indicators and ratios, and outlining emergency procedures.

5.3.4 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.

5.3.5 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 the Anti-Money Laundering Ordinance (AMLO-FINMA). The Bank has adopted an internal compliance control system based on multilevel monitoring.

5.3.6 Required capital and other risk indicators

The information required in compliance with the FINMA Circular 2016/1 "Disclosure – Banks" on disclosure obligations regarding required capital and other risk indicators is published on the internet website of Axion SWISS Bank SA (www.axionbank.ch).

5.4 METHODS USED FOR IDENTIFYING RISKS OF LOSS AND FOR DETERMINING THE NEED FOR VALUE ADJUSTMENTS

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 on the basis of predefined time limits. 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 may be utilised, and the credit position closed out.

Loans whose interests are more than 90 days overdue are considered non-performing and are assessed individually, considering existing collateral at its liquidation value. Any risk of default is provisioned individually. These value adjustments represent the expected counterparty loss with regard to the corresponding transaction. If part of the loan is subject to a value adjustment, it is considered impaired.

5.5 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-related 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.

5.6 BUSINESS POLICY REGARDING THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS, INCLUDING EXPLANATIONS REGARDING THE USE OF HEDGE ACCOUNTING

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.

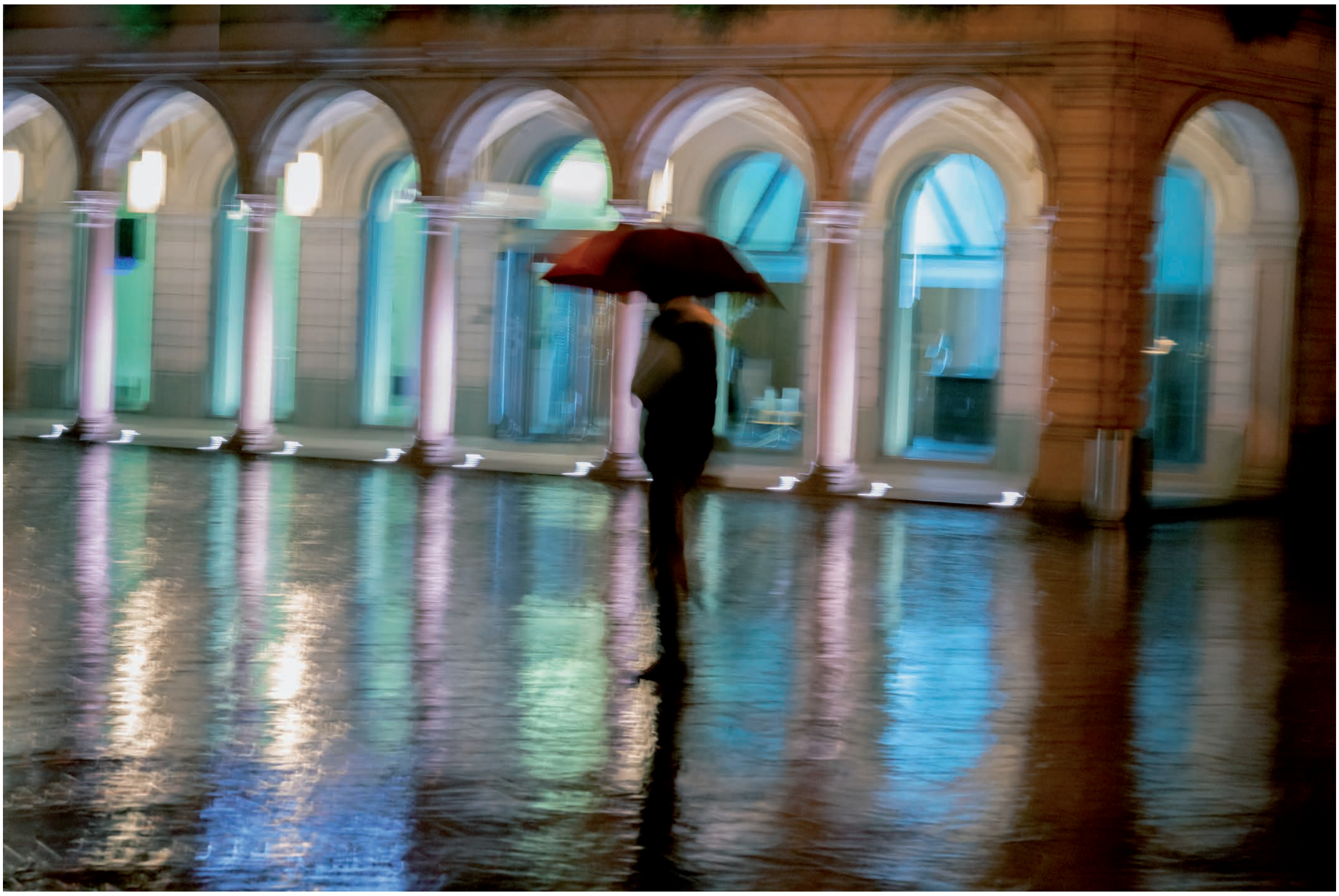
In general, recognition in the income statement of the result of a hedging transaction follows the same principles applied to the secured underlying. Consequently, results from hedging operations with derivative financial instruments within the framework of the structural management of the balance sheet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

5.7 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 31st 2020.

5.8 REASONS WHICH HAVE LED TO EARLY RESIGNATION OF THE AUDITORS

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



5.9 INFORMATION ON THE BALANCE SHEET

5.9.1 Presentation of collateral for loans and off-balance sheet transactions, as well as impaired loans at 31.12.2020

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)				
Amounts due from customers	-	306,372	15,063	321,435
Total loans (before netting with value adjustments)	**-**	**306,372**	**15,063**	**321,435**
Previous year	-	279,342	2,792	282,134
Total loans (after netting with value adjustments)	**-**	**306,283**	**15,063**	**321,346**
Previous year	-	279,280	2,792	282,072
Off-balance sheet				
Contingent liabilities	-	15,127	104	15,231
Irrevocable commitments	-	19,482	1,735 [1]	21,217
Total off-balance sheet	**-**	**34,609**	**1,839**	**36,448**
Previous year	-	30,449	1,535	31,984

(CHF thousands)	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
Impaired loans				
Current year	**659**	**570**	**89**	**89**
Previous year	3,537	3,475	62	62

The decrease in impaired loans is due to the regularisation of specific loan positions.
Axion SWISS Bank SA did not grant any "COVID-19" loans in 2020.

[1] Including CHF 1.4 million (2019: CHF 1.4 million) as part of the deposit guarantee.

5.9.2 Breakdown of trading portfolios and other financial instruments at fair value

(CHF thousands)		
Assets	31.12.2020	31.12.2019
Trading portfolio assets		
Debt securities, money market securities / transactions	3'113	3'460
of which listed	*3'113*	*3'460*
Shares of investment funds	554	522
Total trading portfolio assets	**3'667**	**3'982**
of which determined using a valuation model	-	-
of which securities eligible for repo transactions in accordance with liquidity requirements	-	-

5.9.3 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	
Foreign currencies / precious metals						
Forward contracts	2,305	2,216	398,489	-	-	-
Combined currency and interest rate swaps	869	869	124,208	982	2,541	786,056
OTC Options	327	327	112,332	-	-	-
Total currencies / precious metals	**3,501**	**3,412**	**635,029**	**982**	**2,541**	**786,056**
Total derivative financial instruments	**3,501**	**3,412**	**635,029**	**982**	**2,541**	**786,056**
of which determined using a valuation model	*3,501*	*3,412*	*-*	*982*	*2,541*	*-*
Total previous year	1,779	1,756	459,240	170	2,670	396,799
of which determined using a valuation model	*1,779*	*1,756*	*-*	*170*	*2,670*	*-*

Recapitulation (CHF thousands)	**Positive replacement values (cumulated)**	**Negative replacement values (cumulated)**	**Contract volumes**
Trading instruments	3,501	3,412	635,029
Hedging instruments	982	2,541	786,056
Total (before netting agreements)*	**4,483**	**5,953**	**1,421,085**
Total previous year	1,949	4,426	856,039
Total (after netting agreements)*	**4,483**	**5,953**	**1,421,085**
Total previous year	1,949	4,426	856,039

Breakdown by counterparty (CHF thousands)	**Central clearing houses**	**Banks and securities dealers**	**Other customers**
Positive replacement values (after netting agreements)*	-	3,686	797

*No netting contracts existed on derivatives open as at 31.12.2020 and at 31.12.2019.

5.9.4 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Debt securities	16,455	20,525	16,726	20,642
of which intended to be held to maturity	*16,455*	*20,525*	*16,726*	*20,642*
of which not intended to be held to maturity (available for sale)	-	-	-	-
Shares in investment funds	9,510	4,410	10,098	4,504
Total financial investments	**25,965**	**24,935**	**26,824**	**25,146**
of which securities eligible for repo transactions in accordance with liquidity requirements	-	-	-	-

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	8,572	4,501	2,523	379	-	480

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

5.9.5 Breakdown of other assets and other liabilities

(CHF thousands)	31.12.2020	31.12.2019
Other assets		
Indirect taxes	2	15
Other different assets	378	125
Total other assets	**380**	**140**
Other liabilities		
Direct/indirect taxes	773	707
Compensation account	625	316
Other different liabilities	31	71
Total other liabilities	**1,429**	**1,094**

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

(CHF thousands)	31.12.2020		31.12.2019	
	Book values	Effective commitments	Book values	Effective commitments
Pledged / assigned assets (excluding securities financing transactions)				
Amounts due from banks	7,819	5,383	7,855	4,194
Amounts due from clients	1,944	-	1,944	117
Total assets pledged / assigned	**9,763**	**5,383**	**9,799**	**4,311**

At end-year closing on 31.12.2020 and 31.12.2019 Axion SWISS Bank SA had no assets under reservation of ownership.

5.9.7 Disclosures on the economic situation of pension schemes

5.9.7.1 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 own pension scheme.

5.9.7.2 Disclosures on the economic situation of own pension schemes

a) Employer contribution reserves (ECR)
There were no employer contribution reserves as at 31.12.2020.

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

	Overfunding / underfunding at end 2020	Economic interest of the bank		Change in economic interest (economic benefit / obligation) versus previous year	Contributions paid for 2020	Pension expenses in personnel expenses	
		31.12.2020	31.12.2019			31.12.2020	31.12.2019
Pension plans without overfunding / underfunding	-	-	-	-	1,284	1,415	1,345

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 Group Plan LPP Swiss Life, a legally independent pension fund. The pension plan is a defined contribution scheme and provides the basic compulsory coverage as stated in the Swiss LPP (Federal Law on Occupational Benefits), as well as complementary coverage. Axion SWISS Bank SA had no economic liabilities towards the staff pension scheme at year end. There are no contribution reserves on the part of the employer and the relationship between Axion SWISS Bank SA and the pension fund is based on a global affiliation contract. The pension fund reinsures all pension risks by means of a comprehensive insurance contract. Within the framework of this contract, no possibility of underfunding exists and, consequently, there are no obligations in this regard on the part of the employer.

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

(CHF thousands)		2020				
	Situation at 31.12.2019	Use in conformity with designated purpose	Currency differences	New creations charged to income	Releases to income	Situation at 31.12.2020
Provisions for other operating risks	**665**	-102	-	125	-300	**388** [1]
Other provisions	**697**	-	-	407	-	**1,104** [2]
Total provisions	**1,362**	**-102**	**-**	**532**	**-300**	**1,492**
Reserves for general banking risks	**4,500**	**-**	**-**	**-**	**-**	**4,500** [3]
Value adjustments for default and country risks	**62**	**-4**	**-1**	**110**	**-78**	**89**
of which value adjustments for default risks in respect of impaired loans	*62*	*-4*	*-1*	*110*	*-78*	*89*

[1] This provision is connected to legal risks for which the Bank cannot exclude a juridical risk.
[2] Provision for contractual commitments towards bank managers.
[3] The reserves for general banking risks were not taxed.

5.9.9 Presentation of the Bank's capital

(CHF thousands)	31.12.2020			31.12.2019		
Bank's capital	Total par value	No. of shares	Capital eligible for dividend	Total par value	No. of shares	Capital eligible for dividend
Bank's 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*
Total Bank's capital	**43,000**	**43,000**	**43,000**	**43,000**	**43,000**	**43,000**

5.9.10 Disclosure of amounts due from / to related parties

(CHF thousands)	31.12.2020		31.12.2019	
	Amounts due from	Amounts due to	Amounts due from	Amounts due to
Holders of qualified participations	709,198	36,354	532,705	30,526
Group companies	-	-	-	-
Members of governing bodies	-	1,444	19	407

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

5.9.11 Disclosure of holders of significant participations

(CHF thousands)	31.12.2020		31.12.2019	
Holder of significant participations	Nominal	% of equity	Nominal	% of equity
Banca dello Stato del Cantone Ticino With voting rights	43,000	100	43,000	100

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

(CHF thousands)		31.12.2020		31.12.2019	
Bank's own country rating	Rating Standard & Poor's	Foreign exposure	Share as %	Foreign exposure	Share as %
1 Excellent and high quality	AAA to AA-	122,490	41.2%	102,235	38.9%
2 Greater quality than average	A+ to A-	6,593	2.1%	8,852	3.3%
3 Medium quality	BBB+ to BBB-	153,040	51.5%	140,163	53.3%
4 Default risk	BB+ to BB	1	0.0%	1	0.0%
5 Default risk material	BB-	507	0.2%	508	0.2%
6 Speculative, high default risk	B+ to B-	4,384	1.5%	4,710	1.8%
7 Poor quality, very high risk	CCC+ to D	-	0.0%	-	0.0%
Unrated		10,403	3.5%	6,458	2.5%
Total		**297,418**	**100.0%**	**262,927**	**100.0%**

5.10 INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

5.10.13 Breakdown of fiduciary transactions

(CHF thousands)	31.12.2020	31.12.2019
Fiduciary investments with third parties	193,366	387,562
Fiduciary loans	4,468	5,860
Total fiduciary transactions	**197,834**	**393,422**

5.10.14 Breakdown of managed assets and presentation of their development

(CHF thousands)	31.12.2020	31.12.2019
a) Breakdown of managed assets		
Assets in collective financial instrument schemes managed by the Bank	129,300	-
Assets under discretionary asset management agreement	851,714	774,828
Assets under advisory mandate	1,876,361	2,089,422
Other managed assets	2,360,107	1,933,450
Total managed assets (including double counting)	**5,217,482**	**4,797,700**
of which double counting	*129,300*	-
b) Presentation of the development of managed assets		
Total managed assets (including double counting) at beginning	4,916,648	4,131,352
+/- Net new money inflow or net new money outflow	351,376	479,774
+/- Price gains / losses, interest, dividends and currency gains / losses	-50,542	186,574
Total managed assets (including double counting) at end	**5,217,482**	**4,797,700**

"Assets in collective financial instrument schemes managed by the Bank" totalling CHF 129.30 million as at 31.12.2020 (2019: CHF 118.95 million) have been included in compliance with existing legislation. This change has no effect on the Income Statement.
"Assets under discretionary asset management agreement" and "Assets under advisory mandate" are assets for which clients have chosen a specific management or advisory 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 asset management agreement 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.

5.11 INFORMATION ON THE INCOME STATEMENT

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

(CHF thousands)	2020	2019
Result from trading activities from:		
Foreign currencies	4,858	5,011
Foreign banknote trading	-183	-1,396
Securities trading	90	74
Total result from trading activities and fair value option	**4,765**	**3,689**

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

Refinancing income in the item "Result from interest operations"
Interest and dividend income from trading portfolio are not offset with costs for refinancing that portfolio.

(CHF thousands)	2020	2019
Negative interest		
Negative interest on assets (decrease in interest and discount income)	5,868	5,711
Negative interest on liabilities (decrease in interest expenses)	1,042	434

5.11.17 Breakdown of personnel expenses

(CHF thousands)	2020	2019
Salaries	13,890	14,457
of which expenses relating to share-based compensation and alternative forms of variable compensation	-	-
Social insurance benefits	2,832	2,495
Other personnel expenses	587	721
Total personnel expenses	**17,309**	**17,673**

5.11.18 Breakdown of general and administrative expenses

(CHF thousands)	2020	2019
Office space expenses	1,274	1,249
Expenses for information and communications technology	4,110	3,745
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	17	21
Fees of audit firm	169	185
of which for financial and regulatory audits	*169*	*185*
of which for other services	-	-
Other operating expenses	1,433	2,463
Total general and administrative expenses	**7,003**	**7,663**

5.11.19 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

5.11.19.01 Material losses
There were no significant losses during the reporting year.

5.11.19.02 Extraordinary income and extraordinary expenses
There were no significant extraordinary income or extraordinary expenses during the reporting year.

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

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

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

5.11.19.06 Value adjustments of participations and tangible fixed assets
During the reporting year, there were no value adjustments of participations or tangible fixed assets.

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

(CHF thousands)	31.12.2020	31.12.2019
Current taxes	861	1'050
Total taxes	**861**	**1'050**
Average tax rate weighted on the basis of the operating result	**21.2%**	**19.9%**

Report of the statutory auditor

to the General Meeting of AXION SWISS BANK SA, Lugano

Report 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, statement of changes in equity and notes (pages 8 to 27), for the year ended 31 December 2020.

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 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 2020 comply with Swiss law and the 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 articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Beresford Caloia	Davide Albergati
Audit expert Auditor in charge	Audit expert

Lugano, 26 March 2021

Bank Governing Bodies and Institutions

Chairman of the Board of Directors	Giovanni Jelmini, Mendrisio
Deputy Chairman	Renato Arrigoni, Cagiallo[1, 2]
Members	Bernardino Bulla, Lugano[2] Christian Magistra, Origlio[1] Raoul Paglia, Comano[2]
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 Giuseppe Curiale Gregor D'Adam Luigi Di Pirro Antonella Giglio Terraneo Luca Grassi Ioulia Gribouk Enzo Guanziroli Manuela Induni Alberto Laurenzi Walter Lisetto Massimo Locatelli Mike Moghini Alberto Moscato Marina Pezzoli Ewgenij Popov Alberto Riva Nicola Salvi Giovanni Sansossio Matteo Scacchi Roberto Simone Elena Sulina Davide Vezzaro
Statutory Auditors	PricewaterhouseCoopers SA, Lugano
Internal Auditors	Internal Auditors of Banca dello Stato del Cantone Ticino

[1] Independent members
[2] Members of the Audit Committee

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