

Annual report

# 2016

**BSI**

FONDO COMPLEMENTARE  
DI PREVIDENZA BSI SA



# Management report 2016

## Coverage ratio

In 2016 the Fondo Complementare di previdenza BSI SA ("Fondo") performed very well with a net income from asset management recording 3.37%. The Fondo's coverage ratio is decreased slightly, moving from 104.8% in 2015 to 102.3% in 2016.

A significant portion of the income has been allocated to update the technical bases, through the implementation of LPP 2015 generational tables and the reduction of the technical rate from 2.75% to 2.50%, and the creation of the Provision for a possible reduction of the technical rate to 2.25% next year.

The annual report of the Fondo closes the year with an expense surplus of the period of CHF 5.1 mln, which lead to a decrease in the fluctuation reserve that reached CHF 4.4 mln at the end of 2016. We are still far from reaching the target set for this reserve, that is 16.5% of the Pension liabilities and actuarial provisions and equal to CHF 31.1 mln. The increase in the fluctuation reserve remains a crucial target for the Fondo, as it provides the Pension Fund with a higher risk capacity and the financial strength required to look more confidently at the future. Financial markets are very likely to be characterized by high volatility in the next few years as well, although there are increasing signals of upside interest rates.

The net pension assets amounts to CHF 193.1 mln, and pension liabilities and actuarial provisions have recorded CHF 188.7 mln.

## Technical rate

The Chamber of Pension Actuaries has modified the benchmark technical rate for occupational pensions and reduced it from 2.75% to 2.25% at the end of September 2016. Calculations of pension plans are based on this mathematical value. Therefore the technical rate has an indirect impact on the calculation of the conversion rate for pension funds based on the defined contribution plan like ours.

Actual liabilities in a pension fund are linked to existing pensions. Pensioners' liabilities are composed by the existing pensions and the interest gains expected in the future, which is actually the technical rate. For instance, in a scenario with a technical rate of 2.75%, if a pensioner is to receive CHF 102.75 after a year (and this value can not be modified as it is a granted right), today we need to allocate CHF 100 in the balance sheet. If the technical rate decreased to 2.25%, today we would need to allocate CHF 100.5 in the balance sheet! On the current market it is impossible to have a 2.75% return without any risks: ten year bonds of the Confederation had basically a 0% yield at the beginning of 2017 (in January 2017 the rate was still negative), so to achieve a benefit of CHF 102.75 without any risks tomorrow, today we would need to allocate at least CHF 102.75 in the balance sheet.

This example shows that a reduction of the technical rate has an immediate impact on the accounts of the pension fund and the increase in liabilities leads to a worsening of the coverage ratio. However we implicitly assume a more cautious remuneration of assets in order to remove pressure from the return to be achieved in future years.

The good performance in 2016, enabled the Fondo to reduce the technical rate to 2.5%, build a provision for future reduction of this rate to 2.25% and simultaneously introduce the most updated generational tables available, while maintaining a coverage ratio of 102.3% without the need for any remediation measures. This is a great success for the Fondo.

In conclusion, the Fondo is still enjoying a good financial situation, even though its financial balance is constantly put to test by the above mentioned demographic and market dynamics. The Fondo can look at the challenges in 2017 and onward with optimism owing to the strong base built over the years as a result of the rigorous approach that has always characterized its management.

## Overview and outlook on Financial Markets

### Overview

The main **stock markets** enjoyed a lively situation at the end of 2016, driven by Trump's electoral promises to support American economy and the willingness of the European Central Bank and the Bank of Japan to keep an expansionary monetary policy during the entire year 2017.

In such a scenario, many financial operators feel that the deflationary trend afflicting the global economy in the last two years is drawing to an end. This assumption is confirmed by FED's raising key interest rates without any concern, thus triggering a sheer increase in interest rates in the **bond market** which swept away most of 2016's capital gains.

The world economic situation in 2016 showed moderate improvement, although the international political scenario with its unexpected voting outcomes (Brexit, Trump's election, the "No" vote at the Italian constitutional referendum) is far from being easy to interpret for investors. Despite the surrounding concerns, voting outcomes have been positively welcomed by the market. However in 2017 optimism is likely to give way to a more complex reality, especially in Europe if the next national votes are to reshape the current political framework.

### Outlook

The macroeconomic and geopolitical framework remains highly controversial. Global economic recovery, with an estimated growth by 2.9% in 2016 and a slightly higher growth in 2017 (+3.3%), clearly stays under the average long term values, although the cost of money and cost of energy are historically still very low. The upside performance of commodities and the cost of money hitting the lowest levels were especially beneficial for developing countries rather than developed countries, contrary to the expectations at the beginning of the year. The recovery of commodity prices, especially oil, and the increasing cost of labor in the United States and some important emerging countries are a clear sign that the long deflationary trend is about to end.

From an operational standpoint, our asset manager Patrimony 1873 maintains a cautious approach to investments in Swiss bonds and bonds from main countries owing to an unfavorable risk/return ratio. Assessing from the main ten year government bonds, their average return might be 0.9% higher than the current value. In case of a normalization of the relevant market, there would be a capital loss around 9%.

In the equities portfolio, the asset manager is tactically holding a constructive approach with a slightly higher weight compared to the strategic portfolio, but as usual operating with futures in order to leverage on the stock market's volatility.

## Changes within the Foundation Board

The year 2016 was characterized by significant changes within the Foundation Board.

In the Board meeting on July 28<sup>th</sup>, after acknowledging Stefano Coduri's resignation from Chairman and in compliance with the Organization Regulation establishing the turnover principle, namely that "the role of Chairman and Vice Chairman shall be alternately taken on by the employees and the employer representatives", the Board has unanimously elected Thierry Cerclé as Chairman and Vincenzo Martino as Vice Chairman.

On November 24<sup>th</sup>, the GEB of BSI appointed Thomas Mueller and Pietro Soldini to replace Stefano Coduri and Vincenzo Martino, the resigning employer representatives. Thomas Mueller and Pietro Soldini took office on 1<sup>st</sup> December 2016. Soldini is also taking on the function of Vice Chairman.

Alec Vukic, the resigning representative of employees, has been replaced by Antonini Massimo starting from 1 January 2017. Antonini is also taking on the function of secretary.

We would like to use this chance to warmly thank the resigning Board members for their work for the Fondo. In particular we wish to thank Stefano Coduri for his dedicated work as Chairman of the Pension Fund during these demanding years that saw the merger with the Banca del Gottardo and the adoption of remediation measures leading to the new Regulation at the beginning of 2015.

## Revision of divorce law - New Pension Fund Regulation in force from 1<sup>st</sup> January 2017

In case of divorce, the vested benefits deposited in pension funds represent a significant asset value available to the spouses. According to the law in force until 31st December 2016, the spouse carrying out care activities within the marriage who fails to have a sufficient personal occupational pension (often the wife), could be penalized in case of divorce. The modifications introduced by the new law enforced on 1<sup>st</sup> January 2017 aim at bridging this and some other gaps in the current legislation.

The main changes to the law are as follows:

- Generally the vested termination benefits acquired during marriage shall continue to be split in half. According to the new law, the eligible time for the calculation will be the beginning, rather than the end, of the divorce proceedings.
- Moreover, assets will be divided also if **one of the spouses has already retired or is disabled**. Depending on circumstances, the calculation of the balance will be based on assumed vested termination benefits or the existing benefits will be divided and converted into a life-long annuity to be paid to the creditor spouse.
- Now pension funds are required to periodically communicate to the **2<sup>nd</sup> Pillar Central Office** all the eligible recipients of the vested benefit. Thus the judges appointed for the divorce proceedings will be able to verify that no vested benefit are missing from the division of assets.
- Other provisions guarantee that no vested benefit is to be paid to a spouse without the other spouse knowing during the marriage (**obligation of joint signature of the spouses** for withdrawals of the vested benefit).

The enforcement of the new law requires Pension Funds to consistently introduce modifications to the Pension Fund Regulations. With the assistance of the actuary, Willis Towers Watson Zurich, the Fondo has changed its Pension Fund Regulation accordingly by integrating the provisions of the new divorce law. The modifications are subject to formal approval by the Supervisory Authority. The new Regulation in force from 1<sup>st</sup> January 2017 is published and available to active employees on the company's web portal and to pensioners on the dedicated web portal.

## BSI acquisition by EFG

The acquisition of BSI SA by EFG will have medium to long-term impact on the retirement pension and organizational schemes of the Pension Funds. In the last few months the acquisition has been subject to careful pondering and analysis provided by the Work Group (GdL) created within the HR stream. The GdL is composed by expert professionals in pension fund matters of EFG and BSI and led by an external independent consultant. The work group aims at guaranteeing a neutral approach to possible future scenarios.

In the last few months the GdL was called upon to tackle the first “transparency” stage, when key data were shared between the two organizations. Afterwards they proceeded to analyze the “Benchmarking” in order to compare and contrast pension schemes in terms of benefits. Comparison was made between EFG and BSI’s Pension Funds and with the other pension funds in Switzerland. The findings from the “Benchmarking” analysis provide the base for the future decisions in the project’s next stages.

Owing to the complexity of the matter and the importance of finding optimal solutions for the employees of both companies that guarantee a proven solidity of the organizations, we point out that, at present, major decisions have not been made yet. Upon consideration of the medium-long time horizon in the pension fund business and the complexity of the matter, it is not advisable to rush into decisions. A further in-depth analysis of any aspects encompassing the two Pension Funds will be required to identify the most suitable and solid vehicle for participants.

In fact, after the “Closing” and surely during all the year 2017, the tangible impact on the employees of the two Pension Funds will be substantially null. **In the next few months the Pension Funds (EFG and BSI) will continue to operate separately and independently.**

We will keep you constantly posted on the developments on this important matter, which personally and crucially involves all employees and pensioners.

The 2016 has been an exciting and demanding year featuring several meetings of the Board. In this respect, all Board members and the Management team faced the numerous challenging activities and relevant decision making processes with significant commitment and professional attitude.

Therefore we would like to thank all colleagues, who contributed to the good results we achieved and we wish the best to the new members of the Board.



**Thierry Cerclé**  
Chairman of the Board



**Michele Casartelli**  
Foundation manager

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## Balance sheet as of 31 december 2016

		31.12.2016	31.12.2015
	Notes	CHF	CHF
<b>Assets</b>			
<b>Investments</b>		<b>203'584'211</b>	<b>209'947'963</b>
Liquid funds	6.3	24'937'110	20'622'911
Credits towards Helvetia SA		876'626	991'544
Credits for withholding tax		1'072'409	1'122'671
Swiss bonds	6.3	35'209'190	36'907'000
Foreign bonds	6.3	37'878'139	40'162'170
Swiss equities	6.3	12'131'315	13'161'720
Foreign equities	6.3	57'771'797	56'986'153
Alternative investments	6.3	9'773'000	10'082'262
Indirect real estate	6.3	23'934'625	29'911'532
<b>Prepayments and accrued income</b>	<b>7.1</b>	<b>0</b>	<b>0</b>
<b>Total assets</b>		<b>203'584'211</b>	<b>209'947'963</b>
<b>Liabilities</b>			
<b>Accounts payables</b>		<b>8'165'044</b>	<b>1'987'242</b>
Vested benefits to be paid		7'659'120	1'191'450
Retirement capital to be paid		505'666	795'103
Liabilities for ex-BdG free funds distribution		258	689
<b>Accrued liabilities and deferred income</b>	<b>7.2</b>	<b>177'092</b>	<b>707'779</b>
<b>Employer contribution reserve (ECR) without waiver of use</b>	<b>5.9</b>	<b>2'150'503</b>	<b>2'150'503</b>
<b>Pension liabilities and actuarial provisions</b>		<b>188'711'561</b>	<b>195'672'389</b>
Active employees' liabilities	5.2	95'088'806	117'316'059
Pensioners' liabilities	5.4	87'990'441	76'853'785
Actuarial provisions	5.5	5'632'314	1'502'545
<b>Fluctuation reserve</b>	<b>6.2</b>	<b>4'380'011</b>	<b>9'430'050</b>
<b>Dotation capital and free funds / underfunding</b>		<b>0</b>	<b>0</b>
Dotation capital		100'000	100'000
<i>Underfunding</i>			
Balance at the beginning of the period		-100'000	-100'000
Income surplus / (-) Expense surplus of the period		0	0
Balance at the end of the period		-100'000	-100'000
<b>Total liabilities</b>		<b>203'584'211</b>	<b>209'947'963</b>

## Operating account 2016

		2016	2015
	Notes	CHF	CHF
<b>Ordinary and other contributions, buy-ins</b>		<b>11'327'725</b>	<b>16'128'447</b>
<i>Employer contributions</i>			
Ordinary contributions		5'439'183	5'300'450
Extraordinary contributions		603'636	0
<i>Employee contributions</i>			
Ordinary contributions		2'421'419	2'374'370
One-time payments and purchase amount	5.2	2'863'487	8'453'627
<b>Entry lump sum transfers</b>		<b>50'000</b>	<b>386'309</b>
Earnings from Vested benefit transfers	5.2	0	275'209
Buy-ins following a divorce	5.2	50'000	111'100
<b>Income from contributions and entry payments</b>		<b>11'377'725</b>	<b>16'514'756</b>
<b>Regulatory benefits</b>		<b>-10'966'267</b>	<b>-7'275'626</b>
Retirement pensions		-4'856'363	-4'643'281
Disability pensions		-17'400	-17'400
Spouse pensions		-379'979	-434'682
Orphan and children pensions		-144'077	-152'842
Retirement capital	5.2	-5'568'448	-2'027'421
<b>Termination benefits</b>		<b>-18'431'660</b>	<b>-3'703'688</b>
Departures of Vested benefits	5.2	-16'955'127	-3'653'688
Withdrawals for residential property and divorce	5.2	-1'476'533	-50'000
<b>Expenses for benefits and withdrawals</b>		<b>-29'397'927</b>	<b>-10'979'314</b>
<b>Release / (-) creation of Pension liabilities, Actuarial provisions and ECR</b>		<b>6'951'195</b>	<b>-11'089'226</b>
Variation in Active employees' liabilities		23'571'764	-7'843'507
Variation in Pensioners' liabilities		-11'136'656	634'920
Variation in Actuarial provisions		-4'129'769	-964'743
Interest on vested benefits paid		-9'633	-6'986
Interest on retirement savings capital	5.2	-1'344'511	-2'908'910
<b>Income from insurance benefits</b>		<b>168'025</b>	<b>93'410</b>
Insurance benefits		26'420	26'420
Share of insurance surpluses		141'605	66'990
<b>Insurance expenses</b>		<b>-817'280</b>	<b>-825'172</b>
Insurance premium	5.1	-809'422	-816'583
Contribution to Guarantee Fund		-7'858	-8'589
<b>Net income from insurance activities</b>		<b>-11'718'262</b>	<b>-6'285'546</b>

## Operating account 2016 (2nd part)

		2016	2015
	Notes	CHF	CHF
<b>Net income from investments</b>	<b>6.6</b>	<b>6'972'766</b>	<b>1'064'408</b>
Net income from Liquid funds		128'028	60'038
Net income from Other debtors		0	227
Net income from Swiss bonds		168'741	689'760
Net income from Foreign bonds		829'153	-4'460
Net income from Swiss equities		-241'083	1'265'819
Net income from Foreign equities		4'924'825	-4'778'383
Net income from Alternative investments		-57'329	-516'978
Net income from Indirect real estate		2'291'854	1'541'137
Net income from Derivatives		76'567	4'007'123
Retrocessions received	6.9	12'007	17'392
Asset management expenses	6.7	-1'159'997	-1'217'267
<b>Other income</b>		<b>2'042</b>	<b>1'940</b>
<b>General administration expenses</b>		<b>-306'585</b>	<b>-375'809</b>
Actuary activities		-36'779	-58'882
External Audit		-25'421	-26'781
Supervisory authority		-7'235	-9'342
Marketing and advertising		-1'363	-2'506
General administration		-235'787	-278'298
<b>Income / (-) Expenses before creating / releasing of Fluctuation reserve</b>	<b>5.10</b>	<b>-5'050'039</b>	<b>-5'595'007</b>
<b>Release / (-) creation of Fluctuation reserve</b>	<b>6.2</b>	<b>5'050'039</b>	<b>5'595'007</b>
<b>Income surplus / (-) Expense surplus of the period</b>		<b>0</b>	<b>0</b>

## Notes to the 2016 Financial Statements

### 1. General information and organization

#### 1.1. Legal form and objective

Fondo Complementare di Previdenza BSI SA (hereinafter the "Fondo"), funded on 17.2.1984, is a pension fund pursuant to article 80 and seq. of the Swiss Civil Code (hereinafter CC), article 331 of the Code of Obligations (hereinafter CO) and article 48, paragraph 2 of the Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (hereinafter LPP).

Fondo is exclusively dedicated to occupational retirement coverage *above the mandatory amounts* foreseen by the LPP, against the economic consequences of old-age, disability and death, in favor of personnel, family members and survivors, of BSI SA and entities affiliated or associated or in which BSI SA is directly or indirectly interested or has interests to protect.

Membership of an affiliate company is finalized by an affiliation contract, to be previously submitted to the Supervisory Authority's.

In the second half of the 2016, the company EFG International AG acquired BSI SA.

On 7 April 2017 BSI SA transferred most of its assets to EFG Bank Zurich by transferring equity pursuant to the law on mergers. As such modifications in the founding company fail to have an immediate impact on pension fund solutions of the two banks' Pension Fund, in the present report we will continue to identify BSI SA as the employer.

The objective of the Fondo is pursued through the management of an integrative insurance plan, denominated "Piano Complementare", created after the merger of three former plans (please refer to the financial statements 2009).

The insurance objectives of the complementary plan are the following:

- The insurance of the portion of fixed salary not insured by Fondazione di Previdenza BSI SA (Fondazione);
- The savings on surplus coming from purchases or distribution of free assets.

In 2015 the pension fund has changed its name from "Fondo per prestazioni a carattee sociale della BSI SA" in "Fondo Complementare di Previdenza BSI SA".

#### 1.2. LPP and Guarantee Fund registrations

Fondo offers occupational retirement coverage above the mandatory amounts foreseen by the LPP following the Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (LPP).

Fondo is not included in the registry of occupational retirement of the Canton Ticino but is subject to the Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (LPP).

Fondo pays contributions to the LPP guarantee fund.

Foundo address: Via Magatti 2, CH-6901 Lugano, at BSI SA.

### 1.3. Information about Statute and Regulations

	In force from	Notes
Statute	17.2.1984	Last modification: 17.12.2014 Approved by the Supervisory Authority on 5.5.2015
Organization regulation	29.1.2016	Approved by the Foundation Board on 29.1.2016
Electoral Rules for the nomination of the delegates meeting and the representatives of the active employees in the Board of Foundation	23.7.2015	Approved by the Foundation Board on 23.7.2015
Pension Fund Regulation	1.1.2017	Approved by the Foundation Board on 13.12.2016
Regulation on partial and full liquidation and merger	1.1.2009	Approved by the Supervisory Authority on 27.9.2010
Regulation of actuarial provisions	31.12.2016	Approved by the Foundation Board on 10.2.2017
Investment regulation	20.11.2014	Approved by the Foundation Board on 20.11.2014

All individuals in charge of the management or administration of the Fondo or its assets shall comply with provisions on *loyalty* and *integrity*, as established in the LPP and the decree on Occupational Retirement, Survivors and Disability Pension plans (OPP2) (article 51b LPP, article 48g OPP2), and the Organization Regulation, as well as the ethical standards relating for the members of the Swiss Association of Pension Funds (ASIP Charter and relevant guidelines). The Foundation Board (hereinafter Board) has taken all required measures to verify compliance of such provisions.

### 1.4. Governing bodies and signing authorities

#### 1.4.1. Board of Foundation

	Role	Mandate duration	Representatives	Signature Rights
Cerclé Thierry	Chairman	7/2014-6/2018	Employees	Joint signature of two authorized signatories
Soldini Pietro	Vice-Chairman	12/2016-11/2020	Employer	Joint signature of two authorized signatories
Müller Thomas	Member	12/2016-11/2020	Employer	Joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Massimo Antonini	Member / Secretary	1/2017-6/2018	Employees	Joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)

**Modifications in the composition of the Foundation Board:** on 28 July 2016, after acknowledging Stefano Coduri's resignation from Chairman and his availability to remain in the Board as member until 30 November 2016, the Foundation Board elected Thierry Cerclé as Chairman and Vincenzo Martino as Vice Chairman, and Alen Vukic was confirmed as Secretary.

Following the departure of Stefano Coduri and Vincenzo Martino from BSI, on 24 November 2016 BSI appointed Thomas Müller and Pietro Soldini as the employer's representatives.

On 28 November 2016, to replace the resigning Alen Vukic, the Foundation Board confirmed Massimo Antonini as representative of employees and appointed the latter also as Secretary.

#### 1.4.2. Delegates' Meeting

On 31 december 2016, the Delegates' meeting, which operates as an advisory and general control body of the Fondo, was composed as follows:

- **Active employees:** Antonini Massimo, Baj Damiano, Balmelli Roberto, Cerclé Thierry, Giamboni Pierrette, Moser Christian, Ognà Ronald, Panozzo Marco, Schmid Markus
- **Pension beneficiaries:** Gajo Ermanno, Panizzolo Donato

### 1.4.3. Management

Starting from 1 January 2012, an independent administrative department has been created within the Fondazione by the employer in order to carry out administrative management, technical, accounting and business activities of the Fondazione and similar pension funds. Tasks and responsibilities are defined by the Board. The Foundation Manager can delegate some of his/her tasks to reports or other external consultants.

Administrative, technical-accounting, business and financial-accounting management is performed by the Fondazione also with regards to the Fondo.

### 1.5. Experts, auditors, advisors, supervisory authority

		Note
Accredited pension actuary	Willis Towers Watson AG, Zurigo: <i>Zanella Peter</i>	
Auditor	Ernst & Young SA, Lugano: <i>Caccia Stefano</i>	
Supervisory authority	Vigilanza sulle fondazioni e LPP della Svizzera Orientale, Muralto: <i>Fidanza Paco</i>	
Custodian bank / Asset manager / Portfolio manager	BSI SA, Lugano Client Relationship Manager: <i>Muschietti Danny</i>	Upon agreement dated 7 September 2012, BSI has delegated the Fondo's Portfolio Manager activities to its subsidiary with 100% participation Patrimony 1873 SA, Lugano. Head Portfolio Manager: <i>Ogna Ronald</i> (Deputy: <i>Campana Marco</i> )
Investment Controller ALM studies	PPCMetrics SA, Zurigo: <i>Fusetti Alfredo</i>	

### 1.6. Affiliated employers

The amount of affiliate companies has developed as follows:

Development	Fondazione di previdenza				Patrimony 1873 SA	Total 2016	Total 2015
	BSI SA	BSI SA	Dreieck SA	Finnat SA			
Situation at 1.1.	338	1	2	-	30	371	388
+ / - Transfers	-2	-	-	-	2	-	-
+ Entries <sup>1</sup>	22	-	-	-	1	23	33
- Departures <sup>2</sup> / Deaths	-43	-	-	-	-12	-55	-25
- Retirements <sup>3</sup> / Disability	-10	-	-	-	-	-10	-25
<b>Situation at 31.12.<sup>4</sup></b>	<b>305</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>21</b>	<b>329</b>	<b>371</b>

Remarks:

<sup>1</sup> It includes also entries and departures within the year.

<sup>2</sup> It includes resignations at 31.12, as well as entries and departures within the year.

<sup>3</sup> Partial retirements are not taken into account because the participant is still partly an active employee. The item includes both regular and early retirements, including those starting on 1st January of the following year.

<sup>4</sup> Participants with part-time contracts are considered as units.

In 2015 the amount of active employees decreased by 17 units net, whereas during the year it was reduced by 42 individuals. In 2016 the amount of (voluntary) terminations is higher than retirements.

## 2. Active employees and pensioners

### 2.1. Active employees

Structure by gender	31.12.2016	31.12.2015
Men	272	317
Women	57	54
<b>Total</b>	<b>329</b>	<b>371</b>

The women to men ratio has little changed compared to 2015, with an increase of importance of women from 14.56% to 17.33%.

Structure by age range	31.12.2016	31.12.2015
Less than 24 years	-	-
24-32 years	1	-
33-42 years	48	70
43-54 years	203	224
From 55 years	77	77
<b>Total</b>	<b>329</b>	<b>371</b>
Average age	49.8	49.1

In spite of the net decrease of the number of active employees in "43-54 years" range in 2016 compared to 2015, this class remains the most important covering 61.7% of the total (2015: 60.4%).

The light increase in Average age shows that in Fondo there is no generational turnover.

The trend of the active employees amount in the year is included in note 1.6.

### 2.2. Pensioners

Development	Retirement pensioners beneficiaries <sup>1</sup>	Disability pensioners beneficiaries <sup>2</sup>	Spouse pensioners beneficiaries	Children pensioners beneficiaries <sup>3</sup>	Total 2016	Total 2015
Situation at 1.1	119	4	17	14	154	145
+ Entries	4	-	4	2	10	13
+ / - Conversion	-	-	-	-	-	-
- Deaths / Terminations	-4	-	-	-2	-6	-4
<b>Situation at 31.12</b>	<b>119</b>	<b>4</b>	<b>21</b>	<b>14</b>	<b>158</b>	<b>154</b>

Remarks:

<sup>1</sup> It includes early and ordinary retirements.

<sup>2</sup> At ordinary retiring age, disability benefits are turned into retirement pensions. Partial invalid is considered as a unit. In case of partially active employees, the participants is considered both as active employee and disabled beneficiary.

<sup>3</sup> It includes the children of beneficiaries (of retirement and disability benefit) and orphans.

In line with it was occurred in the Fondazione, also in the Fondo there is a significant number of retirement (+10). The net amount of the pensioners' increases only by 4 units because to many people was paid the lump sum retirement capital.

The 158 pensioners include 4 individuals for whom the Fondo is refunded of the paid benefits by the insurance company "Helvetia", since the Pension Fund has reinsured the disability and death risk with Helvetia (see note 5.1).

Structure by age range	Retirement pensions beneficiaries	Disability pensions beneficiaries	Spouse pensions beneficiaries	Children pensions beneficiaries	Total 2016	Total 2015
Less than 18 years	-	-	-	6	6	4
18-24 years	-	-	-	8	8	10
25-54 years	-	1	1	-	2	2
55-64 years	33	3	5	-	41	46
65-74 years	49	-	5	-	54	53
75-84 years	31	-	8	-	39	31
85-94 years	6	-	2	-	8	8
<b>Total</b>	<b>119</b>	<b>4</b>	<b>21</b>	<b>14</b>	<b>158</b>	<b>154</b>
Average age					66.3	65.5

Only 1 person of the 4 invalids in the table receives a disability pension. No pensions are paid now to the other 3 people; the retirement credits will be accrued until the retirement age, when a lump sum capital or a retirement pension will be paid.

Net transactions in 2016 and the more general constant increase in life expectancy have determined a slight increase of the relative weight of individuals in age range "75-84 years".

### 2.3. Ratio between active employees and pensioners

The ratio between active employees and pensioners has changed from 2.41 on 31 December 2015 to 2.08 on 31 December 2016.

The net reduction of active employees and the net increase of pensioners led to a further worsening of the demographic ratio.

In a scenario with a higher life expectancy of pensioners and lower underwriting of active employees, lacking extraordinary events, the negative trend on the demographic ratio is deemed to last over time.



### 3. Structure of the pension plan

#### 3.1. Explanation of the pension plan

The Fondo is based on the *defined contribution plan* and covers the portion of the fixed salary not insured by the Fondazione.

It is also allowed to insure in the Fondo additional vested benefits, like “Earnings from Vested benefit transfers” when the employee has reached the maximum in the Fondazione or free assets received in the past from previous pension funds.

The following table provides an overview of the benefits.

<b>Retirement age</b>	
Ordinary retirement age	64 years for women and men
Minimum retirement age	60 years for women and men
Maximum retirement age	70 years for women and men
<b>Retirement benefits</b>	
Type of benefit	Pension or capital (up to 100% of the employees' liabilities)
Retirement pension	Retirement savings capital multiplied by conversion rate
	60 years: 4.95%
	61 years: 5.05%
	62 years: 5.15%
	63 years: 5.30%
Conversion rates	<b>64 years: 5.45%</b>
Children's retirement benefits	10% of retirement pension
<b>Survivors benefits</b>	
Spouse / civil partner's pension	Active employee: 70% of the disability pension (at least 49% of the insured salary) Disabled individual: 70% of the disability pension Pensioner: 60% of the retirement pension
Orphan's pension	Active employee: 15% of the insured salary (see definition in note 3.2) Disabled individual: 15% of the insured salary Pensioner: 10% of the retirement pension
Lump-sum death benefit	100% of the insured salary + purchases in maximum retirement benefits, as well as capital savings in the supplementary account “Early Retirement Redemption” + the amount of retirement credit (after deducting the aforementioned purchases and supplementary account) at the time of the employee's death and net of the cash value of future benefits.
<b>Disability benefits</b>	
	70% of the insured salary until ordinary retirement age; depending on the working position, this % will be higher:
	Funzionari 80%
	Vicedirettori 80%
	Condirettori 80%
	Direttori 90%
	Condir. generali 90%
	Direttori generali 90%
Disability pension	
Children's disability pension	15% of the insured salary
<b>Vested termination benefits</b>	
Vested benefits	Vested termination benefits are defined in compliance with Art. 8.2 of the Pension Fund Regulation.

### 3.2. Financing

The table provides an overview of the main benchmark values of the pension plan. The Fondo shall borne all management costs.

<b>Insured salary</b>	The insured salary in principle corresponds to 7/6th of the annual basic salary (fixed annual basic salary excluding bonuses) minus the coordination amount that corresponds to 5/3rd of the single maximum AHV pension (CHF 28'200 in 2016) and minus 4 times the single maximum AHV pension (CHF 112'800 in 2016).			
<b>Risk contribution</b>	Employee:	2.0%		
Percentage of the insured salary	Employer:	3.0%		
<b>Total contribution</b>	<i>Standard contribution plan</i>			
	Age	Employee	Employer	Total
	18-23	2.0%	3.0%	5.0%
	24-32	6.0%	17.5%	23.5%
	33-42	7.0%	19.5%	26.5%
	43-52	8.0%	21.5%	29.5%
	53-64	9.0%	24.5%	33.5%
	<i>Plus contribution plan (+3%)</i>			
	Age	Employee	Employer	Total
	18-23	2.0%	3.0%	5.0%
	24-32	9.0%	17.5%	26.5%
	33-42	10.0%	19.5%	29.5%
	43-52	11.0%	21.5%	32.5%
	53-64	12.0%	24.5%	36.5%
	<i>Top contribution plan (+6%)</i>			
	Age	Employee	Employer	Total
	18-23	2.0%	3.0%	5.0%
	24-32	12.0%	17.5%	29.5%
	33-42	13.0%	19.5%	32.5%
	43-52	14.0%	21.5%	35.5%
	53-64	15.0%	24.5%	39.5%
Percentage of the insured salary				
<b>Retirement credit</b>	<i>Standard contribution plan</i>			
	Age	Employee	Employer	Total
	18-23	0.0%	0.0%	0.0%
	24-32	4.0%	14.5%	18.5%
	33-42	5.0%	16.5%	21.5%
	43-52	6.0%	18.5%	24.5%
	53-64	7.0%	21.5%	28.5%
	<i>Plus contribution plan (+3%)</i>			
	Age	Employee	Employer	Total
	18-23	0.0%	0.0%	0.0%
	24-32	7.0%	14.5%	21.5%
	33-42	8.0%	16.5%	24.5%
	43-52	9.0%	18.5%	27.5%
	53-64	10.0%	21.5%	31.5%
	<i>Top contribution plan (+6%)</i>			
	Age	Employee	Employer	Total
	18-23	0.0%	0.0%	0.0%
	24-32	10.0%	14.5%	24.5%
	33-42	11.0%	16.5%	27.5%
	43-52	12.0%	18.5%	30.5%
	53-64	13.0%	21.5%	34.5%
The Saving contributions of the employee and the employer in percentage of the insured salary which are accrued on an annual basis as Retirement credit.				

Regulations on early retirement are included in the employer's *General human resources Regulation*. The financial neutrality for the Fondo of the early retirement is confirmed.

### **3.3. Further information about pension plan activities**

The acquisition of BSI SA by EFG International AG in the second half of the year 2016 will have a medium-term impact also on the retirement pension and organizational schemes of the two banks' Pension Funds.

Once the first "transparency" stage has been completed, which entailed sharing key data of the two entities within a mixed working group, EFG International AG entrusted Willis Towers Watson (WTW) to carry out a benchmarking activity on the retirement plans of the banks, including a comparison between the two banks and an analysis on the retirement plans offered by peers in Switzerland.

Upon consideration of the medium-long time horizon in the social security business and the complexity of the matter, a further in-depth analysis will be required to identify the most suitable and solid vehicle for the future.

Notes 5.7 and 5.8 contain the detailed modifications to the technical bases implemented in 2016 compared to 2015.

## 4. Measurement and accounting standards, continuity

### 4.1. Statement of compliance with Swiss GAAP FER 26

Pursuant to article 47 of OPP2, the Fondo's accounts are submitted in compliance with the recommendations on the presentations of accounts Swiss GAAP FER 26 (1 Jan. 2014).

### 4.2. Accounting and valuation policies

#### 4.2.1. Bookkeeping and accounting policies

Valuation and bookkeeping policies are compliant with CO and OPP2 standards.

The Financial Statements closes on 31 December.

Financial accounting is managed internally by the Management of the Fondazione, asset management is entrusted to BSI SA and subcontracted to Patrimony 1873 SA.

#### 4.2.2. Valuation policies

Securities: end of the period value

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Current accounts: nominal value adjusted to end of the period exchange rate

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Derivatives: end of the period replacement value

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Liabilities: nominal value

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### 4.3. Changes in accounting, valuation and presentation policies

No modification in the accounting principles, valuation policies and presentation of the accounts have been made during 2016.

## 5. Actuarial risks, risk coverage and funding ratio

### 5.1. Type of risk coverage and re-insurance

The Fondo is a semi-independent pension fund. The *risk of longevity* and the *risk connected to the investment* of assets are fully borne by the Fondo. The risk of *disability and death* before the retirement age are covered by a collective reinsurance agreement with the insurance company "Helvetia", in Basel, which is in force since 1 January 2009. Owing to a change in regulation in 2015, the reinsurance agreement has been renegotiated with expiry date on 31 December 2018.

In 2016 the premium risk rate amounted to 2.78% of the total insured salaries (2015: 2.78%). Premium surcharges are applied on increased risks through separate calculation.

### 5.2. Development of Active employees' liabilities

The "Active employees' liabilities" are composed as follows:

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Vested benefits	94'395	116'685
Supplementary account "Early Retirement Redemption"	694	631
<b>Total of Active employees' liabilities</b>	<b>95'089</b>	<b>117'316</b>
<i>Number of active employees at 31.12.</i>	329	371

The interest rate on the "Vested benefit" is established at the beginning of each year by the Board upon consideration of the Fondo's financial situation. In 2016 the interest rate amounted to 1.25% (2015: 2.75%) and in 2017 it will be 1%.

In addition to the purchase of maximum benefits pursuant to article 28 of the Pension Fund Regulation, at any moment an active employee can offset in full or in part with personal contributions the reduction of the benefits generated by early retirement. Contributions are accrued in the supplementary account "Early Retirement Redemption".

Supplementary account "Early Retirement Redemption" (article 29 of the Pension Fund Regulation) is also subject to interests. The interest rate is established on an annual basis by the Board and for years 2015, 2016 and 2017 is in line with the rate on "Vested benefits".

The trend of "Active employees' liabilities" is as follows:

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Liabilities at 1.1.	117'316	106'564
Employers and employees saving contributions	7'255	6'483
Earnings from Vested benefit transfers	0	275
One-time payments and purchase amounts	2'863	8'454
Buy-ins following a divorce	50	111
Withdrawals for residential property and divorce	-1'477	-50
Departures of vested benefits	-16'955	-3'654
Retirement capital	-5'568	-2'028
Transfers to Pensioners' liabilities	-9'740	-1'748
Interest	1'345	2'909
<b>Liabilities at 31.12.</b>	<b>95'089</b>	<b>117'316</b>
<i>Number of active employees at 31.12.</i>	329	371

The reduction by CHF 22.227 mln of the "Active employees' liabilities" is mainly due to the significant outflow both of vested benefits in 2016 (+ CHF 13.301 mln compared to 2015) and for retirements (+ CHF 7.992 mln for transfers to Pensioners' liabilities and + CHF 3.540 mln for retirement capitals compared to 2015).

In addition in 2016 the active employees paid minor "One-time prepayment and purchase amounts" by CHF 5.591 mln.

### 5.3. Total retirement savings capital in accordance with LPP

The insured benefits are above the LPP minimum of law.

### 5.4. Development of Pensioners' liabilities

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Situation of Pensioners' liabilities at 1.1	76'854	77'489
Updating following changes in Pension Fund Regulation and new calculation as of 31.12	7'238	-635
Updating following changes in technical bases	1'549	0
Updating following changes in technical interest rate	2'350	0
<b>Total of Pensioners' liabilities at 31.12</b>	<b>87'991</b>	<b>76'854</b>
<i>Number of pensioners' at 31.12.</i>	158	154

The item "Update following changes in the Pension Fund Regulation and new calculations as of 31 December" amounts to CHF 7.238 mln and it includes the capital transfers from the "Active employees' liabilities" for retirement of the year (2016: CHF 9.740 mln), the pensions paid in the period, the "implicit" interests at the technical interest rate on the initial capital, and the other evolutions of the year in the "passive" population (for instance terminations of the pensions for children, conversions of the retirement pensions into spouse pensions and redemptions for deaths which were lower than expectations in 2016).

The modification of technical bases detailed in note 5.8 amounts to a total of CHF 3.899 mln in 2016.

### 5.5. Composition, development and explanation of Actuarial provisions

In order to adequately cover all benefits under regulation, to prevent potential deviations from the actuarial bases and to consider possible future changes in salaries, the following actuarial provisions have been implemented.

In all tables of the following paragraphs:

- the item "Update following changes in technical bases" relates to the cost of moving from the LPP 2010 generational tables to LPP 2015 generational tables;
- the item "Update following changes in technical interest rate" relates to the cost of moving from a 2.75% technical interest rate to a 2.5% technical interest rate.

#### 5.5.1. Conversion rate provision (Active employees')

Conversion rates of active employees are periodically controlled and adjusted to the new actuarial bases and the new technical interest rate. The actuary periodically checks the rates used and suggests to the Board the modifications which are deemed appropriate and the required provisions to finance the changes. This provision is defined in order to cover the deficit generated by the difference between the regulatory conversion rate and the rate correctly calculated according to the actuarial bases used. To determine the provision, all active employees over 55 years of age and insured according to the defined contribution plan are considered with reference to the regular retirement age.

Since technical bases in the Pension Fund Regulation in force (to calculate conversion rates) fail to match with the technical bases employed in the balance sheet, the provision by conversion rates has been replenished in 2015 and updated in 2016.

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Situation at 1.1	778	-
Updating following changes in Pension Fund Regulation and new calculation as of 31.12	-434	778
Updating following changes in technical bases	351	-
Updating following changes in technical interest rate	654	-
<b>Situation at 31.12</b>	<b>1'349</b>	<b>778</b>

The reduction of CHF 0.434 mln in the item "Update following changes in the Pension Fund Regulation and new calculations as of 31 December" is substantially due to the release of the provision following the significant outflows occurred in the year.

The modification of technical bases detailed in note 5.8 amounts to a total of CHF 1.005 mln in 2016.

#### 5.5.2. Provision for increase in pensioners' life expectancy

The overall bank system in Switzerland shows a lower mortality rate in statistics than the average rate contained in the mortality tables used for the period 2016. Subsequently, we expect the pensioners of the Fondo to have a longer life expectancy, which results in the payment of benefits for a longer period. It is therefore necessary to strengthen the "Pensioners' liabilities" with an additional provision.

The provision for the longevity risk is calculated assuming that beneficiaries of retirement pensions, spouses and civil partners and recipients of life disability pensions are half a year younger. The target amount of the provision corresponds to the difference between the obtained pension liabilities and the corresponding pension liabilities calculated with original birth dates.

The ultimate target of this provision amounts to 1.7% of the total Pensioners' liabilities. As of 31 December 2014 this provision amounted to 0.7% of the total pensioners' liabilities and it has been increased by 0.25% for every following year until the target will be reached. If the Fondo's coverage ratio on the calculation date exceeds 110%, this provision is immediately set up in full. As of 31 December 2016, the provision amounted to 1.19% of the total "Pensioners' liabilities".

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Situation at 1.1	725	538
Updating following changes in Pension Fund Regulation and new calculation as of 31.12	277	187
Updating following changes in technical bases	19	-
Updating following changes in technical interest rate	28	-
<b>Situation at 31.12</b>	<b>1'049</b>	<b>725</b>

The modification of technical bases detailed in note 5.8 amounts to a total of CHF 0.047 mln in 2016. The cost of CHF 0.277 mln however refers to the new retirements of the year.

### 5.5.3. Provision for technical interest rate

A reduction of the technical interest rate increases the value of Pension liabilities and actuarial provisions. If the Fondo foresees to decrease again the technical interest rate in future, a specific provision could be made.

The value of the provision correspond to the difference between the Pension liabilities and actuarial provisions evaluated with the foreseen decreased technical interest rate and the Pension liabilities and actuarial provisions calculated with the technical bases in the note 5.7. The constitution of the provision could also be made with a gradual approach depending on the time and the amount of the foreseen decrease. The provision will be released when the new technical interest rate is applied.

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Situation at 1.1	-	-
Updating following changes in Pension Fund Regulation and new calculation as of 31.12	-	-
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	3'234	-
<b>Situation at 31.12</b>	<b>3'234</b>	-

Since the benchmark technical interest rate for 30 September 2016 defined by the Swiss Chamber of Pension Actuaries is 2.25% with downward trend in future years, the pension actuary considers worthwhile create a Provision for technical interest rate in 2016 by CHF 3.234 mln to finance future decreases of it from 2.5% to 2.25%.

### 5.5.4. Other actuarial provisions

The pension actuary can provide for further provisions, as those illustrated in the "Regulation of actuarial provisions", such as the "Active Employees' Death and Disability Risk Provision", the "Benefit Provision for Pending cases", the "Other Actuarial Provisions" for non regulated cases, which are deemed necessary to suitably finance the pension scheme.

As for 2016, the actuary did not deem necessary to set up any of these specific provisions (31.12.2015: 0).

### 5.5.5. Summary of Actuarial provisions

<i>Evolution summary of actuarial provisions</i>	31.12.2016	31.12.2015
	CHF/000	CHF/000
Situation at 1.1	1'503	538
Updating following changes in Pension Fund Regulation and new calculation as of 31.12	-157	965
Updating following changes in technical bases	370	-
Updating following changes in technical interest rate	3'916	-
<b>Situation at 31.12</b>	<b>5'632</b>	<b>1'503</b>

<i>Composition summary of actuarial provisions</i>	31.12.2016	31.12.2015
	CHF/000	CHF/000
Conversion rate provision	1'349	778
Provision for increase in pensioners' life expectancy	1'049	725
Provision for technical interest rate	3'234	-
<b>Total of actuarial provisions</b>	<b>5'632</b>	<b>1'503</b>



## 5.6. Conclusions of the last actuarial report

On February 2017 Willis Towers Watson released the Fondo's technical annual report as of 31 December 2016. The document includes the following remarks:

- the regulatory actuarial provisions for benefits are compliant with legal requirements;
- the Fondo's coverage ratio as of 31 December 2016 in compliance with article 44, paragraph 1 OPP2 amounts to 102.3% (31.12.2015:104.8%);
- the 2.5% technical interest rate is higher than both the benchmark technical interest rate for 30 September 2016 (defined at 2.25% by the Swiss Chamber of Pension Actuaries) and the expected return on assets in the medium/long term as calculated by PPCMetrics. On 31 December 2016 the technical rate was reduced from 2.75% to 2.5% and was created a provision for future decrease of it to 2.25%. The actuary recommends the Board to finalize the decrease of the technical rate to 2.25% in a relatively short time;
- the Fondo is also valuated according to a conservative and prudential approach by implementing the LPP 2015 generational tables year 2017 in the year, which correspond to the more recent technical bases;
- the target of the Fluctuation reserve is 16.5% of the Pension liabilities and actuarial provisions and it is defined upon the actuary's opinion according to sufficiently prudential principles (see note 6.2, calculation by PPCMetrics);
- the financing of old-age, disability and death benefits, as well as of administrative expenses, is sufficient.

On 31 December 2016 the Fondo is sufficiently covered. The current financing is sufficient and the promised benefits are fully insured by the pension liabilities and the actuarial provisions corresponding to the "going-concern" scenario. The likelihood of under-coverage is high when the "net income from investments" is lower than the expected return in the medium term.

The company EFG International AG acquired BSI SA in 2016 and they announced a future reorganization. Details are still pending and it is therefore impossible to understand the financial impact on the Fondo. The actuary recommends to observe the situation and to decide on measures, if necessary.

## 5.7. Technical bases and other significant actuarial assumptions

The relevant actuarial bases and the technical rate for the calculation of the mathematical provisions are defined by the Board on an annual basis upon proposal of the pension actuary.

As of 31 December 2016, the actuarial calculations have been made according to the following assumptions:

- **LPP 2015 generational actuarial bases of the year 2017** (31.12.2015: LPP 2010 generational bases of the year 2016). The technical bases provide a defined indication on the expected mortality rate, disability rate, marriage likelihood, age of the spouse, number of children and other elements relating to a pension fund's population. Particularly they provide an indication on the average life expectancy of pensioners.
- **Technical rate 2.5%** (31.12.2015: 2.75%). This parameter allows to attach a current value to future pensioners' benefits, which can also be seen as the expected long term return on assets.

## 5.8. Changes in technical bases and actuarial assumptions

In 2016 the generational actuarial bases moved from LPP 2010 to LPP 2015, and the technical rate was reduced from 2.75% to 2.5%. The table below summarizes the impact of such modifications:

	Date	31.12.2016	31.12.2016	31.12.2016	31.12.2015
	Base	LPP 2015-G17	LPP 2015-G17	LPP 2010-G17	LPP 2010-G16
	Rate	2.50%	2.75%	2.75%	2.75%
		CHF/000	CHF/000	CHF/000	CHF/000
Active employees' liabilities		95'089	95'089	95'089	117'316
Pensioners' liabilities		87'991	85'640	84'091	76'854
Conversion rate provision		1'349	695	344	778
Provision for increase in pensioners' life expectancy		1'049	1'021	1'002	724
Provision for technical interest rate		3'234	-	-	-
<b>Total of pension liabilities and actuarial provisions</b>		<b>188'712</b>	<b>182'445</b>	<b>180'526</b>	<b>195'672</b>
	Variation	6'267	1'919	-15'146	

The change in the technical bases defined a total increase of CHF 8.186 mln in the pension liabilities and actuarial provisions.

<i>Evolution of pension liabilities and actuarial provisions</i>	<b>31.12.2016</b>	<b>31.12.2015</b>
	CHF/000	CHF/000
Situation at 1.1	195'672	184'590
Updating following changes in Pension Fund Regulation and new calculation as of 31.12	-15'146	11'082
Updating following changes in technical bases	1'919	-
Updating following changes in technical interest rate	6'267	-
<b>Situation at 31.12</b>	<b>188'712</b>	<b>195'672</b>

### 5.9. Employer contribution reserve (ECR) with waiver of use

BSI SA did not waive the future use of the residual ECR of CHF 2'150'503 as of 31 December 2016.

### 5.10. Funding ratio in accordance with article 44 OPP2, paragraph 1

	<b>31.12.2016</b>	<b>31.12.2015</b>
	CHF/000	CHF/000
<b>Pension liabilities and actuarial provisions (PL)</b>	<b>188'712</b>	<b>195'672</b>
Total assets	203'584	209'948
./. Accounts payable	-8'165	-1'987
./. Accrued liabilities and deferred income	-177	-708
./. Employer contribution reserve	-2'151	-2'151
<b>Net pension assets (NPA)</b>	<b>193'091</b>	<b>205'102</b>
<b>Funding ratio (NPA/PL)*100</b>	<b>102.3%</b>	<b>104.8%</b>

The funding ratio lost 2.5%, going from 104.8% at the end of 2015 to 102.3% on 2016 year end.

The worsening of the funding ratio is due to a decrease in Net pension assets by CHF 12.011 mln (mainly related to the significant outflow of vested benefits) and a minor decrease by CHF 6.960 mln in Pension liabilities and actuarial provisions (the increase in liabilities owing to the change in the technical bases was partially offset by the turnover releases).

The year 2016 closed with an expense surplus of CHF 5.050 mln before the use of the fluctuation reserve (dissolution 2015 CHF 5.595 mln).

The expense surplus is due to the negative income of the insurance activity by CHF 11.718 mln (of which CHF 8.186 mln due to the change in the technical bases) and it was only partially offset by the "Net income from investments" of CHF 6.973 mln, which amounts to a net income of 3.63% on "passive capitals" (calculated as the simple average of the starting and end of the year values of the "Pension liabilities and actuarial provisions"; 2015: 0.56%).

## 6. Explanatory notes on Investments and Net income from investments

### 6.1. Organization of investing activity, investment regulation

In compliance with the Organization Regulation, the Board of Foundation is responsible for the following asset management activities:

- defining the investment policy;
- implementing the investment strategy;
- monitoring and controlling asset management and relevant performances;
- executing all detailed tasks included in the Investment Regulation.

The general principles state that the Fondo's assets are to be managed as follows:

- promised benefits are to be timely paid;
  - investment risk capacity is to be complied with, and nominal security of promised benefits is to be guaranteed;
  - in the framework of risk capacity, the overall return (current income and value variations) is to be maximized.
- In so doing, a significant contribution to the real financing of benefits shall be possible in the long term.

In 2016 the Fondo has invested securities exclusively in collective funds (without any possibility to bindingly exercise the right of vote) and subsequently the Pension Fund has never been called upon to exercise its right of vote pursuant to article 22 of OReSA.

**Asset management** is entrusted to BSI SA, Lugano (employer).

Management mandates stipulated with BSI SA ("misto attivo" portfolio updated as of 1 December 2014 and "Hedge Funds Portfolio" in force since 1 September 2013) adopted the permitted investment limits and asset classes as defined by the Investment Regulation.

Upon agreement signed on 7 September 2012, BSI SA fully **delegated** to the subsidiary "Patrimony 1873 SA" the "misto attivo" portfolio management of the Fondo. Such asset management is carried out by the Head Portfolio Manager, Ognà Ronald (deputy: Campana Marco).

Portfolio Managers:

- they are in charge of asset management related to the different asset classes according to the precise and specific instructions included in the mandate;
- they complete asset transactions based on the guidelines and directives precisely agreed in writing;
- they provide the Fondo with periodical reports on asset performance. To this end, they draft a report on their activity in the period under reporting and they provide a verbal report (if necessary) to the manager and to the Board.

Since 1 January 2012 the Board has entrusted an independent **Investment Controller** (PPCMetrics) to carry out a timely and correct control of asset transactions completed by the Portfolio Manager.

## 6.2. Target value and calculation method of the Fluctuation reserve

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Situation at 1.1 of Fluctuation reserve	9'430	15'025
Release (-) / Creation in operating account	-5'050	-5'595
<b>Fluctuation reserve at 31.12.</b>	<b>4'380</b>	<b>9'430</b>
<b>Target Fluctuation reserve</b>	<b>31'137</b>	<b>32'873</b>
Shortfall in Fluctuation reserve	26'757	23'443

In order to offset the fluctuations of assets and guarantee the required interest rate on benefits, a Fluctuation reserve has been set up in the liabilities side of the balance sheet. The required size of this reserve is defined from the moment of closing on 31 December 2012 according to the so called financial method illustrated in the Investment Regulation.

The Fluctuation reserve is defined by a combination of the historical characteristics of risk (volatility, correlation) with the expected returns (risk free interest rate and risk premium) of the different asset classes; the entire process is based on the Fondo's investment strategy. Furthermore, the Fluctuation reserve guarantees with a sufficient degree of certainty a minimum interest rate on the pension tied up capital. The size of the Fluctuation reserve is expressed in a percentage of benefits.

In defining the bases for the calculation of the Fluctuation reserve, both the going-concern principle and the money market situation are to be considered.

The functionality of the reserve size is controlled on a yearly basis or, if extraordinary events require it, it is modified by the Board.

The formula to calculate the Fluctuation reserve is as follows:

$$ROV = \frac{(1 + RM)}{e^{\ln(1 + E(R))t - z\sigma\sqrt{t}}} - 1$$

RM = Minimum Return

E(R) = Expected Return from strategy

$\sigma$  = Volatility (risk) of strategy

z = Z – Standard distribution score  
(based on the chosen confidence level)

t = Time horizon

The target of the Fluctuation reserve for the current year is 16.5% of the total pension liabilities and actuarial provisions (31.12.2015: 16.8%).

In 2016 CHF 5.050 mln of the Fluctuation reserve were used (31.12.2015: CHF 5.595 mln used).

### 6.3. Presentation of investments by category, compliance with OPP2 and Investment regulation limits

As of 31 December 2016 all category limits pursuant to OPP2 (article 55) and the fluctuation margins on the total assets were respected.

From a tactical standpoint, at the end of 2016 the portfolio was characterized by a defensive approach towards bonds (with a clear underweighting) and underweighting of Emerging Markets equities.

In the ending period of 2016, especially in November, we witnessed a general increase in interest rates and a subsequent adjustment of bond markets and Swiss real estate funds performance. Given the risk of significant capital losses which would fail to be offset by still very limited returns and/or negative returns, the asset manager has underweighted bonds in favor of cash.

	31.12.2016		Global strategy limit			OPP2 limits
	Total assets		from 1.9.2013			
	CHF/000	in %	Min	Neutral	Max	
Operative cash in CHF <sup>1</sup>	7'484	3.7%				
Cash under mandate in CHF <sup>1</sup>	8'843	4.3%				
Cash under mandate in foreign currencies <sup>1</sup>	765	0.3%				
Money market in CHF and USD <sup>1</sup>	7'845	3.9%				
<b>Total of liquid funds</b>	<b>24'937</b>	<b>12.2%</b>	<b>0.0%</b>	<b>1.0%</b>	<b>35.0%</b>	
Swiss bonds <sup>1</sup>	35'209	17.3%	17.0%	25.5%	34.0%	
Foreign bonds (hedged) <sup>1</sup>	37'878	18.6%	14.0%	21.0%	28.0%	
Emerging markets bonds <sup>1</sup>	0	0.0%	0.0%	0.0%	5.0%	
<b>Total of bonds</b>	<b>73'087</b>	<b>35.9%</b>	<b>31.0%</b>	<b>46.5%</b>	<b>67.0%</b>	
Swiss equities <sup>2</sup>	12'131	6.0%	0.0%	5.5%	8.5%	
Foreign equities <sup>2</sup>	53'276	26.2%	0.0%	25.0%	34.0%	
Emerging markets equities <sup>2</sup>	4'496	2.1%	0.0%	4.5%	6.5%	
<b>Total of equities</b>	<b>69'903</b>	<b>34.3%</b>	<b>0.0%</b>	<b>35.0%</b>	<b>49.0%</b>	<b>50.0%</b>
Hedge Funds (hedged)	9'773	4.8%	3.0%	4.5%	6.0%	
<b>Total of alternative investments</b>	<b>9'773</b>	<b>4.8%</b>	<b>3.0%</b>	<b>4.5%</b>	<b>6.0%</b>	<b>15.0%</b>
Indirect real estate	23'935	11.8%	9.0%	13.0%	17.0%	
<b>Total of real estate</b>	<b>23'935</b>	<b>11.8%</b>	<b>9.0%</b>	<b>13.0%</b>	<b>17.0%</b>	<b>30.0%</b>
Other investments	1'949	1.0%		0.0%		
Prepayments and accrued income	0	0.0%		0.0%		
<b>Total of other assets and prepayment and accrued income<sup>1</sup></b>	<b>1'949</b>	<b>1.0%</b>		<b>0.0%</b>		
<b>Total assets (art. 49 OPP2)</b>	<b>203'584</b>	<b>100.0%</b>				
Foreign currencies unhedged <sup>3</sup>	8'535	4.2%	0.0%	8.5%	17.0%	30.0%
Cash under mandate with the employer	9'608	4.7%				5.0%

<sup>1</sup> Individual investment limit per debtor in force since 1st January 2011: 10%

<sup>2</sup> Limit per participation: 5%

<sup>3</sup> Split of items without hedging for currency risk as contained in the Investment Controlling Report as of 31st December 2016.

As of 31 December 2016 the Fondo's total cash amounts to 12.2% (2015: 9.8%) of total assets and it is composed by:

- Operating cash: CHF 7.484 mln (3.7% of total assets);
- Cash under "misto attivo" mandate (in CHF and foreign currency): CHF 9.352 mln (4.6% of total assets);
- Hedge funds cash deposit: CHF 0.256 mln (0.1% of total assets);
- Money market funds in CHF and USD: CHF 7.845 mln (3.9% of total assets).

The negative replacement value of open financial derivatives instruments as of 31 December 2016 amounting to CHF 77'275 (31.12.2015: CHF 28'380) is included in the "Accrued liabilities and deferred income" item.

Existing positive replacement values of open financial derivatives instruments are entered in the "Prepayments and accrued income" item (amounting to zero on 31 December 2015 and 31 December 2016).

See note 6.5 for the breakdown of open financial derivatives instruments as of 31 December 2016.

#### 6.4. Compliance with BSI SA asset management mandates limits

As of 31 December 2016 all limitations to steering provided by the “misto attivo” mandate have been respected.

	31.12.2016		Limits of “misto attivo” mandate		
	“misto attivo” portfolio		from 1.9.2013		
	CHF/000	in %	Min	Neutro	Max
Cash under mandate in CHF	8'587	4.7%			
Cash under mandate in foreign currencies	765	0.4%			
Money market in CHF and USD	7'845	4.3%			
<b>Total of liquid funds</b>	<b>17'197</b>	<b>9.4%</b>	<b>0.0%</b>	<b>0.5%</b>	<b>30.0%</b>
Swiss bonds	35'209	19.1%	18.5%	27.0%	35.5%
Foreign bonds (hedged)	37'878	20.6%	15.0%	22.0%	29.0%
Emerging markets bonds	0	0.0%	0.0%	0.0%	5.0%
<b>Total of bonds</b>	<b>73'087</b>	<b>39.7%</b>	<b>33.5%</b>	<b>49.0%</b>	<b>69.5%</b>
Swiss equities	12'131	6.6%	0.0%	6.0%	8.5%
Foreign equities	53'276	28.9%	0.0%	26.5%	35.5%
Emerging markets equities	4'496	2.4%	0.0%	4.5%	6.5%
<b>Totale of equities</b>	<b>69'903</b>	<b>37.9%</b>	<b>0.0%</b>	<b>37.0%</b>	<b>50.5%</b>
Indirect real estate	23'935	13.0%	9.5%	13.5%	17.5%
<b>Total of real estate</b>	<b>23'935</b>	<b>13.0%</b>	<b>9.5%</b>	<b>13.5%</b>	<b>17.5%</b>
<b>Total of misto attivo portfolio</b>	<b>184'122</b>	<b>100.0%</b>		<b>100.0%</b>	

For what concerns the “Hedge Funds Portfolio” mandate, as you can see in note 6.3, all limitations set by the Fondo’s global strategy have been respected (neutral weight 4.5%, with fluctuation range from 3% to 6% of the global assets).

#### 6.5. Open financial derivatives instruments

Open financial derivatives instruments as of 31 December 2016 and 31 December 2015 are completely aimed at hedging foreign currency investments.

Progressive	Expiry	Volume at 31.12.2016			31.12.2016
					CHF
1	31.03.2017	Sell	3'000'000	EUR/CHF	-19'167
2	31.03.2017	Sell	9'095'000	EUR/CHF	-58'108
<b>Market value of open financial derivatives instruments at 31.12.2016</b>					<b>-77'275</b>
<i>Market value of open financial derivatives instruments at 31.12.2015</i>					<i>-28'380</i>

### 6.6. Comments on Net income from investments

For a better reading of the "Net income from investments" the balance sheet and operating account items referring to the total assets of the Fondo or respectively to the asset management mandates with BSI SA managements were considered as described in the following table:

	Total assets	of which BSI mandates
	CHF	CHF
Assets at 31.12.2016	203'584'211	194'150'676
Assets at 1.1.2016	209'947'963	201'056'641
<b>Average investment</b>	<b>206'766'087</b>	<b>197'603'659</b>
Net income from Liquid funds*	128'028	117'530
Net income from Swiss bonds	168'741	168'741
Net income from Foreign bonds	829'153	829'153
Net income from Swiss equities	-241'083	-241'083
Net income from Foreign equities	4'924'825	4'924'825
Net income from Alternative investments	-57'329	-57'329
Net income from Indirect real estate	2'291'854	2'291'854
Net income from Derivatives	76'567	76'567
Retrocessions received	12'007	12'007
Asset management expenses	-1'159'997	-1'159'997
<b>Total of Net income from investments</b>	<b>6'972'766</b>	<b>6'962'268</b>
<b>Income in % of average investment at 31.12.2016</b>	<b>3.37%</b>	<b>3.52%</b>
<i>Income in % of average investment at 31.12.2015</i>	0.50%	0.52%

\* The income which is not allocated to BSI mandates refers to the operative cash.

The "Net income from investments" increased from CHF 1.064 mln in 2015 to the current 6.973 mio. A decisive contribution to the positive performance in the period came from Foreign equities and real estate funds.

Remarks on the "Asset management expenses" are outlined in note 6.7.

Remarks on the "Retrocessions received" are outlined in note 6.9.

Since the amount of forward currency transactions of CHF 76'567 is meant to full hedge the asset management mandates portfolio, it has been fully included in the amount of asset managed under mandate (2015: CHF 4 mln).

## 6.7. Comments on Asset management expenses

In compliance with articles 65, paragraph 3 LPP and 48a, paragraph 1 OPP2, and pursuant to the Swiss GAAP FER 26, "Asset management expenses" include:

- the expenses pertaining to the period and **directly debited** to the Fondo for completed services and transactions. They include: commission fees for asset management (such as *flat fees* for management commissions, custodian fees and security trading costs); charge of commissions for custodian fees paid by BSI; third party broker commission fees, settlement expenses and tax on single transactions (or "*Transaction and tax cost – TTC*"); expenses invoiced from the investment controller (or "*Supplementary Cost – SC*");
- **indirect expenses** offset with revenues or assets in the collective investment schemes and calculated according to the "*Total Expense Ratio - TER*". The relevant asset classes' amounts in the "Net income from investments" have increased accordingly.

### 6.7.1. Total of all recognized cost indicators of collective investment schemes as per operating account

As of 31 December 2016, the total value of collective investment's expense ratios calculated with the TER ratio amounts to CHF 0.752 mln (31.12.2015: CHF 0.825 mln).

### 6.7.2. Total of Asset management expenses reported in the operating account in % of transparent investments

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Direct costs (TTC and SC)	408	392
Indirect costs (calculated based on the cost ratio TER)	752	825
<b>Total of asset management expenses</b>	<b>1'160</b>	<b>1'217</b>
Total of transparent investments	194'151	201'057
<b>Asset management expenses as a % of transparent investments</b>	<b>0.60%</b>	<b>0.61%</b>

Indirect expenses are impacted by 33.5% by the Hedge Funds expenses estimated with TER ratio (2015: 29.7%), whose asset class covers 4.8% of the total assets as of 31 December 2016 (2015: 4.8%).

### 6.7.3. Cost transparency ratio

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Transparent investments	194'151	201'057
Asset management mandates investments	194'151	201'057
<b>Cost transparency ratio</b>	<b>100.0%</b>	<b>100.0%</b>

### 6.7.4. List of investments for which asset management expenses are unknown (article 48a, paragraph 3 OPP2)

Persuant to art. 48a, paragraph 3 OPP2, on 31 December 2016 there are no investment without details about asset management expenses (31.12.2015: none).



## 6.8. Explanation of investments and other receivables with the employer

Investments with the employer	31.12.2016		OPP2 limits	Article
	CHF/000	in %		
Operative cash in BSI SA <sup>1</sup>	7'484	3.68%		UFAS journal n° 84/486
Cash under mandate in BSI SA <sup>1</sup>	9'608	4.72%	5.00%	57 par.2
Prepayments and accrued income with employer	0	0.00%		
<b>Total investments with the employer BSI SA</b>	<b>17'092</b>			
Total assets (art. 49 OPP2)	203'584	100%		

<sup>1</sup> Remuneration rate for 2016 ranges from 0% to 0.3% (2015: 0% - 0.5%)

In case of a Bank's Pension Fund (see UFAS journal N° 84 /486), operating cash should not be calculated as "Investment with the employer" (see 5% limit; article 57 OPP 2) and it shall not affect the Portfolio Manager's activity and performance.

On 10 October 2013 the Fondo entered into a collateral contract with BSI SA; as employer the bank commits to guarantee the cash of the Fondo deposited on the asset management current accounts ("misto attivo" mandate and Hedge Fund portfolio) by setting up a collateral deposit. As of 31 December 2016 the collateral deposited amounts to CHF 10.227 mln with a 106.4% hedging of the invested capital with the employer.

## 6.9. Retrocessions

During 2016 the Fondo received CHF 12'007 by BSI SA as net "retrocessions" collected by the Bank from third parties for asset management in the year 2015 (the collected amount in 2015 relating to the year 2014 was CHF 17'392).

## 7. Comments on other balance sheet and operating account positions

### 7.1. Prepayments and accrued income

The item "Prepayments and accrued income" amounts to zero also in 2016.

### 7.2. Accrued liabilities and deferred income

The item "Accrued liabilities and deferred income" includes liabilities against LPP guarantee fund, the negative replacement value for forward contracts open at end of year, invoices to be received from third parties for expenses with competence in the period and deferred income from revenues pertaining to future periods.

## 8. Requirements of the Supervisory Authority

Upon decision dated 28 June 2016, the Supervisory Authority acknowledged the annual report 2015.

On 9 March 2016 the Supervisory Authority confirmed the *formal assessment* of the "Investment Regulation" and the "Organization Regulation" (approved by the Board on 29 January 2016 and valid from 29 January 2016).

Moreover the following documents have been sent to the Supervisory Authority, and presently we have not yet receive any confirmation of assessment:

- on 13 January 2017 the new "Pension Fund Regulation" approved by the Board on 13 December 2016 and valid from 1 January 2017);
- on 1 March 2017 the new "Actuarial Provisions Regulation" approved by the Board on 10 February 2017 and valid from 31 December 2016).

## 9. Further information regarding the financial situation

During 2016 the Board has informed more than once active employees and pensioners on the situation of the Fondazione and the Fondo (hereinafter "Foundations"). Specifically:

- A communication note dated 18 February 2016 informed all active employees on the new benchmark amounts of occupational pension, remuneration interests 2016, coverage ratio and performance 2015, pension certificates 2016, higher scale of contribution and buy-backs 2016.
- A communication note dated 22 February 2016, simultaneous to the receipt of the benefit certification, informed all beneficiaries about relevant information, such as the coverage ratio and the performance 2015, the Pension Fund Regulation, the information and communication duty, and the Delegates Assembly 2016.
- A communication note dated 14 April 2016 posted on the company's web portal, simultaneous to the receipt of the pension certificate 2016, informed all active employees about the integrations to the relevant guidelines for readers.
- On 24 May 2016 detailed information on the annual report 2015 was released and made available to all active employees and pensioners respectively by posting on the company's web portal and letter sent by post to their domiciles.
- On 22 August 2016 the new form for withdrawal or pledge of retirement savings capital, principal residence purchase or building was explained and published on the company's web portal.
- Following the BSI employer's acquisition by EFG, on 10 October 2016 all employees were informed about the creation of a mixed work group aimed at assessing the pension plans and organizational solutions of the two banks' pension funds.  
On the same date, all employees were informed about the changes occurred in the Board.
- On 28 October 2016, all active employees were informed about end of the year deadlines.
- On 3 February 2017 all employees were informed about the main modifications to the Pension Fund Regulation after the Revision of the divorce law enforced on 1 January 2017.
- A communication note dated 16 February 2017 informed all active employees on the new benchmark amounts of occupational pensions, remuneration interests 2017, coverage ratio and performance 2016, pension certificates 2017, higher scale of contribution and buy-backs 2017.
- A communication note dated 16 February 2017, simultaneous to the receipt of the benefit certification, informed all beneficiaries about relevant information, such as the coverage ratio and the performance 2016, the Pension Fund Regulation, the information and communication duty, and the Delegates Assembly 2017.

### 9.1. Underfunding / measures taken (article 44 OPP2, paragraph 2)

During 2016 no measures have been introduced since not necessary.

### 9.2. Waiver of use by the employer of the ECR

BSI SA did not waive to the contribution reserve amounting to CHF 2'150'503.

### 9.3. Partial liquidations

The "Regulation on partial and full liquidation and merger" in force provides that requirements for a partial liquidation are met:

- a) If staff and active personnel's vested termination benefits decrease at least by 15% due to terminations. If personnel reduction occurs due to the same reason, requirements are anyway met for a period of one to two years;
- b) In case the employer exiting certain business activities or divestment of individual business activities to other non affiliated companies to the Fondo. In both events, the measures must involve at least 10% of the entire staff;
- c) If an affiliation agreement is terminated. In such case, the amount of affiliated employees must correspond to at least 5% of the entire staff.

In the two year period 2015-2016 individual business activities were not exited by the employer and affiliation contracts have not been terminated, thus requirements b) and c) are not met.

However, given the significant amount of active employees' terminations for reasons other than retirement, the Board with the assistance of the pension actuary assessed whether the requirements at point a) of the Regulation were met for the period 2015-2016 with negative outcome.

The assessment will be repeated on the two year period 2016-2017.

**9.4. Separate accounts**

Not applicable.

**9.5. Pledge of assets**

Not applicable.

**9.6. Joint liabilities and guarantees**

Not applicable.

**9.7. Pending legal proceedings**

In 2016 no pending legal proceedings were brought against the Fondo.

**9.8. Special business and asset transactions**

Not applicable.

## 10. Events after the balance sheet date

Asset transfer agreement BSI EFG

With reference to note 1.1, we specify that the integration of the employer BSI SA into EFG Bank in Zurich after the annual report's date was finalized through asset transfer agreement and the transfer of employees from BSI SA to EFG Bank in Zurich. The work group dealing with the harmonization of the Pension Funds decided to maintain the two Pension Funds separated until a new social security model for the bank is defined. In the meanwhile, former BSI employees will continue to be insured through their current Pension Funds.

# Report of the statutory auditor on the financial statements 2016



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To the Foundation Board of  
**Fondo complementare di previdenza BSI SA, Lugano**

Lugano, 11 April 2017

## Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Fondo complementare di previdenza BSI SA, which comprise the balance sheet, operating account and notes (pages 7 to 36), for the year ended 31 December 2016.

### Foundation Board's responsibility

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

### Responsibility of the expert in occupational benefits

In addition to the auditor, the Foundation Board appoints an expert in occupational benefits to conduct the audit. The expert regularly checks whether the occupational benefit scheme can provide assurance that it can fulfil its obligations and that all statutory insurance-related provisions regarding benefits and funding comply with the legal requirements. The reserves necessary for underwriting insurance-related risks should be based on the latest report provided by the expert in occupational benefits in accordance with article 52e paragraph 1 of the Occupational Pensions Act (OPA) and article 48 of the Occupational Pensions Ordinance 2 (OPO 2).

### 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 controls 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 2016 comply with Swiss law and with the foundation's deed of formation and the regulations.

**Report on additional legal and other requirements**

We confirm that we meet the legal requirements on licensing (article 52b OPA) and independence (article 34 OPO 2) and that there are no circumstances incompatible with our independence.

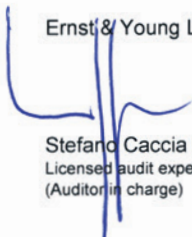
Furthermore, we have carried out the audits required by article 52c paragraph 1 OPA and article 35 OPO 2. The Foundation Board is responsible for ensuring that the legal requirements are met and that the statutory and regulatory provisions on organization, management and investments are applied.

We have assessed whether:

- ▶ organization and management comply with the legal and regulatory requirements and whether an internal control exists that is appropriate to the size and complexity of the foundation
- ▶ funds are invested in accordance with legal and regulatory requirements
- ▶ measures have been taken to ensure loyalty in fund management and whether the Governing Body has ensured to a sufficient degree that fund managers fulfill their duties of loyalty and disclosure of interests
- ▶ the available funds or discretionary dividends from insurance contracts have been used in compliance with the legal and regulatory provisions
- ▶ the legally required information and reports have been given to the supervisory authority
- ▶ the pension fund's interests are safeguarded in disclosed transactions with related entities

We confirm that the applicable legal and statutory requirements have been met.

We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd  
  
Stefano Caccia  
Licensed audit expert  
(Auditor in charge)

  
Michele Balestra  
Licensed audit expert

**Enclosure**

- ▶ Financial statements (balance sheet, operating account and notes)





FONDO COMPLEMENTARE  
DI PREVIDENZA BSI SA