



2021

Annual **Report**



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

Table of Contents

Report of the Board of Directors	4
<hr/>	
1. Balance Sheet	8
<hr/>	
2. Income Statement	9
<hr/>	
3. Proposed Appropriation of Available Earnings	10
<hr/>	
4. Statement of Changes in Equity	11
<hr/>	
5. Annex	12
<hr/>	
Report of the Statutory Auditors	28
<hr/>	
Bank Governing Bodies and Institutions	30
<hr/>	

Report of the Board of Directors

The year 2021 was characterised by a fairly generalised economic recovery, supported by the efforts to sustain central banks and governments, as well as by anti-Covid campaigns. This scenario, which accompanies an attempt at normalisation, is marked by positive elements as well as factors of uncertainty. The return of inflation, mainly due to the strong increase in the price of many raw materials and logistical distortions – with the resulting bottlenecks in supply chains – is the factor that causes the greatest worries worldwide, even though Switzerland has a growth rate of less than 2% and is therefore well below the other major world economies. The appreciation of the Swiss franc, in this case, plays a favourable role in dampening inflation from imports. There has been a heated debate among economic actors as to whether it plays a transitory or structural role, given the labour market pressures in some areas and the further spirals this could generate. On the other hand, inflation can also be a relief for public and private debtors, while it generally penalises savers and investors, still pushing them further into riskier investments to give a return on their savings.

2021 began with the transfer of power from former President Trump to the newly elected Biden, who immediately unveiled a 1,9 trillion dollars stimulus package, which was not enough to calm the turbulence created in the markets following the return of inflation caused by supply chain disruptions.

As the year progressed, a renewed optimism driven by the hope that the mass launch of the anti-Covid vaccines would lead to a rapid return to normality, allowed markets to continue their upward momentum, then supported by very positive corporate earnings results, good economic data and the Federal Reserve's narrative of the *transitory* nature of price increases. After the summer, investor attention focused on China's regulatory crackdown, which hit US-listed Chinese stocks hard, followed by significant turmoil in the property market as Evergrande and other real estate players struggled to meet rising debts.

The year ended with sudden swings in both directions and important announcements by central banks. The ECB announced the phasing out of bond purchases as early as January 2022; the new keywords are *flexibility* and *optionality*, implying the possibility of changes in rhythm based on future data and possibly suggesting a start of rate hikes during 2023. Powell on the other hand acknowledged the threat of inflation, but also reassured markets that the economy is strong enough to face the tapering plan announced by the Fed, helping to improve the mood with markets recovering and ending the year in double figures.

Switzerland also recorded a strong economic recovery in 2021, surpassing pre-crisis levels. Supply constraints are also a challenge for Swiss companies, although they have so far had only a limited impact on economic growth, which is expected to remain strong in 2022.

In view of the pandemic variants, the different structural conditions and the different impacts of the inflationary factor, the current economic recovery is set to be even more uneven. The major issue of energy transition is also complex, in terms of objective technical difficulties, costs and impacts on the labour market, social and geopolitical balances.

In addition to the uncertainties linked to economic factors, towards the end of February 2022, the sudden conflict between Russia and Ukraine led to an extremely serious large-scale humanitarian emergency.

This worrying situation will inevitably also have economic repercussions, resulting from the unprecedented sanctions, which have already had the initial effect of driving up the price of energy resources, further feeding the feared rise in commodity prices.

In this delicate scenario, the role of central banks remains decisive and focused on maintaining financial stability. The dramatic international crisis situation should not, however, compromise the implementation of normalisation monetary policies – in particular by the US central bank – with the aim of keeping inflation under control, trying to avoid dangerous spirals with uncontrollable effects.

Preference is therefore given to equities, although faced with reduced growth and increased volatility, or to alternative investments, where it is possible to invest in instruments capable of acting as inflation hedge or generating positive returns in adverse environments.

The more restrictive approach envisaged or implemented by central banks (with the US leading the line and others following) in order to tackle inflation, is likely to adversely affect the fixed income market depending on the extent and speed with which the measures are implemented.

In the currency field, the US dollar, despite the Fed's new more restrictive policy, may be adversely affected by the ECB's cautious change of pace and by the growth in US debt and deficits.

The Swiss franc, favoured by the many factors linked to the war conflict and its economic and social consequences, appears set to maintain its strong position against other currencies. On the other hand, the Swiss National Bank (SNB) seems less willing to



intervene to calm its appreciation with the aim of not importing inflation and will wait to see what other neighbouring countries do first.

In 2021, Axion SWISS Bank SA's growth in terms of earnings saw a huge increase compared to 2020. The year ended with an operating result of 6,3 million Swiss francs (+54.7%) and a net profit of 5,1 million Swiss francs, a huge increase over 2020 (+60.1%). This very good result is due to a number of factors, including the performance of the markets, which contributed to the increase in managed assets and, consequently, in related revenues,

the growth of investment funds and their good performance, the increased movement of portfolios and the resulting increase in transaction revenues.

Client's managed assets (excluding double counting) amounted to 5,6 billion Swiss francs at the end of December, a 11.1% increase partly resulting from the performance of the financial markets and partly from the net new money inflow, which were also positive in 2021, amounting to 369 million Swiss francs or 7.1%, in line with the previous year's inflows.

These results allowed for 4,6 million Swiss francs in paid out



dividend (a 56.2% increase compared to 2020) and the allocation of 502 thousand Swiss francs to the legal reserve.

The year 2021 saw the launch of a four-year development strategy coordinated with the parent company with the aim of achieving an operating model and offer characterised by medium- and long-term sustainability and oriented towards responding to current and future customer needs. The new strategy therefore focuses on improving the Group's solidity through balanced growth without impacting the current risk profile, as well as improving operational efficiency. The achievement of these objectives involves issues such

as digitalisation and the search for greater efficiency, as well as investment in the development of specific strategic markets.

The foregoing is inevitably affected by the Russian/Ukrainian crisis, which turned into war in the second half of February 2022, imposing on Axion SWISS Bank SA and all financial institutions in general a series of challenges and extraordinary measures to manage its effects.

In addition to the impacts on the financial markets, the Bank is also faced with the management of government sanctions and the effects these have on its customers, whether they are directly linked



to Russia and Ukraine or not. This management requires the Bank to organise its resources, both human and financial, by increasing its efforts in compliance and risk management, monitoring and customer support.

The current events therefore introduce a strong element of uncertainty and fragility as regards to the very duration of the crisis and the extent of its effects on Axion SWISS Bank SA's financial evolution, both in terms of managed assets and revenues. However, the solidity of Axion SWISS Bank SA and the BancaStato Group will enable the Bank to mitigate any repercussions it may suffer during the year.

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 on the work of the Bank's Executive Board and wishes its valued clients and staff a very successful 2022.

1. Balance Sheet

(CHF thousands)	Reference to annex	31.12.2021	31.12.2020	Change
Assets				
Liquid assets		545,397	368,801	176,596
Amounts due from banks		534,216	736,815	-202,599
Amounts due from customers	5.9.1	389,114	321,346	67,768
Trading portfolio assets	5.9.2	2,470	3,667	-1,197
Positive replacement value of derivative financial instruments	5.9.3	4,769	4,483	286
Financial investments	5.9.4	21,685	25,965	-4,280
Accrued income and prepaid expenses		1,831	747	1,084
Participations		49	49	-
Tangible fixed assets		2,296	2,192	104
Intangible assets		-	455	-455
Other assets	5.9.5	555	380	175
Total assets		1,502,382	1,464,900	37,482
Total subordinated claims		-	510	-510
<i>of which subject to mandatory conversion and/or debt waiver</i>		-	-	-
Liabilities				
Amounts due to banks		33,286	39,449	-6,163
Amounts due in respect of customer deposits		1,388,386	1,351,073	37,313
Negative replacement values of derivative financial instruments	5.9.3	9,613	5,953	3,660
Accrued expenses and deferred income		8,847	8,109	738
Other liabilities	5.9.5	1,989	1,429	560
Provisions	5.9.8	705	1,492	-787
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.	6,941	6,700	241
Profit carried forward	4.	1	-	1
Profit (result of the period)	4.	5,114	3,195	1,919
Total liabilities		1,502,382	1,464,900	37,482
Total subordinated liabilities		20,257	20,512	-255
<i>of which subject to mandatory conversion and/or debt waiver</i>		20,257	20,512	-255
Off-balance sheet transactions				
Contingent liabilities	5.9.1	13,446	15,231	-1,785
Irrevocable commitments	5.9.1	34,439	21,217	13,222

2. Income Statement

(CHF thousands)	Reference to annex	2021	2020	Change
Income and expenses arising from ordinary banking operations				
Result from interest operations				
Interest and discount income		3,111	4,593	-1,482
Interest and dividend income from financial investments		149	294	-145
Interest expense		683	379	304
Gross result from interest operations		3,943	5,266	-1,323
Changes in value adjustments for default risks and losses from interest operations		13	-26	39
Net result from interest operations		3,956	5,240	-1,284
Result from commission business and services				
Commission income from securities trading and investment activities		28,811	26,611	2,200
Commission income from lending activities		169	135	34
Commission income from other services		2,107	2,000	107
Commission expenses		-6,397	-6,536	139
Result from trading activities and fair value option	5.11.15	5,513	4,765	748
Other result from ordinary activities				
Result from the disposal of financial investments		39	24	15
Other ordinary income		15	16	-1
Other ordinary expenses		-1	-	-1
Net revenues		34,212	32,255	1,957
Operating expenses				
Personnel expenses	5.11.17	-17,858	-17,309	-549
General and administrative expenses	5.11.18	-7,995	-7,003	-992
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		-1,573	-4,006	2,433
Changes to provisions and other value adjustments, and losses		-513	118	-631
Operating result		6,273	4,055	2,218
Extraordinary income	5.11.19.02	45	1	44
Taxes	5.11.20	-1,204	-861	-343
Profit (result of the period)		5,114	3,195	1,919

3. Proposed Appropriation of Available Earnings

(CHF thousands)	31.12.2021	31.12.2020	Change
Appropriation of available earnings			
Profit (result of the period)	5,114	3,195	1,919
Profit carried forward	1	-	1
Distributable profit	5,115	3,195	1,920
Proposal of the Board of Directors			
Allocation to statutory retained earnings reserve	502	241	261
Distribution from distributable profit	4,613	2,953	1,660
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 2021	43,000	6,700	4,500	-	3,195	57,395
Appropriation of retained earnings 2020						
<i>Assignment to statutory retained earnings reserve</i>	-	+241	-	-	-241	-
<i>Profit carried forward</i>				1	-1	-
<i>Dividend from 2020 profit</i>	-	-	-	-	-2,953	-2,953
Profit (result of the period)	-	-	-	-	+5,114	5,114
Total equity as at 31st December 2021	43,000	6,941	4,500	1	5,114	59,556

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 2021, total staff amounted to 67 employees (65.7 FTEs), compared to 66 at the end of 2020 (65.5 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). As per October 1st 2021, Swisscom SA (Switzerland) took over the ITO workstation business previously provided by Avaloq Sourcing (Switzerland & Liechtenstein) SA, Bioggio.

With regard to services subject to FINMA Circular 2018/3 "Outsourcing – banks and insurers", Axion SWISS Bank SA has outsourced to its parent company, 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 804,000.00 in 2021 (2020: CHF 804,000.00). 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 abovementioned 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 2021 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.

The Bank considers latent default risks resulting from impaired loans and as at December 31st 2021 there were none.

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 2021.

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 1.0371 (2020: 1.0821)

USD 0.9117 (2020: 0.8848)

GBP 1.2343 (2020: 1.2084)

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, considering 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). The publication of consolidated information is available on the website of the parent company BancaStato (www.bancastato.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-type 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 operation, 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 2021.

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 31.12.2021

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)				
Amounts due from customers	-	384,324	4,874	389,198
Total loans (before netting with value adjustments)	-	384,324	4,874	389,198
Previous year	-	306,372	15,063	321,435
Total loans (after netting with value adjustments)	-	384,240	4,874	389,114
Previous year	-	306,283	15,063	321,346
Off-balance sheet				
Contingent liabilities	-	13,439	7	13,446
Irrevocable commitments	-	32,991	1,448 ¹	34,439
Total off-balance sheet	-	46,430	1,455	47,885
Previous year	-	34,609	1,839	36,448

(CHF thousands)	Gross debt amount	Estimated liquidation value	Net debt amount	Individual value adjustments
Impaired loans				
Current year	473	389	84	84
Previous year	659	570	89	89

Axion SWISS Bank SA did not grant any "COVID-19" loans.

¹ Including CHF 1.4 million (2020: 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)	31.12.2021	31.12.2020
Assets		
Trading portfolio assets		
Debt securities, money market securities / transactions	2,144	3,113
<i>of which listed</i>	2,144	3,113
Participation securities	326	-
Shares of investment funds	-	554
Total trading portfolio assets	2,470	3,667
<i>of which determined using a valuation model</i>	-	-
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	-	-

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	3,273	3,216	524,369	-	-	-
Combined currency and interest rate swaps	874	874	135,321	530	5,431	793,422
OTC Options	92	92	22,666	-	-	-
Total currencies / precious metals	4,239	4,182	682,356	530	5,431	793,422
Total derivative financial instruments	4,239	4,182	682,356	530	5,431	793,422
<i>of which determined using a valuation model</i>	4,239	4,182	-	530	5,431	-
Total previous year	3,501	3,412	635,029	982	2,541	786,056
<i>of which determined using a valuation model</i>	3,501	3,412	-	982	2,541	-

Recapitulation (CHF thousands)	Positive replacement values (cumulated)	Negative replacement values (cumulated)	Contract volumes
Trading instruments	4,239	4,182	682,356
Hedging instruments	530	5,431	793,422
Total (before netting agreements)*	4,769	9,613	1,475,778
Total previous year	4,483	5,953	1,421,085
Total (after netting agreements)*	4,769	9,613	1,475,778
Total previous year	4,483	5,953	1,421,085

Breakdown by counterparty (CHF thousands)	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)*	-	2,703	2,066

*No netting contracts existed on derivatives open as at 31.12.2021 and at 31.12.2020.

5.9.4 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Debt securities	11,768	16,455	11,848	16,726
<i>of which intended to be held to maturity</i>	11,768	16,455	11,848	16,726
<i>of which not intended to be held to maturity (available for sale)</i>	-	-	-	-
Shares in investment funds	9,817	9,510	10,149	10,098
Structured products	100	-	102	-
Total financial investments	21,685	25,965	22,099	26,824
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	-	-	-	-

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	2,279	5,293	3,353	363	-	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)

	31.12.2021	31.12.2020
Other assets		
Indirect taxes	4	2
Other different assets	551	378
Total other assets	555	380
Other liabilities		
Direct/indirect taxes	1,024	773
Compensation account	774	625
Other different liabilities	191	31
Total other liabilities	1,989	1,429

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

(CHF thousands)	31.12.2021		31.12.2020	
	Book values	Effective commitments	Book values	Effective commitments
Pledged / assigned assets (excluding securities financing transactions)				
Amounts due from banks	8,542	6,688	7,819	5,383
Amounts due from clients	1,944	-	1,944	-
Total assets pledged / assigned	10,486	6,688	9,763	5,383

At end-year closing on 31.12.2021 and 31.12.2020 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 31.12.2021.

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

	Overfunding/ underfunding at end 2021	Economic interest of the bank		Change in economic interest (economic benefit/obligation) versus previous year	Contributions paid for 2021	Pension expenses in personnel expenses	
		31.12.2021	31.12.2020			31.12.2021	31.12.2020
Pension plans without overfunding / underfunding	-	-	-	-	1,289	1,744	1,415

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)	2021					
	Situation at 31.12.2020	Use in conformity with designated purpose	Currency differences	New creations charged to income	Releases to income	Situation at 31.12.2021
Provisions for other operating risks	388	-158	-	475	-	705 ¹
Other provisions	1,104	-1,136	-	32	-	-
Total provisions	1,492	-1,294	-	507	-	705
Reserves for general banking risks	4,500	-	-	-	-	4,500 ²
Value adjustments for default and country risks	89	-4	-3	44	-42	84
<i>of which value adjustments for default risks in respect of impaired loans</i>	<i>89</i>	<i>-4</i>	<i>-3</i>	<i>44</i>	<i>-42</i>	<i>84</i>
<i>of which value adjustments for latent risks</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

¹ This provision is connected to legal risks for which the Bank cannot exclude a juridical risk.

² The reserves for general banking risks were not taxed.

5.9.9 Presentation of the Bank's capital

(CHF thousands)	31.12.2021			31.12.2020		
	Total par value	No. of shares	Capital eligible for dividend	Total par value	No. of shares	Capital eligible for dividend
Bank's capital						
Bank's capital	43,000	43,000	43,000	43,000	43,000	43,000
<i>of which paid up</i>	<i>43,000</i>	<i>43,000</i>	<i>43,000</i>	<i>43,000</i>	<i>43,000</i>	<i>43,000</i>
Total Bank's capital	43,000	43,000	43,000	43,000	43,000	43,000

As required by the Swiss Code of Obligations, the statutory retained earnings reserve is not distributable as it does not achieve the limit of 50% of the Bank's capital.

The Bank's articles of incorporation do not provide for any further restrictions on the distribution of the statutory retained earnings reserve.

5.9.10 Disclosure of amounts due from / to related parties

(CHF thousands)	31.12.2021		31.12.2020	
	Amounts due from	Amounts due to	Amounts due from	Amounts due to
Holders of qualified participations	520,352	36,196	709,198	36,354
Group companies	-	-	-	-
Members of governing bodies	-	358	-	1,444

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)	31.12.2021		31.12.2020	
	Nominal	% of equity	Nominal	% of equity
Holder of significant participations				
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)	Rating Standard & Poor's	31.12.2021		31.12.2020	
		Foreign exposure	Share as %	Foreign exposure	Share as %
Bank's own country rating					
1 Excellent and high quality	AAA to AA-	116,831	34.1%	122,490	41.2%
2 Greater quality than average	A+ to A-	6,078	1.8%	6,593	2.1%
3 Medium quality	BBB+ to BBB-	182,515	53.3%	153,040	51.5%
4 Default risk	BB+ to BB	-	0.0%	1	0.0%
5 Default risk material	BB-	6,843	2.0%	507	0.2%
6 Speculative, high default risk	B+ to B-	5,224	1.5%	4,384	1.5%
7 Poor quality, very high risk	CCC+ to D	1,083	0.3%	-	0.0%
Unrated		24,089	7.0%	10,403	3.5%
Totale		342,663	100.0%	297,418	100.0%

5.10 INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

5.10.13 Breakdown of fiduciary transactions

(CHF thousands)	31.12.2021	31.12.2020
Fiduciary investments with third parties	152,867	193,366
Fiduciary loans	4,604	4,468
Total fiduciary transactions	157,471	197,834

5.10.14 Breakdown of managed assets and presentation of their development

(CHF thousands)	31.12.2021	31.12.2020
a) Breakdown of managed assets		
Assets in collective financial instrument schemes managed by the Bank	126,163	129,300
Assets under discretionary asset management agreement	909,070	851,714
Assets under advisory mandate	2,067,749	1,876,361
Other managed assets	2,675,588	2,360,107
Total managed assets (including double counting)	5,778,570	5,217,482
<i>of which double counting</i>	<i>126,163</i>	<i>129,300</i>
b) Presentation of the development of managed assets		
Total managed assets (including double counting) at beginning	5,217,482	4,916,648
+/- Net new money inflow or net new money outflow	368,818	351,376
+/- Price gains / losses, interest, dividends and currency gains / losses	192,270	-50,542
Total managed assets (including double counting) at end	5,778,570	5,217,482

"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)	2021	2020
Result from trading activities from:		
Foreign currencies	7,051	4,858
Foreign banknote trading	-1,562	-183
Securities trading	24	90
Total result from trading activities and fair value option	5,513	4,765



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)		
	2021	2020
Negative interest		
Negative interest on assets (decrease in interest and discount income)	6,532	5,868
Negative interest on liabilities (decrease in interest expenses)	1,098	1,042

5.11.17 Breakdown of personnel expenses

(CHF thousands)		
	2021	2020
Salaries	14,241	13,890
<i>of which expenses relating to share-based compensation and alternative forms of variable compensation</i>	-	-
Social insurance benefits	3,079	2,832
Other personnel expenses	538	587
Total personnel expenses	17,858	17,309

5.11.18 Breakdown of general and administrative expenses

(CHF thousands)	2021	2020
Office space expenses	1,289	1,274
Expenses for information and communications technology	4,648	4,110
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	9	17
Fees of audit firm	257	169
<i>of which for financial and regulatory audits</i>	257	169
<i>of which for other services</i>	-	-
Other operating expenses	1,792	1,433
Total general and administrative expenses	7,995	7,003



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

Extraordinary income from the sale of tangible fixed assets is reported during the year 2021.

5.11.19.03 Hidden reserves

The Bank do not have hidden reserves.

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)	31.12.2021	31.12.2020
Current taxes	1,204	861
Total taxes	1,204	861
Average tax rate weighted on the basis of the operating result	19.1%	21.2%

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 2021.

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 2021 comply with Swiss law and the articles of incorporation.

PricewaterhouseCoopers SA, Piazza Indipendenza 1, casella postale, CH-6901 Lugano, Switzerland
Telefono: +41 58 792 65 00, Fax: +41 58 792 65 10, www.pwc.ch

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


Report on other legal requirements

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

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

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

PricewaterhouseCoopers SA



Beresford Caloia
Audit expert
Auditor in charge



Davide Albergati
Audit expert

Lugano, 29 March 2022



Axion SWISS Bank SA | Report of the statutory auditor to the General Meeting

Bank Governing Bodies and Institutions

Chairman of the Board of Directors Giovanni Jelmini, Mendrisio

Deputy Chairman Renato Arrigoni, Cagiallo^{1,2}

Members Bernardino Bulla, Lugano²
Christian Magistra, Origgio¹
Raoul Paglia, Comano²

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
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
Milena Pleshkova
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



Axion SWISS Bank SA
Viale S. Franscini 22
CH 6901 Lugano
Switzerland

Tel: +41(0)91 910 95 10
Fax: +41(0)91 910 95 14
Web: www.axionbank.ch
Email: mail@axionbank.ch