



Annual **Report**



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## Report of the Board of Directors

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In 2018 financial markets were seriously challenged by fluctuations in trends alternating between turmoil and opportunity, with short spells of high volatility brought about by events connected more to geopolitics than the economy. After a very promising start, and guided by strong global economic growth and major tax reforms in the USA, the situation in the financial markets became increasingly complex.

This scenario was marked by the discrepancy between the Federal Reserve's "normalised" monetary policy and the still fully expansive policies of the European Central Bank (ECB) and the Bank of Japan (BOJ), along with the better economic performance of the United States compared to other areas. In October, Wall Street's stock rally was interrupted by fears of a slowdown in global growth due to trade frictions between the US and China, uncertainties regarding Brexit and a general sense of unease. In Euroland, uncertainties with regard to the economy, finances and institutions persisted also in view of the unpredictable results of the upcoming May elections. Emerging markets were affected, on the one hand, by the appreciation of the US dollar and, on the other, by the depreciation of most raw materials. Other factors affecting markets include increases in interest rates either already applied or planned by the FED.

By the close of the year, investor sentiment was in sharp decline, with December posting one of the worst stock market performances of the last few years. Frustration across the board was also triggered by the lack of diversification in alternative investment classes, not correlated to markets, and whose positive yields would compensate for losses in traditional investments.

Last year, the Swiss economy was once again able to prove its strength and resilience in part as a result of the appreciation of the Swiss franc which was driven by the growing interest of investors in a year fraught with concern. In 2019, we expect the national economy to continue to improve, albeit modestly with respect to 2018. The Swiss National Bank (SNB), however, has maintained a defensive approach with regard to the increased value of its currency and will continue to do so in the future in view of the fact that a rise in interest rates is not expected before a restrictive policy is implemented by the European Central Bank whose new chairman is due to be nominated in fall.

In terms of income, Axion SWISS Bank SA continued its growth trend throughout 2018. The year closed with an operating result of 5.03 million Swiss francs (+68.8%) and a net income of 3.94 million Swiss francs, a marked progression compared to 2017 (+72.9%).

The introduction of the new Advisory Spot mandate was a major innovation in 2018 and contributed to the year's income.

At the end of December, managed assets amounted to 4.13 billion Swiss francs, a 5.6% contraction in reaction to financial market trends. Net cash inflow evolved positively again in 2018, increasing by 7.5% to 93.9 million Swiss francs.

These results allowed for 3.6 million Swiss francs in paid out dividends and the allocation of 342 thousand Swiss francs to the legal reserve.

As regards financial markets, 2019 began with less pessimistic signals compared to the previous end-year period, with a potential for some surprising results. The thaw in US / China relations, and the flexibility exhibited by the FED with regard to programmed rate increases, have pushed markets upward. However, attention is still focused on the slowdown of all the major global economies which may potentially jeopardise the continuation of this bullish trend. Moreover, a number of critical issues continue to affect Europe such as doubts concerning Brexit (in terms of a "no deal" exit from the European Union) and the instability of the Italian public debt (with a 0.2% decrease in GDP translating into a technical recession).

With regard to the ongoing development and advancement of the Bank's strengths, there is marked progress in the implementation of strategic projects designed to improve the offer of savings products with an extended range of ASB Axion Sicav funds.

As a means of improving the Bank's overall visibility, several new communication and corporate identity projects were launched with plans of further development in 2019.

The Board of Directors has taken note of the reports of both the Internal and External Auditors. It furthermore expresses its appreciation and positive view of the work performed by the Bank's Executive Board and wishes its valued clients and staff a successful 2019.

## 1. Balance Sheet

(CHF thousands)	Reference to annex	31.12.2018	31.12.2017	Change
<b>Assets</b>				
Liquid assets		700,263	708,353	-8,090
Amounts due from banks		217,992	253,006	-35,014
Amounts due from customers	6.9.1	282,622	280,113	2,509
Trading portfolio assets	6.9.2	2,148	6,944	-4,796
Positive replacement value of derivative financial instruments	6.9.3	3,332	5,131	-1,799
Financial investments	6.9.4	19,304	6,925	12,379
Accrued income and prepaid expenses		954	897	57
Participations	6.9.5	67	-	67
Tangible fixed assets	6.9.6	2,924	2,989	-65
Intangible assets	6.9.7	6,832	10,530	-3,698
Other assets	6.9.8	380	463	-83
<b>Total assets</b>		<b>1,236,818</b>	<b>1,275,351</b>	<b>-38,533</b>
Total subordinated claims		-	-	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		-	-	-
<b>Liabilities</b>				
Amounts due to banks		72,472	81,592	-9,120
Amounts due in respect of customer deposits		1,092,037	1,121,695	-29,658
Negative replacement values of derivative financial instruments	6.9.3	5,238	7,483	-2,245
Accrued expenses and deferred income		8,076	6,835	1,241
Other liabilities	6.9.8	1,264	2,009	-745
Provisions	6.9.11	317	100	217
Reserves for general banking risks	6.9.11	4,500	4,500	-
Bank's capital	6.9.12	43,000	43,000	-
Statutory retained earnings reserve		5,975	5,859	116
Profit carried forward		1	-	1
Profit (result 2018)		3,938	2,278	1,660
<b>Total liabilities</b>		<b>1,236,818</b>	<b>1,275,351</b>	<b>-38,533</b>
Total subordinated liabilities		20,510	20,510	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		20,510	20,510	-
<b>Off-balance sheet transactions</b>				
Contingent liabilities	6.9.1 and 6.10.19	11,876	10,754	1,122
Irrevocable commitments	6.9.1	10,211	12,767	-2,556

## 2. Income Statement

(CHF thousands)	Reference to annex	2018	2017	Change
<b>Income and expenses arising from ordinary banking operations</b>				
<b>Result from interest operations</b>				
Interest and discount income		12,266	9,005	3,261
Interest and dividend income from financial investments		246	133	113
Interest expense		-249	-521	272
<b>Gross result from interest operations</b>		<b>12,263</b>	<b>8,617</b>	<b>3,646</b>
Changes in value adjustments for default risks and losses from interest operations		24	-10	34
<b>Net result from interest operations</b>		<b>12,287</b>	<b>8,607</b>	<b>3,680</b>
<b>Result from commission business and services</b>				
Commission income from securities trading and investment activities		23,455	23,114	341
Commission income from lending activities		159	103	56
Commission income from other services		2,267	2,470	-203
Commission expenses		-6,178	-6,776	598
<b>Result from trading activities and fair value option</b>	6.11.22	<b>2,798</b>	<b>3,565</b>	<b>-767</b>
<b>Other result from ordinary activities</b>				
Other ordinary income		89	56	33
<b>Net revenues</b>		<b>34,877</b>	<b>31,139</b>	<b>3,738</b>
<b>Operating expenses</b>				
Personnel expenses	6.11.24	-17,297	-15,510	-1,787
General and administrative expenses	6.11.25	-7,908	-7,197	-711
<b>Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets</b>		<b>-4,602</b>	<b>-5,322</b>	<b>720</b>
<b>Changes to provisions and other value adjustments, and losses</b>		<b>-41</b>	<b>-130</b>	<b>89</b>
<b>Operating result</b>		<b>5,029</b>	<b>2,980</b>	<b>2,049</b>
<b>Extraordinary income</b>	6.11.26.02	<b>-</b>	<b>8</b>	<b>-8</b>
<b>Taxes</b>	6.11.27	<b>-1,091</b>	<b>-710</b>	<b>-381</b>
<b>Profit (result 2018)</b>		<b>3,938</b>	<b>2,278</b>	<b>1,660</b>

### 3. Proposed Appropriation of Available Earnings

(CHF thousands)	31.12.2018	31.12.2017	Change
<b>Appropriation of available earnings</b>			
Profit (result 2018)	3,938	2,278	1,660
Profit carried forward	1	-	1
<b>Earnings at the end of period</b>	<b>3,939</b>	<b>2,278</b>	<b>1,661</b>
<b>Proposal of the Board of Directors</b>			
Allocation to statutory retained earnings reserve	342	116	226
Distribution from distributable profit	3,597	2,161	1,436
<b>New amount carried forward</b>	<b>-</b>	<b>1</b>	<b>-1</b>



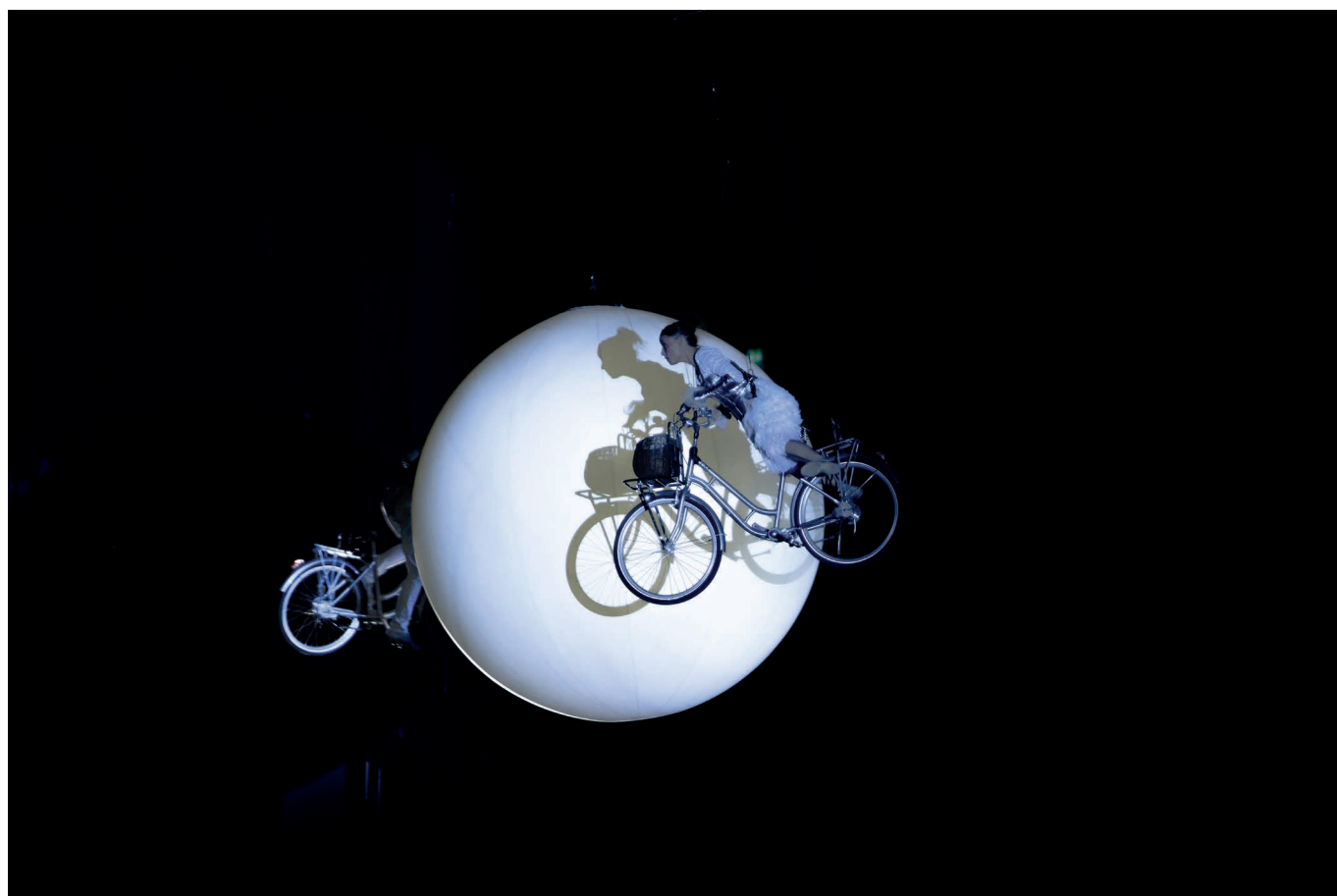


## 4. Cash Flow Statement

(CHF thousands)	2018		2017	
	Cash inflow	Cash outflow	Cash inflow	Cash outflow
<b>Cash flow from operating activities (internal financing)</b>	<b>7,118</b>	<b>-</b>	<b>8,716</b>	<b>-</b>
Profit (result 2018)	3,938	-	2,278	-
Depreciation of fixed assets	4,602	-	5,322	-
Value adjustments on participations and depreciation on fixed assets and intangible assets	217	-	100	-
Accrued income and prepaid expenses	-	57	-	1
Accrued expenses and deferred income	1,241	-	-	222
Other assets and liabilities	-	662	3,102	-
Prior year dividend	-	2,161	-	1,863
<b>Cash flow from shareholder's equity transactions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Bank's capital	-	-	-	-
<b>Cash flow to transactions in respect of participations, fixed assets and intangible assets</b>	<b>-</b>	<b>906</b>	<b>-</b>	<b>528</b>
Participations	-	67	-	-
Tangible fixed assets	-	839	-	528
<b>Cash flow from banking operations</b>	<b>-</b>	<b>14,302</b>	<b>-</b>	<b>210,515</b>
<b>Medium and long-term business (&gt;1 year)</b>	<b>1,555</b>	<b>-</b>	<b>472</b>	<b>-</b>
Amounts due from customers	13,934	-	2,853	-
Financial investments	-	12,379	-	2,381
<b>Short-term business</b>	<b>-</b>	<b>15,857</b>	<b>-</b>	<b>210,987</b>
Amounts due to banks	-	9,120	50,564	-
Negative replacement values of derivative financial instruments	-	2,245	-	2,558
Amounts due in respect of customer deposits	-	29,658	-	123,488
Positive replacement values of derivative financial instruments	1,799	-	33	-
Amounts due from banks	35,014	-	-	110,218
Amounts due from customers	-	16,443	-	21,588
Trading portfolio assets	4,796	-	-	3,732
<b>Liquidity</b>	<b>8,090</b>	<b>-</b>	<b>202,327</b>	<b>-</b>
Liquid assets	8,090	-	202,327	-
	<b>15,208</b>	<b>15,208</b>	<b>211,043</b>	<b>211,043</b>

## 5. Statement of Changes in Equity

(CHF thousands)	Bank's capital	Statutory retained earnings reserve	Reserves for general banking risks	Profit carried forward	Result of the period	Total
<b>Equity as at 1<sup>st</sup> January 2018</b>	43,000	5,859	4,500	-	2,278	<b>55,637</b>
<b>Appropriation of retained earnings 2017</b>						
<i>Assignment to statutory retained earnings reserve</i>	-	+116	-	-	-116	-
<i>Profit carried forward</i>				+1	-1	-
<i>Dividend from 2017 profit</i>	-	-	-	-	-2,161	<b>-2,161</b>
Profit (result of the period)	-	-	-	-	+3,938	<b>3,938</b>
<b>Total equity as at 31<sup>st</sup> December 2018</b>	<b>43,000</b>	<b>5,975</b>	<b>4,500</b>	<b>1</b>	<b>3,938</b>	<b>57,414</b>



## 6. Annex

### 6.1 ACTIVITIES AND STAFF

#### 6.1.1 Activities

Axion SWISS Bank SA is a Lugano-based limited company whose primary business focuses on portfolio management for private and institutional clients. The Bank is active in several related business areas, such as intermediation in securities and currency transactions in the principal international markets, investment advice and the granting of loans. Lending activities are mostly limited to Lombard loans secured by assets on deposit with the Bank and to loans secured by first demand guarantees issued by primary financial institutions.

#### 6.1.2 Staff

On December 31<sup>st</sup> 2018, total staff amounted to 64 employees (63.2 FTEs), compared to 59 at the end of 2017 (58.1 FTEs).

#### 6.1.3 Outsourcing

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

With regard to services subject to FINMA Circular 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 2018. Costs related to other outsourced services are included under "General and administrative expenses".

Axion SWISS Bank SA also transfers to Banca dello Stato del Cantone Ticino its internal auditing activities, the administration of human resources, and logistics that are not subject to the above-mentioned FINMA Circular.

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

### 6.2 STATEMENT DISCLOSURE AND VALUATION PRINCIPLES

#### 6.2.1 General principles

These annual financial statements were prepared in accordance with the FINMA provisions (statutory financial statements with reliable representation).

Accounting and valuation principles comply with the provisions of the Swiss Code of Obligations, the Swiss Federal Law on Banks and Savings Banks (Banking Act), the Ordinance on Banks and Savings Banks (Banking Ordinance), and the guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA), in particular FINMA Circular 2015/1 «Accounting - banks».

All transactions are recorded at the time they are concluded. The balance sheet is presented on a transaction date basis. All transactions concluded by the balance sheet date are recorded daily and evaluated according to accepted accounting principles. The result of all completed transactions is integrated into the income statement.

#### 6.2.2 General valuation principles

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

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

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

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

#### 6.2.3 Financial instruments

##### 6.2.3.1 Liquidity

Liquidity is priced at nominal value.

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

These items are reported at their nominal value.

For identifiable risks, value adjustments are directly netted with assets. 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 commissions unpaid for more than 90 days are booked under «Changes in value adjustments for default risks and

losses from interest operations», and are also directly netted with assets.

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

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

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

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

Gains and losses, as well as 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».

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

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

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

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

### **6.2.3.6 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.

### **6.2.3.7 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».

### **6.2.4 Tangible fixed assets**

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

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

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

### **6.2.5 Intangible assets**

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

### **6.2.6 Provisions**

This item comprises the «Value adjustments and provisions» envisaged at the balance sheet closing date in accordance with a prudent valuation of other risks, as well as provisions for contractual commitments towards managers. Value adjustments on asset items are deducted directly from the same.

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

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

### **6.2.7.1 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».

### 6.2.8 Off-balance sheet transactions

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

### 6.2.9 Changes in accounting and valuation principles

There were no changes in accounting and valuation principles in 2018.

### 6.2.10 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 1.1269 (2017: 1.1703)

USD 0.9842 (2017: 0.9747)

GBP 1.2545 (2017: 1.3174)

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

## 6.3 RISK MANAGEMENT

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

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

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

Moreover, risks are managed and monitored on the basis of the Bank's 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.

### 6.3.1 Credit risk

Credit risk is primarily connected with client and counterparty lending business. The Bank limits client credit risks by relying primarily on counterparties secured by high quality securities or on the basis of guarantees issued by leading banks. The loan to value ratio is defined by 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 controlled on a regular basis.

### 6.3.2 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.

### 6.3.3 Liquidity risk

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

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.

### 6.3.4 Operational risk

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

### 6.3.5 Legal, reputational, and compliance risks

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

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

Credits are monitored in a differentiated manner according to established procedures based on the risk profile. In order to guarantee the periodic and seamless monitoring of all assumed credit risks, all credit facilities must be renewed 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. The provision represents the expected counterparty loss with regard to the corresponding transaction. If part of the loan is provisioned, it is considered impaired.

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

Principally 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.

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

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

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

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

Treasury swaps are used within the framework of the structural management of the balance sheet to manage currency risk resulting from the conversion of available liquidity in foreign currency into

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

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

No significant event occurred after the closing of the balance sheet date that could have led to changes in the balance sheet or the income statement as at December 31<sup>st</sup> 2018.

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

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

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

## 6.9 INFORMATION ON THE BALANCE SHEET

### 6.9.1 Presentation of collateral for loans and off-balance sheet transactions, as well as impaired loans at 31.12.2018

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
<b>Loans (before netting with value adjustments)</b>				
Amounts due from customers	-	279,326	3,315	282,641
<b>Total loans (before netting with value adjustments)</b>	-	<b>279,326</b>	<b>3,315</b>	<b>282,641</b>
Previous year	-	277,328	2,821	280,149
<b>Total loans (after netting with value adjustments)</b>	-	<b>279,307</b>	<b>3,315</b>	<b>282,622</b>
Previous year	-	277,302	2,811	280,113
<b>Off-balance sheet</b>				
Contingent liabilities	-	11,876	-	11,876
Irrevocable commitments	-	8,853	1,358 <sup>1</sup>	10,211
<b>Total off-balance sheet</b>	-	<b>20,729</b>	<b>1,358</b>	<b>22,087</b>
Previous year	-	22,062	1,459	23,521

(CHF thousands)	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
<b>Impaired loans</b>				
<b>Current year</b>	<b>1,269</b>	<b>1,250</b>	<b>19</b>	<b>19</b>
Previous year	2,280	2,244	36	36

<sup>1</sup> Including CHF 1.4 million (2017: 1.4 million) as part of the deposit guarantee.

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

(CHF thousands)

	31.12.2018	31.12.2017
<b>Assets</b>		
<b>Trading portfolio assets</b>		
Debt securities, money market securities / transactions	1,643	2,269
<i>of which listed</i>	1,643	2,269
Shares of investment funds	505	4,675
<b>Total trading portfolio assets</b>	<b>2,148</b>	<b>6,944</b>
<i>of which determined using a valuation model</i>	-	-
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	-	-





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

(CHF thousands)	Trading instruments			Hedging instruments		
	Replacement values		Contract volume	Replacement values		Contract volume
	positive	negative		positive	negative	
Foreign currencies / precious metals						
Forward contracts	1,739	1,710	209,879	-	-	-
Swaps	579	579	90,079	27	1,962	603,255
OTC Options	987	987	199,396	-	-	-
Total currencies / precious metals	3,305	3,276	499,354	27	1,962	603,255
Total before netting agreements	3,305	3,276	499,354	27	1,962	603,255
of which determined using a valuation model	3,305	3,276		27	1,962	
Total previous year	4,220	4,398		911	3,085	
of which determined using a valuation model	4,220	4,398		911	3,085	
Positive replacement values (cumulated)			Negative replacement values (cumulated)			
Total (after netting agreements)	3,332		5,238			
Total previous year	5,131		7,483			
Breakdown by counterparty (CHF thousands)	Central clearing houses		Banks and securities dealers		Other customers	
Positive replacement values (after netting agreements)	-		1,048		2,284	

No netting contracts existed on derivatives open as at 31.12.2018 and at 31.12.2017.

#### 6.9.4 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Debt securities	15,521	6,925	15,306	6,952
<i>of which intended to be held to maturity</i>	15,521	6,925	15,306	6,952
<i>of which not intended to be held to maturity</i>	-	-	-	-
Shares in investment funds	3,783	-	3,784	-
<b>Total financial investments</b>	<b>19,304</b>	<b>6,925</b>	<b>19,090</b>	<b>6,952</b>
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	500	500	509	511

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	5,345	3,239	6,538	399	-	-

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

#### 6.9.5 Presentation of participations

(CHF thousands)			2018							
Acquisition cost	Accumulated value adjustments and changes in book value (valuation using the equity method)	Book value as at 31.12.2017	Reclassifications	Additions	Disposals	Value adjustments	Changes in book value in the case of participations valued using the equity method / depreciation reversals	Book value as at 31.12.2018	Market value	
Other participations										
unlisted	-	-	-	67	-	-	-	67	-	
<b>Total participations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>67</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>67</b>	<b>-</b>	

##### 6.9.5.1 Disclosure of companies in which the bank holds a permanent direct or indirect significant participation

###### Participations under the balance sheet item "Participations"

Company name	Domicile	Business activity	Company capital (CHF thousands)	Share		Held	
				of capital (in %)	of votes (in %)	directly	indirectly
Other participations							
S.W.I.F.T. SCRL	Brussels	Banking services	15,491	0.01%	0.01%	0.01%	-

### 6.9.6 Presentation of tangible fixed assets

(CHF thousands)	Acquisition cost	Accumulated depreciation	Book value 31.12.17		2018		Book value 31.12.2018
				Additions	Disposals	Depreciation	
Acquired software	5,723	3,082	2,641	724	-	759	2,606
Other tangible fixed assets	4,603	4,255	348	115	-	145	318
<b>Total tangible fixed assets</b>	<b>10,326</b>	<b>7,337</b>	<b>2,989</b>	<b>839</b>	<b>-</b>	<b>904</b>	<b>2,924</b>

### 6.9.7 Presentation of intangible assets

(CHF thousands)	Cost value	Accumulated amortisation	Book value 31.12.2017		2018		Book value 31.12.2018
				Additions	Disposals	Amortisation	
Goodwill	18,120	7,590	10,530	-	-	3,698 <sup>1</sup>	6,832
<b>Total intangible assets</b>	<b>18,120</b>	<b>7,590</b>	<b>10,530</b>	<b>-</b>	<b>-</b>	<b>3,698</b>	<b>6,832</b>

<sup>1</sup> The goodwill pertaining to the acquisition, in March 2016, of a portion of the assets of Société Générale Private Banking (Suisse), Lugano is depreciated on a straight-line basis over a 5-year period. During 2018, as a result of a reduction in the aggregate value of some acquired assets, intangible assets on the balance sheet underwent an extraordinary depreciation of approximately CHF 0.4 million (2017: CHF 0.9 million).

### 6.9.8 Breakdown of other assets and other liabilities

(CHF thousands)

	31.12.2018	31.12.2017
<b>Other assets</b>		
Indirect taxes	7	26
Other different assets	373	437
<b>Total other assets</b>	<b>380</b>	<b>463</b>
<b>Other liabilities</b>		
Direct/indirect taxes	593	749
Compensation account	615	737
Other different liabilities	56	523
<b>Total other liabilities</b>	<b>1,264</b>	<b>2,009</b>

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

(CHF thousands)	31.12.2018		31.12.2017	
	Book values	Effective commitments	Book values	Effective commitments
<b>Pledged / assigned assets</b> (excluding securities financing transactions)				
Amounts due from banks	4,104	2,839	8,113	8,113
Amounts due from clients	1,944	-	1,961	9
<b>Total assets pledged / assigned</b>	<b>6,048</b>	<b>2,839</b>	<b>10,074</b>	<b>8,122</b>

At end-year closing on 31.12.2018 and 31.12.2017 Axion SWISS Bank SA had no assets under reservation of ownership.

### 6.9.10 Disclosures on the economic situation of pension schemes

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

Axion SWISS Bank SA has no obligations towards pension schemes.

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

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

There were no employer contribution reserves as at 31.12.2018.

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

	Overfunding / underfunding at end 2018	Economic interest of the bank		Change in economic interest (economic benefit / obligation) versus previous year	Contributions paid for 2018	Pension expenses in personnel expenses	
		31.12.2018	31.12.2017			31.12.2018	31.12.2017
Pension plans without overfunding / underfunding	-	-	-	-	1,178	1,330	1,091

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.

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

(CHF thousands)	2018						
	Situation at 31.12.2017	Use in conformity with designated purpose	Currency differences	Past due interest recoveries	New creations charged to income	Releases to income	Situation at 31.12.2018
Other provisions	100	-90	-	-	317	-10	317 <sup>1</sup>
<b>Total provisions</b>	<b>100</b>	<b>-90</b>	<b>-</b>	<b>-</b>	<b>317</b>	<b>-10</b>	<b>317</b>
<b>Reserves for general banking risks</b>	<b>4,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,500 <sup>2</sup></b>
<b>Value adjustments for default and country risks</b>	<b>36</b>	<b>-1</b>	<b>-1</b>	<b>-</b>	<b>12</b>	<b>-27</b>	<b>19</b>
<i>of which value adjustments for default risks in respect of impaired loans</i>	<i>36</i>	<i>-1</i>	<i>-1</i>	<i>-</i>	<i>12</i>	<i>-27</i>	<i>19</i>

<sup>1</sup> Provision for contractual commitments towards bank managers.

<sup>2</sup> The reserves for general banking risks were not taxed.

### 6.9.12 Presentation of the Bank's capital

(CHF thousands)	31.12.2018			31.12.2017		
	Total par value	No. of shares	Capital eligible for dividend	Total par value	No. of shares	Capital eligible for dividend
<b>Bank's capital</b>						
Bank's capital	43,000	43,000	43,000	43,000	43,000	43,000
<i>of which paid up</i>	43,000	43,000	43,000	43,000	43,000	43,000
<b>Total Bank's capital</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>	<b>43,000</b>

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

(CHF thousands)	31.12.2018		31.12.2017	
	Amount due from	Amount due to	Amount due from	Amount due to
Holders of qualified participations	193,290	69,991	232,407	70,109
Group companies	-	-	-	-
Transactions with members of governing bodies	46	675	42	804

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.

### 6.9.14 Disclosure of holders of significant participations

(CHF thousands)	31.12.2018		31.12.2017	
	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

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

(CHF thousands)	At sight	Cancellable	Due				No maturity	Total
			within 3 months	within 3 to 12 months	within 1 to 5 years	after 5 years		
<b>Assets / Financial instruments</b>								
Liquid assets	700,263	-	-	-	-	-	-	700,263
Amounts due from banks	97,479	-	120,513	-	-	-	-	217,992
Amounts due from customers	-	202,971	46,242	13,632	19,777	-	-	282,622
Trading portfolio assets	2,148	-	-	-	-	-	-	2,148
Positive replacement values of derivative financial instruments	3,332	-	-	-	-	-	-	3,332
Financial investments	3,783	-	1,000	5,244	9,277	-	-	19,304
<b>Total</b>	<b>807,005</b>	<b>202,971</b>	<b>167,755</b>	<b>18,876</b>	<b>29,054</b>	<b>-</b>	<b>-</b>	<b>1,225,661</b>
Previous year	832,516	208,532	193,982	15,768	9,674	-	-	1,260,472
<b>Debt capital / Financial instruments</b>								
Amounts due to banks	26,867	-	25,605	-	20,000	-	-	72,472
Amounts due in respect of customer deposits	1,092,037	-	-	-	-	-	-	1,092,037
Negative replacement values of derivative financial instruments	5,238	-	-	-	-	-	-	5,238
<b>Total</b>	<b>1,124,142</b>	<b>-</b>	<b>25,605</b>	<b>-</b>	<b>20,000</b>	<b>-</b>	<b>-</b>	<b>1,169,747</b>
Previous year	1,189,670	-	1,100	-	20,000	-	-	1,210,770

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

(CHF thousands)	31.12.2018		31.12.2017	
	Switzerland	Foreign	Switzerland	Foreign
<b>Assets</b>				
Liquid assets	700,263	-	708,353	-
Amounts due from banks	198,049	19,943	229,210	23,796
Amounts due from customers	63,391	219,231	64,737	215,376
Trading portfolio assets	1,313	835	1,721	5,223
Positive replacement values of derivative financial instruments	1,380	1,952	4,092	1,039
Financial investments	-	19,304	-	6,925
Accrued income and prepaid expenses	736	218	696	201
Participations	-	67	-	-
Tangible fixed assets	2,924	-	2,989	-
Intangible assets	6,832	-	10,530	-
Other assets	380	-	463	-
<b>Total assets</b>	<b>975,268</b>	<b>261,550</b>	<b>1,022,791</b>	<b>252,560</b>
<b>Liabilities</b>				
Amounts due to banks	59,923	12,549	68,444	13,148
Amounts due in respect of customer deposits	230,165	861,872	193,566	928,129
Negative replacement values of derivative financial instruments	4,448	790	5,639	1,844
Accrued expenses and deferred income	7,979	97	6,743	92
Other liabilities	1,264	-	2,009	-
Provisions	317	-	100	-
Reserves for general banking risks	4,500	-	4,500	-
Share capital	43,000	-	43,000	-
Statutory retained earnings reserve	5,975	-	5,859	-
Profit carried forward	1	-	-	-
Profit (result for 2018)	3,938	-	2,278	-
<b>Total liabilities</b>	<b>361,510</b>	<b>875,308</b>	<b>332,138</b>	<b>943,213</b>

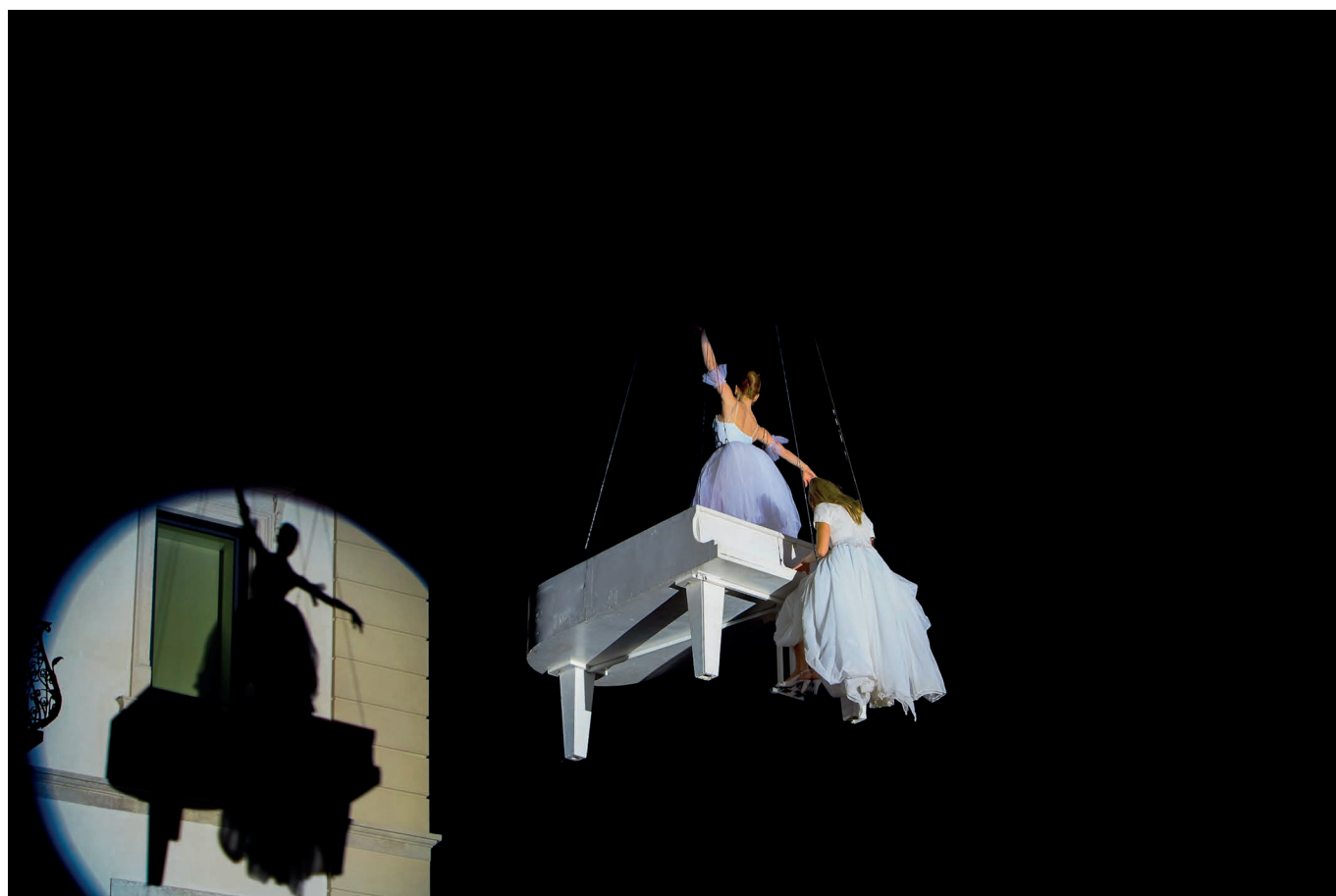


### 6.9.17 Breakdown of total assets by country or group of countries (domicile principle)

(CHF thousands)	31.12.2018		31.12.2017	
	Absolute	Share as %	Absolute	Share as %
<b>Assets held abroad</b>				
<b>Europe</b>	<b>151,734</b>	<b>12.27</b>	<b>147,196</b>	<b>11.54</b>
Croatia	3,150		3,401	
Germany	5,338		4,682	
Italy	79,966		62,680	
Liechtenstein	3,968		4,375	
Luxembourg	8,880		8,800	
Malta	4,755		19,519	
United Kingdom	35,788		36,862	
Turkey	4,009		2,981	
<i>Other countries</i>	<i>5,880</i>		<i>3,896</i>	
<b>North America</b>	<b>8,254</b>	<b>0.67</b>	<b>1,694</b>	<b>0.13</b>
Canada	-		3	
United States	8,254		1,691	
<b>Asia</b>	<b>70,466</b>	<b>5.70</b>	<b>77,954</b>	<b>6.11</b>
Kazakhstan	61,030		68,338	
<i>Other countries</i>	<i>9,436</i>		<i>9,616</i>	
<b>Caribbean</b>	<b>29,052</b>	<b>2.35</b>	<b>19,089</b>	<b>1.50</b>
British Virgin Islands	7,692		4,173	
Panama	20,584		14,137	
<i>Other countries</i>	<i>776</i>		<i>779</i>	
<b>Oceania</b>	<b>-</b>	<b>-</b>	<b>5,297</b>	<b>0.42</b>
<b>Other countries</b>	<b>2,044</b>	<b>0.16</b>	<b>1,330</b>	<b>0.10</b>
<b>Total assets abroad</b>	<b>261,550</b>	<b>21.15</b>	<b>252,560</b>	<b>19.80</b>
Switzerland	975,268	78.85	1,022,791	80.20
<b>Total assets</b>	<b>1,236,818</b>	<b>100.00</b>	<b>1,275,351</b>	<b>100.00</b>

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

(in migliaia di franchi)		31.12.2018		31.12.2017	
Bank's own country rating	Rating Standard&Poor's	Net foreign exposure	Share as %	Net foreign exposure	Share as %
1 Excellent and high quality	AAA to AA-	74,881	28.6%	66,676	26.4%
2 Greater quality than average	A+ to A-	6,697	2.6%	20,735	8.2%
3 Medium quality	BBB+ to BBB-	162,275	62.0%	146,227	57.9%
4 Default risk	BB+ to BB	3,151	1.2%	8,231	3.3%
5 Default risk material	BB-	1,307	0.5%	778	0.3%
6 Speculative, high default risk	B+ to B-	5,414	2.1%	434	0.2%
7 Poor quality, very high risk	CCC+ to D	9	0.0%	8	0.0%
Unrated		7,816	3.0%	9,471	3.7%
<b>Total</b>		<b>261,550</b>	<b>100.0%</b>	<b>252,560</b>	<b>100.0%</b>



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

(CHF thousands)

	Currencies				
	CHF	EUR	USD	Other	Total
<b>Assets</b>					
Liquid assets	661,116	38,984	81	82	700,263
Amounts due from banks	118,004	15,645	25,156	59,187	217,992
Amounts due from customers	44,357	150,945	77,503	9,817	282,622
Trading portfolio assets	1,460	505	183	-	2,148
Positive replacement values of derivative financial instruments	2,345	220	759	8	3,332
Financial investments	1,896	7,166	10,242	-	19,304
Accrued income and prepaid expenses	756	52	143	3	954
Participations	-	67	-	-	67
Tangible fixed assets	2,924	-	-	-	2,924
Intangible assets	6,832	-	-	-	6,832
Other assets	380	-	-	-	380
<b>Total assets shown in balance sheet</b>	<b>840,070</b>	<b>213,584</b>	<b>114,067</b>	<b>69,097</b>	<b>1,236,818</b>
Delivery entitlements from spot exchange, forward forex and forex options transactions <sup>1</sup>	29,499	422,207	560,512	90,391	1,102,609
<b>Total assets</b>	<b>869,569</b>	<b>635,791</b>	<b>674,579</b>	<b>159,488</b>	<b>2,339,427</b>
<b>Liabilities</b>					
Amounts due to banks	21,204	35,666	14,577	1,025	72,472
Amounts due in respect of customer deposits	158,259	398,644	440,275	94,859	1,092,037
Negative replacement values of derivative financial instruments	4,250	220	759	9	5,238
Accrued expenses and deferred income	8,076	-	-	-	8,076
Other liabilities	1,238	-	26	-	1,264
Provisions	317	-	-	-	317
Reserves for general banking risks	4,500	-	-	-	4,500
Share capital	43,000	-	-	-	43,000
Statutory retained earnings reserve	5,975	-	-	-	5,975
Profit carried forward	1	-	-	-	1
Profit (result for 2018)	3,938	-	-	-	3,938
<b>Total liabilities shown in balance sheet</b>	<b>250,758</b>	<b>434,530</b>	<b>455,637</b>	<b>95,893</b>	<b>1,236,818</b>
Delivery obligations from spot exchange, forward forex and forex options transactions <sup>1</sup>	620,336	201,315	218,991	63,572	1,104,214
<b>Total liabilities</b>	<b>871,094</b>	<b>635,845</b>	<b>674,628</b>	<b>159,465</b>	<b>2,341,032</b>
<b>Net position per currency</b>	<b>-1,525</b>	<b>-54</b>	<b>-49</b>	<b>23</b>	<b>-1,605</b>
Previous year	-1,970	-134	121	60	-1,923

<sup>1</sup> Delta-weighted

## 6.10 INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

### 6.10.19 Breakdown of contingent liabilities and contingent assets

(CHF thousands)	31.12.2018	31.12.2017
<b>Contingent liabilities</b>		
Guarantees to secure credits and similar	11,876	10,754
<b>Total contingent liabilities</b>	<b>11,876</b>	<b>10,754</b>

### 6.10.20 Breakdown of fiduciary transactions

(CHF thousands)	31.12.2018	31.12.2017
Fiduciary investments	170,823	144,725
Fiduciary loans	7,923	8,334
<b>Total fiduciary transactions</b>	<b>178,746</b>	<b>153,059</b>

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

(CHF thousands)	31.12.2018	31.12.2017
<b>a) Breakdown of assets</b>		
Assets in collective investment schemes managed by the Bank	-	-
Assets under discretionary asset management agreements or advisory	692,167	810,877
Other managed assets	3,439,185	3,567,381
<b>Total assets (including double counting)</b>	<b>4,131,352</b>	<b>4,378,258</b>
<i>of which double counting</i>	-	-
<b>b) Presentation of the development of assets</b>		
Total assets (including double counting) at beginning	4,378,258	3,972,007
+/- Net new money inflow or net new money outflow	93,902	87,311
+/- Price gains / losses, interest, dividends and currency gains / losses	-340,808	318,940
<b>Total assets (including double counting) at end</b>	<b>4,131,352</b>	<b>4,378,258</b>

"Assets under discretionary asset management agreements or advisory" are assets for which clients have chosen a specific investment profile.

Net increase / decrease of client assets is not affected by interest paid by clients or by the performance of clients' portfolios.

"Net flows" are defined as the difference between cash and securities being transferred in and transferred out. Loans to clients are not subtracted from total assets.

"Other managed assets" are client assets for which there is no discretionary or advisory mandate, and for which the Bank's involvement is not limited to depositary business, but includes other services.

Custody-only assets are not included in the above table.

## 6.11 INFORMATION ON THE INCOME STATEMENT

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

(CHF thousands)		
	2018	2017
Result from trading activities from:		
Foreign currencies	4,573	138
Banknote trading	-1,521	3,386
Commodities / precious metals	1	-
Securities trading	-255	41
<b>Total result from trading activities and fair value option</b>	<b>2,798</b>	<b>3,565</b>

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

#### 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)		
	2018	2017
<b>Negative interest</b>		
Negative interest on assets (decrease in interest and discount income)	5,366	5,652
Negative interest on liabilities (decrease in interest expenses)	508	259

#### 6.11.24 Breakdown of personnel expenses

(CHF thousands)	2018	2017
Salaries	14,114	12,771
<i>of which expenses relating to share-based compensation and alternative forms of variable compensation</i>	-	-
Social insurance benefits	2,416	2,125
Other personnel expenses	767	614
<b>Total personnel expenses</b>	<b>17,297</b>	<b>15,510</b>



### 6.11.25 Breakdown of general and administrative expenses

(CHF thousands)	2018	2017
Office space expenses	1,294	1,296
Expenses for information and communications technology	3,523	3,626
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	18	28
Fees of audit firm	392	358
<i>of which for financial and regulatory audits</i>	383	336
<i>of which for other services</i>	9	22
Other operating expenses	2,681	1,889
<b>Total general and administrative expenses</b>	<b>7,908</b>	<b>7,197</b>

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

#### 6.11.26.01 Material losses

There were no significant losses during the reporting year.

#### 6.11.26.02 Extraordinary income and extraordinary expenses

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

#### 6.11.26.03 Hidden reserves

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

#### 6.11.26.04 Reserves for general banking risks

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

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

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

#### 6.11.26.06 Value adjustments of tangible fixed assets

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

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

(CHF thousands)	31.12.2018	31.12.2017
Current taxes	1,091	710
<b>Total taxes</b>	<b>1,091</b>	<b>710</b>
<b>Average tax rate weighted on the basis of the operating result</b>	<b>21.7%</b>	<b>23.8%</b>



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

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

As statutory auditor, we have audited the financial statements of AXION SWISS BANK SA, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 6 to 31), for the year ended 31 December 2018.

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

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

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

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

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

#### ***Opinion***

In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

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

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

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

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

PricewaterhouseCoopers SA

Glenda Brändli  
Audit expert  
Auditor in charge

Lorenza Bertone  
Audit expert

Lugano, 15 March 2019

## Bank Governing Bodies and Institutions

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**Chairman of the Board of Directors** Bernardino Bulla, Lugano

**Deputy Chairman** Giovanni Jelmini, Mendrisio<sup>2</sup>

**Members** Renato Arrigoni, Cagiallo<sup>1,2</sup>  
Donato Cortesi, Lugano – Villa Luganese<sup>1,2</sup>  
Claudio Genasci, Agarone – Cugnasco Gerra  
Raoul Paglia, Comano

**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  
Claudio D'Antonoli  
Luigi Di Pirro  
Paolo Ferrario  
Lucia Forzano  
Antonella Giglio Terraneo  
Luca Grassi  
Ioulia Gribouk  
Enzo Guanziroli  
Manuela Induni  
Alberto Laurenzi  
Walter Lisetto  
Massimo Locatelli  
Mike Moghini  
Alberto Moscato  
Alberto Riva  
Nicola Salvi  
Giovanni Sansossio  
Matteo Scacchi  
Reto Simonett  
Davide Vezzaro

**Statutory Auditors** PricewaterhouseCoopers SA, Lugano

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

<sup>1</sup> Independent members

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



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