



2019

Annual Report



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## Report of the Board of Directors

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The “trade war” has been the main focus of attention within financial markets throughout 2019, generating sudden fluctuating trends. Performance of world stock market lists in particular was very positive, and made up for the losses recorded in the last quarter of 2018. Towards the end of the year, if only on a pragmatic, partial and momentary basis, the US and China opened the door to the prospect of a solution for this commercial conflict which, as is often the case, harbours implications with regard to geopolitical and technological leadership.

After the trend reversal, and the failed normalization of 2019, the Federal Reserve (FED), strengthened by growth, employment and inflation data which matched its objectives, cut reference rates three times during the year.

Recent US macroeconomic data are positive, and the fears of a recession noted in recent months have faded. During the election period ending in November 2020, a series of initiatives by the Trump Administration are expected to be undertaken in order to ensure his re-election such as tax breaks for companies and individuals, as well as supporting measures for agriculture. China’s position remains decisive in terms of both economic trends and response to tax incentives along with the currency orientation implemented by its authorities and the resolution of uncertainties linked to the pandemic.

On the European front, the change from Mario Draghi to Christine Lagarde as head of the European Central Bank (ECB) has not led to any significant new developments: monetary policy remains ultra-expansive and unconventional in terms of rates and securities acquisitions, considering the prevailing economic frailty as well as political and institutional uncertainties. Even Germany, in its role as a continental locomotive, appears to be losing momentum at a time when much needed tax measures would be difficult to implement.

Even the Swiss National Bank (SNB) has maintained its negative rates policy in the midst of growing criticism and controversies surrounding negative rates and the bubbles they feed, such as real estate markets. Negative rates also prevail in Japan, alongside even stronger government economic support initiatives.

In the United Kingdom, the implementation of Brexit has, on the one hand, put an end to a period of uncertainty while, on the other

hand, it has opened another with regard to its practical implementation.

In terms of income, Axion SWISS Bank SA continued its growth throughout 2019. The year closed with an operating result of 5.3 million Swiss francs (+5.1%) and a net income of 4.2 million Swiss francs, in progression with respect to 2018 (+7.6%).

In conjunction with the advisory activities which have contributed positively to net revenues, two new ASB Sicav funds have been launched: Equity and Unconstrained Bonds. The outcome of external communication work was assessed positively in terms of both consolidating the Bank’s image and disseminating knowledge of its brand, as well as the commercial efficiency generated by the organization of specific events directed at the Bank’s target customers.

At the end of December, managed assets amounted to 4.8 billion Swiss francs, a 16.1% increase resulting from financial market trends and from net cash inflow which evolved positively again in 2019, to 480 million Swiss francs (+11.6%).

These results allowed for 3.854 million Swiss francs in paid out dividend and the allocation of 383 thousand Swiss francs to the legal reserve.

As regards financial markets in 2020, the economic scenario in the US during this presidential election year has proven favourable in absolute terms (GDP, unemployment at the lowest levels of the last 50 years, consumer spending and the real estate market) as well as in relative terms in other areas. However, some concerns remain with regard to public and private debt. The accommodating policy implemented by central banks, the abundance of liquidity, solid profit trends in various sectors, company buy-backs, and improvements in US-China relations, all benefit the equity sector. These premises may be strongly impacted by the effects of the Covid-19 pandemic. At the time of writing, outbreaks have occurred throughout the world.

With regard to the ongoing development and advancement of the Bank’s strengths, there is substantial progress in the implementation of strategic projects designed to improve the offer of investment products and services in coordination with the Parent bank.



As a means of further advancing efficiency and quality, both within the bank and in client relationships, several new projects for the management of internal processes through the development of new IT tools have been launched.

The Board of Directors has taken note of the reports of both the Internal and Statutory 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 2020.

# 1. Balance Sheet

(CHF thousands)	Reference to annex	31.12.2019	31.12.2018	Change
<b>Assets</b>				
Liquid assets		225,758	700,263	-474,505
Amounts due from banks		558,620	217,992	340,628
Amounts due from customers	5.9.1	282,072	282,622	-550
Trading portfolio assets	5.9.2	3,982	2,148	1,834
Positive replacement value of derivative financial instruments	5.9.3	1,949	3,332	-1,383
Financial investments	5.9.4	24,935	19,304	5,631
Accrued income and prepaid expenses		790	954	-164
Participations		49	67	-18
Tangible fixed assets		2,440	2,924	-484
Intangible assets		3,489	6,832	-3,343
Other assets	5.9.5	140	380	-240
<b>Total assets</b>		<b>1,104,224</b>	<b>1,236,818</b>	<b>-132,594</b>
Total subordinated claims		-	-	-
<i>of which subject to mandatory conversion and/or debt waiver</i>		-	-	-
<b>Liabilities</b>				
Amounts due to banks		30,827	72,472	-41,645
Amounts due in respect of customer deposits		1,000,292	1,092,037	-91,745
Negative replacement values of derivative financial instruments	5.9.3	4,426	5,238	-812
Accrued expenses and deferred income		8,169	8,076	93
Other liabilities	5.9.5	1,094	1,264	-170
Provisions	5.9.8	1,362	317	1,045
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.	6,317	5,975	342
Profit carried forward	4.	-	1	-1
Profit (result of the period)	4.	4,237	3,938	299
<b>Total liabilities</b>		<b>1,104,224</b>	<b>1,236,818</b>	<b>-132,594</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	5.9.1	16,616	11,876	4,740
Irrevocable commitments	5.9.1	15,368	10,211	5,157

## 2. Income Statement

(CHF thousands)	Reference to annex	2019	2018	Change
<b>Income and expenses arising from ordinary banking operations</b>				
<b>Result from interest operations</b>				
Interest and discount income		12,985	12,266	719
Interest and dividend income from financial investments		411	246	165
Interest expense		-302	-249	-53
<b>Gross result from interest operations</b>		<b>13,094</b>	<b>12,263</b>	<b>831</b>
Changes in value adjustments for default risks and losses from interest operations		-49	24	-73
<b>Net result from interest operations</b>		<b>13,045</b>	<b>12,287</b>	<b>758</b>
<b>Result from commission business and services</b>				
Commission income from securities trading and investment activities		23,197	23,455	-258
Commission income from lending activities		170	159	11
Commission income from other services		2,150	2,267	-117
Commission expenses		-6,214	-6,178	-36
<b>Result from trading activities and fair value option</b>	5.11.15	<b>3,689</b>	<b>2,798</b>	<b>891</b>
<b>Other result from ordinary activities</b>				
Other ordinary income		62	89	-27
Other ordinary expenses		-1	-	-1
<b>Net revenues</b>		<b>36,098</b>	<b>34,877</b>	<b>1,221</b>
<b>Operating expenses</b>				
Personnel expenses	5.11.17	-17,673	-17,297	-376
General and administrative expenses	5.11.18	-7,663	-7,908	245
<b>Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets</b>		<b>-4,302</b>	<b>-4,602</b>	<b>300</b>
<b>Changes to provisions and other value adjustments, and losses</b>		<b>-1,173</b>	<b>-41</b>	<b>-1,132</b>
<b>Operating result</b>		<b>5,287</b>	<b>5,029</b>	<b>258</b>
<b>Taxes</b>	5.11.20	<b>-1,050</b>	<b>-1,091</b>	<b>41</b>
<b>Profit (result of the period)</b>		<b>4,237</b>	<b>3,938</b>	<b>299</b>

### 3. Proposed Appropriation of Available Earnings

(CHF thousands)	31.12.2019	31.12.2018	Change
<b>Appropriation of available earnings</b>			
Profit (result of the period)	4,237	3,938	299
Profit carried forward	-	1	-1
<b>Distributable profit</b>	<b>4,237</b>	<b>3,939</b>	<b>298</b>
<b>Proposal of the Board of Directors</b>			
Allocation to statutory retained earnings reserve	383	342	41
Distribution from distributable profit	3,854	3,597	257
<b>New amount carried forward</b>	<b>-</b>	<b>-</b>	<b>-</b>





## 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
<b>Equity as at 1<sup>st</sup> January 2019</b>	43,000	5,975	4,500	1	3,938	<b>57,414</b>
<b>Appropriation of retained earnings 2018</b>						
<i>Assignment to statutory retained earnings reserve</i>	-	+342	-	-	-342	-
<i>Profit carried forward</i>				-1	+1	-
<i>Dividend from 2018 profit</i>	-	-	-	-	-3,597	<b>-3,597</b>
Profit (result of the period)	-	-	-	-	+4,237	<b>4,237</b>
<b>Total equity as at 31<sup>st</sup> December 2019</b>	<b>43,000</b>	<b>6,317</b>	<b>4,500</b>	-	<b>4,237</b>	<b>58,054</b>



## 5. Annex

### 5.1 ACTIVITIES AND STAFF

#### 5.1.1 Activities

Axion SWISS Bank SA is a Lugano-based limited company whose main business focuses on 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. Lending activities are mostly limited to securities-backed loans, i.e. advances on deposited assets, and to loans secured by first demand guarantees issued by primary financial institutions.

#### 5.1.2 Staff

On December 31<sup>st</sup> 2019, total staff amounted to 68 employees (67.3 FTEs), compared to 64 at the end of 2018 (63.2 FTEs).

#### 5.1.3 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 and the management of IT services (centralised informatics and workstations).

With regard to services subject to FINMA Circular 2018/3 "Outsourcing – banks and insurers", Axion SWISS Bank SA has outsourced to its parent bank, Banca dello Stato del Cantone Ticino, operations related to financial accounting, analytical accounting, foreign currency trading, treasury, payment transaction services, securities administration, project management, physical and logical security, specific aspects of IT as well as some activities connected to risk management, internal controls and legal and compliance matters.

Costs related to payment transactions, securities administration and back office stock/foreign exchange/treasury are posted under the item "Commission expense". They totalled CHF 804,000 in 2019 (2018: CHF 804,000). Costs related to other outsourced services are included under "General and administrative expenses".

Also worth mentioning is the "Sherpany" application which is administered by a third party. It deals with the management of the documentation related to specific committees and may comprise sensitive information.

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

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

### 5.2 STATEMENT DISCLOSURE AND VALUATION PRINCIPLES

#### 5.2.1 General principles

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

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

#### 5.2.2 General valuation principles

The 2019 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 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.

### 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 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".

### 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 straightline *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 straightline 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 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.

#### 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 2019.

### 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 1.0868 (2018: 1.1269)

USD 0.9687 (2018: 0.9842)

GBP 1.2824 (2018: 1.2545)

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

## 5.3 RISK MANAGEMENT

Risk management aims to identify, measure and monitor banking risks in order to preserve the assets of the Bank and facilitate its profitability. The Board of Directors has performed an analysis of the main business risks Axion SWISS Bank SA is exposed to. This risk assessment is based on data and tools used by the Bank to manage risks, as described further in this section, as well as on forward-looking considerations on potential future risks.

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

Moreover, risks are managed and monitored on the basis of the Bank's framework strategy of its Operating Rules and Regulations and its Organisation and Risk Management Regulations.

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

### 5.3.1 Credit risk

Credit risk is primarily connected with client and interbank lending business. The Bank limits client credit risk by granting primarily Lombard-type loans and credit facilities against securities and implementing appropriate lending values. The loan to value ratio is defined by rules and regulations and by a specific internal guideline. Moreover, the value of collateral is monitored daily.

Interbank business, which is derived from client and own business, is carried out within a predefined limit system with primary Swiss and international banks. The maximum amount set depends on the

counterparty's solvency and is under constant monitoring. Counterparty and country risk limits are reviewed at least once a year. Compliance to these limits is monitored on a regular basis.

### 5.3.2 Market risk

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

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

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

### 5.3.3 Liquidity risk

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

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

### 5.3.4 Operational risk

The management of operational risk consists primarily in the adoption of risk mitigating measures aimed at eliminating or reducing risk. 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.

### 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 amendments to AML/FINMA. The Bank has adopted an internal compliance control system based on multilevel monitoring.

#### **5.4 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.

#### **5.5 VALUATION OF COLLATERAL**

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

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

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

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

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.

#### **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 31<sup>st</sup> 2019.

#### **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 31.12.2019

(CHF thousands)	Type of collateral			
	Secured by mortgage	Other collateral	Unsecured	Total
<b>Loans (before netting with value adjustments)</b>				
Amounts due from customers	-	279,342	2,792	282,134
<b>Total loans (before netting with value adjustments)</b>	-	<b>279,342</b>	<b>2,792</b>	<b>282,134</b>
Previous year	-	279,326	3,315	282,641
<b>Total loans (after netting with value adjustments)</b>	-	<b>279,280</b>	<b>2,792</b>	<b>282,072</b>
Previous year	-	279,307	3,315	282,622
<b>Off-balance-sheet</b>				
Contingent liabilities	-	16,616	-	16,616
Irrevocable commitments	-	13,833	1,535 <sup>1</sup>	15,368
<b>Total off-balance-sheet</b>	-	<b>30,449</b>	<b>1,535</b>	<b>31,984</b>
Previous year	-	20,729	1,358	22,087

(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>3,537</b>	<b>3,475</b>	<b>62</b>	<b>62</b>
Previous year	1,269	1,250	19	19

<sup>1</sup> Including CHF 1.4 million (2018: CHF 1.4 million) as part of the deposit guarantee.

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

(CHF thousands)

Assets	31.12.2019	31.12.2018
<b>Trading portfolio assets</b>		
Debt securities, money market securities / transactions	3,460	1,643
<i>of which listed</i>	3,460	1,643
Shares of investment funds	522	505
<b>Total trading portfolio assets</b>	<b>3,982</b>	<b>2,148</b>
<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	
<b>Foreign currencies / precious metals</b>						
Forward contracts	974	951	241,168	-	-	-
Swaps	641	641	110,271	170	2,670	396,799
OTC Options	164	164	107,801	-	-	-
<b>Total currencies / precious metals</b>	<b>1,779</b>	<b>1,756</b>	<b>459,240</b>	<b>170</b>	<b>2,670</b>	<b>396,799</b>
<b>Total before netting agreements</b>	<b>1,779</b>	<b>1,756</b>	<b>459,240</b>	<b>170</b>	<b>2,670</b>	<b>396,799</b>
<i>of which determined using a valuation model</i>	1,779	1,756		170	2,670	
Total previous year	3,305	3,276		27	1,962	
<i>of which determined using a valuation model</i>	3,305	3,276		27	1,962	
	Positive replacement values (cumulated)			Negative replacement values (cumulated)		
<b>Total (after netting agreements)</b>	<b>1,949</b>			<b>4,426</b>		
Total previous year	3,332			5,238		
<b>Breakdown by counterparty</b> (CHF thousands)	<b>Central clearing houses</b>		<b>Banks and securities dealers</b>		<b>Other customers</b>	
Positive replacement values (after netting agreements)	-		1,525		424	

No netting contracts existed on derivatives open as at 31.12.2019 and at 31.12.2018.



#### 5.9.4 Breakdown of financial investments

(CHF thousands)	Book value		Fair value	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Debt securities	20,525	15,521	20,642	15,306
<i>of which intended to be held to maturity</i>	20,525	15,521	20,642	15,306
<i>of which not intended to be held to maturity</i>	-	-	-	-
Shares in investment funds	4,410	3,783	4,504	3,784
<b>Total financial investments</b>	<b>24,935</b>	<b>19,304</b>	<b>25,146</b>	<b>19,090</b>
<i>of which securities eligible for repo transactions in accordance with liquidity requirements</i>	-	500	-	509

<b>Breakdown of counterparties by rating</b> (CHF thousands)	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Debt securities: book values	8,856	7,004	4,665	-	-	-

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)	31.12.2019	31.12.2018
<b>Other assets</b>		
Indirect taxes	15	7
Other different assets	125	373
<b>Total other assets</b>	<b>140</b>	<b>380</b>
<b>Other liabilities</b>		
Direct/indirect taxes	707	593
Compensation account	316	615
Other different liabilities	71	56
<b>Total other liabilities</b>	<b>1,094</b>	<b>1,264</b>

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

(CHF thousands)	31.12.2019		31.12.2018	
	Book values	Effective commitments	Book values	Effective commitments
<b>Pledged / assigned assets</b> (excluding securities financing transactions)				
Amounts due from banks	7,855	4,194	4,104	2,839
Amounts due from clients	1,944	117	1,944	-
<b>Total assets pledged / assigned</b>	<b>9,799</b>	<b>4,311</b>	<b>6,048</b>	<b>2,839</b>

At end-year closing on 31.12.2019 and 31.12.2018 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 obligations towards pension schemes.

### 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 31.12.2019.

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

	Overfunding / underfunding at end 2019	Economic interest of the bank		Change in economic interest (economic benefit / obligation) versus previous year)	Contributions paid for 2019	Pension expenses in personnel expenses	
		31.12.2019	31.12.2018			31.12.2019	31.12.2018
Pension plans without overfunding / underfunding	-	-	-	-	1,186	1,345	1,330

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)	2019						Situation at 31.12.2019
	Situation at 31.12.2018	Use in conformity with designated purpose	Currency differences	Past due interest recoveries	New creations charged to income	Releases to income	
Provisions for other operating risks	-	-376	1	-	1,040	-	665 <sup>1</sup>
Other provisions	317	-	-	-	380	-	697 <sup>2</sup>
<b>Total provisions</b>	<b>317</b>	<b>-376</b>	<b>1</b>	<b>-</b>	<b>1,420</b>	<b>-</b>	<b>1,362</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</b> <sup>3</sup>
<b>Value adjustments for default and country risks</b>	<b>19</b>	<b>-3</b>	<b>-1</b>	<b>-</b>	<b>64</b>	<b>-17</b>	<b>62</b>
<i>of which value adjustments for default risks in respect of impaired loans</i>	<i>19</i>	<i>-3</i>	<i>-1</i>	<i>-</i>	<i>64</i>	<i>-17</i>	<i>62</i>

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

<sup>2</sup> Provision for contractual commitments towards bank managers.

<sup>3</sup> The reserves for general banking risks were not taxed.

### 5.9.9 Presentation of the Bank's capital

(CHF thousands)	31.12.2019			31.12.2018		
	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>						
Share 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>
<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>

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

(CHF thousands)	31.12.2019		31.12.2018	
	Amounts due from	Amounts due to	Amounts due from	Amounts due to
Holders of qualified participations	532,705	30,526	193,290	69,991
Group companies	-	-	-	-
Transactions with members of governing bodies	19	407	46	675

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)	31.12.2019		31.12.2018	
	Nominal	% of equity	Nominal	% of equity
<b>Holder of significant participations</b>				
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	31.12.2019		31.12.2018	
		Net foreign exposure	Share as %	Net foreign exposure	Share as %
<b>Bank's own country rating</b>					
1 Excellent and high quality	AAA to AA-	102,235	38.9%	74,881	28.6%
2 Greater quality than average	A+ to A-	8,852	3.3%	6,697	2.6%
3 Medium quality	BBB+ to BBB-	140,163	53.3%	162,275	62.0%
4 Default risk	BB+ to BB	1	0.0%	3,151	1.2%
5 Default risk material	BB-	508	0.2%	1,307	0.5%
6 Speculative, high default risk	B+ to B-	4,710	1.8%	5,414	2.1%
7 Poor quality, very high risk	CCC+ to D	-	0.0%	9	0.0%
Unrated		6,458	2.5%	7,816	3.0%
<b>Total</b>		<b>262,927</b>	<b>100.0%</b>	<b>261,550</b>	<b>100.0%</b>

## 5.10 INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

### 5.10.13 Breakdown of fiduciary transactions

(CHF thousands)	31.12.2019	31.12.2018
Fiduciary investments	387,562	170,823
Fiduciary loans	5,860	7,923
<b>Total fiduciary transactions</b>	<b>393,422</b>	<b>178,746</b>

### 5.10.14 Breakdown of managed assets and presentation of their development

(CHF thousands)	31.12.2019	31.12.2018
<b>a) Breakdown of managed assets</b>		
Assets under discretionary asset management agreements	774,828	692,167
Assets under advisory mandate	2,089,422	1,883,787
Other managed assets	1,933,450	1,555,398
<b>Total managed assets (including double counting)</b>	<b>4,797,700</b>	<b>4,131,352</b>
<i>of which double counting</i>	-	-
<b>b) Presentation of the development of managed assets</b>		
Total managed assets (including double counting) at beginning	4,131,352	4,378,258
+/- Net new money inflow or net new money outflow	479,774	93,902
+/- Price gains / losses, interest, dividends and currency gains / losses	186,574	-340,808
<b>Total managed assets (including double counting) at end</b>	<b>4,797,700</b>	<b>4,131,352</b>

"Assets under discretionary mandate" and "Assets under advisory mandate" 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.

## 5.11 INFORMATION ON THE INCOME STATEMENT

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

(CHF thousands)	2019	2018
Result from trading activities from:		
Foreign currencies	5,011	4,573
Banknote trading	-1,396	-1,521
Commodities / precious metals	-	1
Securities trading	74	-255
<b>Total result from trading activities and fair value option</b>	<b>3,689</b>	<b>2,798</b>

### 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)	2019	2018
<b>Negative interest</b>		
Negative interest on assets (decrease in interest and discount income)	5,711	5,366
Negative interest on liabilities (decrease in interest expenses)	434	508

### 5.11.17 Breakdown of personnel expenses

(CHF thousands)	2019	2018
Salaries	14,457	14,114
<i>of which expenses relating to share-based compensation and alternative forms of variable compensation</i>	-	-
Social insurance benefits	2,495	2,416
Other personnel expenses	721	767
<b>Total personnel expenses</b>	<b>17,673</b>	<b>17,297</b>

### 5.11.18 Breakdown of general and administrative expenses

(CHF thousands)	2019	2018
Office space expenses	1,249	1,294
Expenses for information and communications technology	3,745	3,523
Expenses for vehicles, equipment, furniture and other fixtures as well as operating lease expenses	21	18
Fees of audit firm	185	392
<i>of which for financial and regulatory audits</i>	185	383
<i>of which for other services</i>	-	9
Other operating expenses	2,463	2,681
<b>Total general and administrative expenses</b>	<b>7,663</b>	<b>7,908</b>

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

#### 5.11.19.01 Material losses

There were no significant losses during the reporting year.

#### 5.11.19.02 Extraordinary income and extraordinary expenses

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

#### 5.11.19.03 Hidden reserves

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

#### 5.11.19.04 Reserves for general banking risks

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

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

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

#### 5.11.19.06 Value adjustments of tangible fixed assets

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

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

(CHF thousands)	31.12.2019	31.12.2018
Current taxes	1,050	1,091
<b>Total taxes</b>	<b>1,050</b>	<b>1,091</b>
<b>Average tax rate weighted on the basis of the operating result</b>	<b>19.9%</b>	<b>21.7%</b>

## 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 6 to 23), for the year ended 31 December 2019.

#### 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 2019 comply with Swiss law and the articles of incorporation.

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## Report on other legal requirements

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

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

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

PricewaterhouseCoopers SA



Glenda Brändli

Audit expert  
Auditor in charge



Davide Albergati

Audit expert

Lugano, 20 March 2020



## 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>  
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  
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  
Ewgenij Popov  
Alberto Riva  
Nicola Salvi  
Giovanni Sansossio  
Matteo Scacchi  
Roberto Simone  
Elena Sulina  
Davide Vezzano

**Statutory Auditors** PricewaterhouseCoopers SA, Lugano

<sup>1</sup> Independent members

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

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



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