

To all the insured
and affiliated employers

Lugano, 5th October 2017

Important information concerning the Pension Foundations BSI SA

Dear Sir or Madam,

Hereby, we would like to give you some important information on the Fondazione di Previdenza BSI SA ("Foundation") and the "Fondo Complementare di Previdenza BSI SA ("Fund"), hereafter referred to as "BSI Foundations".

We refer to the previous communications concerning the impacts that the acquisition of BSI by EFG will have in the middle-long term on the retirement pension and organizational schemes of the two banks' pension funds. As previously anticipated in our communication on 10th October 2016, the work done in the latest few months has focused on the research and development into the possible variants of solutions to achieve the goal of *harmonization of the conditions of the current pension plans* of EFG and BSI for all the insured.

New Pension Plan for the employees hired from 1st July 2017

As a first important milestone to achieve the goal, a New Pension Plan has been established. It basically provides for the same conditions to all the new employees hired from 1st July 2017 by EFG or by the affiliated employers, both within the **BSI Foundations** (if the workplace is in Ticino) and in the collective Pension Fund Trianon (if employed in the German-speaking Switzerland and in the French-speaking Switzerland).

To all the people already insured in the BSI Foundations prior to 1st July, the Pension Plan and regulation, currently in force, will continue to be applicable, up to the final integration and harmonization of the Pension Funds. Further important amendments, which are valid on 1st January 2018, will be made to it (see next page).

The conditions, included in the New Pension Plan, are the result of the research into a solution that ensures the forthcoming stability of the structures and the best conditions to all the insured of the Bank. The conditions included in the Plan – and in particular the conversion rate – will act as a starting point from which to develop the future Pension Plan, harmonized to all the insured, whose implementation is expected by the end of 2018.

The conversion rate at the ordinary retirement age in the new Plan equals 5.20% both in the Foundation and in the Fund.

This rate is higher than the neutral conversion rate (4.90%), calculated by using the LPP 2018 generational tables and the technical rate of 2% (defined at the end of September 2017 by the Swiss Chamber of Pension Actuaries). For September 2018 the Chamber foresees a further reduction of the Technical Rate to 1.75%, which corresponds to a neutral conversion rate of 4.75%. The difference between the regulatory conversion rate and the neutral one represents a cost for the BSI Foundations. The medium and long-term Return on investments expectations of BSI Foundations are lower than the Technical Rate of 1.75%.

These elements, along with the high burden of passive population (retirees) on the active population (employees), cause a negative trend of coverage ratio of the two BSI Foundations. Therefore, further reductions of the regulatory conversion rate or recapitalization measures cannot be ruled out in the forthcoming period.

All the conditions and the types of financing of the New Pension Plan will be included in a new Pension Fund Regulation which will be published by the end of the year, upon receipt of the various approvals by the responsible bodies.

Alignment of the conversion rate on 1.1.2018 at the ordinary retirement age to 5.20% for the Insured previously present on 30.6.2017 within the BSI Foundations

During the meeting of both the BSI Foundations on 18.9.2017, by a majority vote the Board decided that the conversion rate at the ordinary retirement age shall be reduced to 5.2% from 1.1.2018.

On the one hand through this measure it is possible to maintain the *equal treatment* of the active insured in the various plans which are still in force, on the other hand it is possible to *move towards the neutral conversion rate* with the actuarial technical bases, causing a lower cost to the Pension Plans and the active insured, who are far off retirement.

To those born in 1957 and in 1958 the employer continues to finance the difference between the conversion rate at the ordinary retirement age (from 1.1.2018: 5.20%) and the rate at the early-retirement age.

From 1.1.2018 the decrease of the conversion rate at the ordinary retirement age will be transposed in a New Pension Fund Regulation for those already insured in the BSI Foundations on 30.6.2017. Besides, further minor amendments relating to the organization and operation will be necessary to align it with the Regulation applicable to the newly hired employees from 1.7.2017. The up-to-date Pension Fund Regulation will be published by the end of the year, upon the receipt of the various approvals by the responsible bodies.

After the alignment of the conversion rate, the harmonization process of the pension plans both into the BSI Foundations (insured already present on 30.6.2017 towards newly hired employees from 1.7.2017 in Ticino) and between the Pension Funds ex BSI / EFG will continue over the forthcoming months, by harmonizing all conditions and types of financing for the insured of the new bank (i.e. insured salary, structure of contributions, difference in the calculation of the expected benefit, etc.). The target to be achieved is to get to the final integration and harmonization of the employer's Pension Funds by the end of 2018.

Update of by-laws and amendment to the name of the BSI Foundations

Further to the acquisition of BSI by EFG and to the establishment of the New Pension Plan for the newly insured from July 1st 2017, some updates of the by-laws of BSI Foundations were needed. Basically, the updates concern some necessary adjustments to insure a clear definition and coverage of all the insured of the employer.

In addition, the names of the BSI Foundations have been changed into "Fondazione di Previdenza EFG SA" and "Fondo Complementare di Previdenza EFG SA". The new names reflect the business name of the founder more appropriately. The adjustments to the by-laws and the new name are pending before the Supervisory Authority and the Commercial Register. We won't fail to inform you when the new name is definitely in force.

Conclusions and outlook

BSI Foundations' demographic structure (with a prohibitive ratio between the active and the passive population), the ever-increasing life expectancy, the continuing decreasing trend of the technical rate and the expectations of the return on investments lower than the technical rate, represent very difficult challenges we will have to face over the next years.

In the forthcoming months, in conjunction with the employer, scenarios and possible solutions will be developed to face the situation in a better way and to find those measures that best keep the Pension Fund of the new bank financially sound. In this way, rights and expectations of all the active and passive insured will be respected.

For any additional questions, the administration of the BSI Foundations will be available.

Yours sincerely



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Fondazione di Previdenza BSI SA



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