Annual report

2016

FONDAZIONE
DI PREVIDENZA BSI SA

This is a translation into English of the Annual Report issued in the Italian language and is provided solely for the convenience of English speaking readers. In the event of a contradiction or inconsistences between the Italian and the English versions of this Annual Report, the Italian version shall be binding.

Management report 2016

Coverage ratio

In 2016 the Fondazione di Previdenza BSI SA ("Foundation") performed very well with a net income from asset management recording 5.47%. The Foundation's coverage ratio has remained stable, moving from 101% in 2015 to **100.9%** 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%.
The annual report of the Foundation closes the year with an expense surplus of the period of **CHF 1.2 mln**, which lead to a decrease in the fluctuation reserve that reached **CHF 8.1 mln** at the end of 2016. We are still far from reaching the target set for this reserve, that is 16.4% of the Pension liabilities and actuarial provisions and equal to CHF 152.9 mln. The increase in the fluctuation reserve remains a crucial target for the Foundation, 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 940.4 mln, and pension liabilities and actuarial provisions have recorded CHF 932.3 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 great performance in 2016 due, among other reasons, to the "Real Estate Asset Swap" transaction which we will address later, enabled the Foundation to reduce the technical rate to 2.5% and simultaneously introduce the most updated generational tables available, while maintaining a coverage ratio of 100.9% without the need for any remediation measures. This is a great success for the Foundation.
We have not yet succeeded in bringing the technical rate down to 2.25% as recommended by the Chamber of Pension Actuaries, but we took an important step in the right direction.
In conclusion, the Foundation is still enjoining a good financial situation, even though its financial balance is constantly put to test by the above mentioned demographic and market dynamics. The Foundation 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.

Real Estate Asset Swap

As for the Foundation's direct real estates, in December 2016 an important transaction known as "Real Estate Asset Swap" was completed.

As mentioned in last year's annual report, the project was launched in 2015 under the guidance of the Real Estate Investment Committee and in close cooperation with the Foundation's Management. The first stage involved a feasibility study, which assessed the advantages and disadvantages, risks and opportunities. It resulted in the decision to pursue the transaction and assess potential partners. In the second, more intense stage a decision was made to implement the project with the Investment Foundation "Swisscanto Anlagestiftung" in Zurich (SAST). This is the largest Investment Foundation dealing with Swiss real estate on the market for pension funds.

The "Real Estate Asset Swap" consists in transferring the entire direct real estate portfolio against the acquisition of participation rights in SAST.

The great advantage brought about by this transaction is the diversification of the portfolio and the subsequent reduction of the concentration risk. Ownership and management of 10 direct real estates was a burden for the Foundation in terms of workload, and the inherent risk was very high. SAST's portfolio is composed by hundreds of real estates for an overall value of over CHF 6 billions.

Additional factors like improved chances of growth, including the possibility to seat in SAST's Foundation Board in the future, contributed to the decision of pursuing the Swap operation.

The asset underwriting price was negotiated and agreed by the parties in CHF 126 mln. In the accounting period 2016, the net profit generated by this transaction amounts to CHF 18 mln.

Since the beginning of the project, the Foundation has been supported by the Investment Controller PPCmetrics AG in Zurich and in a later stage it was assisted by the law firm Pestalozzi SA in Zurich on tax matters. Owing to the good job done in the negotiation of the "transfer agreement", if requests submitted to the cantons to receive "tax rulings" will be approved in 2017, the profit generated by the transaction could further increase by CHF 2.5 mln (in the form of participation rights in the investment group "SAST Immobilien Schweiz"). When granted by the canton's tax authorities, a "tax ruling" is an exemption from transfer taxes and duties, and it enables to defer the payment of Capital Gain Tax on Real Estates pending. The Asset Swap transaction was successfully completed.

Changes within the Foundation Board

The year 2016 was characterized by significant changes within the Foundation Board.
In the Board meeting on July 28th, 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 Massimo Antonini as Chairman and Maurizio Moranzoni as Vice Chairman.
On November 24th, 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 1st December 2016.
Alec Vukic, the resigning representative of employees, has been replaced by Sanjin Mohorovic starting from 1 January 2017. Mohorovic 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 Foundation. 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 1st 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 1st 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 **2nd Pillar Central Office** all the eligible recipients of the vested benefits. Thus the judges appointed for the divorce proceedings will be able to verify that no vested benefits are missing from the division of assets.
- Other provisions guarantee that no vested benefits 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 benefits).

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 Foundation 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 1st 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 employees. In fact, after the "Closing" and surely during all the year 2017, the tangible impact on the participants 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 Committees and 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.

Massimo Antonini
Chairman of the Board

Michele Casartelli
Foundation manager

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Balance sheet as of 31 december 2016

	Notes	31.12.2016 CHF	31.12.2015 CHF
Assets			
Investments		**959'395'627**	**938'529'603**
Liquid funds	6.3	84'999'919	59'612'512
Other receivables	7.1	4'568'222	4'075'602
Swiss bonds	6.3	136'282'890	140'911'810
Foreign bonds	6.3	155'081'683	163'366'019
Swiss equities	6.3	62'850'060	67'465'320
Foreign equities	6.3	258'003'689	252'635'163
Alternative investments	6.3	42'802'793	44'156'120
Direct real estate	6.3	126'000'000	94'312'400
Indirect real estate	6.3	88'806'371	111'994'657
Prepayments and accrued income	**7.2**	**46'461**	**40'836**
Information system		**1**	**1**
Total assets		**959'442'089**	**938'570'440**
Liabilities			
Accounts payables		**10'907'904**	**2'315'439**
Vested benefits and retirement capital to be paid		10'510'303	1'930'466
Liabilities for ex-BdG free funds distribution		1'695	4'406
Other accounts payables		395'906	380'567
Accrued liabilities and deferred income	**7.3**	**5'355'751**	**5'965'421**
Employer contribution reserve (ECR) without waiver of use	**5.9 / 9.2**	**53'291**	**53'291**
Non actuarial provisions	**6.6**	**2'760'000**	**0**
Pension liabilities and actuarial provisions		**932'256'524**	**920'940'919**
Active employees' liabilities	5.2	302'237'298	315'854'206
Pensioners' liabilities	5.4	614'315'829	592'616'378
Actuarial provisions	5.5	15'703'397	12'470'335
Fluctuation reserve	**6.2**	**8'108'619**	**9'295'370**
Dotation capital and free funds / underfunding		**0**	**0**
Dotation capital		10'000	10'000
Underfunding			
Balance at the beginning of the period		-10'000	-10'000
Income surplus / (-) Expense surplus of the period		0	0
Balance at the end of the period		-10'000	-10'000
Total liabilities		**959'442'089**	**938'570'440**

Operating account 2016

	Notes	2016 CHF	2015 CHF
Ordinary and other contributions, buy-ins		**31'154'920**	**41'952'428**
Employer contributions			
Ordinary contributions		13'826'757	14'437'533
Extraordinary contributions		1'292'383	9'883'775
Employer payments for AHV bridging pension benefits		3'712'982	3'633'435
Employee contributions			
Ordinary contributions		8'911'204	9'165'590
One-time payments and purchase amounts	5.2	3'411'594	4'832'095
Entry lump sum transfers		**5'086'895**	**4'111'233**
Earnings from Vested benefit transfers	5.2	4'623'396	3'305'424
Buy-ins following a divorce		329'100	326'510
Reimbursements from divorce		57'886	56'937
Repayment of withdrawals for residential property	5.2	76'513	422'362
Income from contributions and entry payments		**36'241'815**	**46'063'661**
Regulatory benefits		**-46'095'995**	**-44'920'439**
Retirement pensions		-34'859'838	-33'663'584
Disability pensions		-972'226	-1'135'795
Spouse pensions		-4'644'226	-4'691'852
Orphan and children pensions		-712'617	-767'617
AHV bridging pensions		-3'729'272	-3'657'201
Retirement capital	5.2	-1'177'816	-1'004'390
Termination benefits		**-30'702'982**	**-13'971'557**
Departures of Vested benefits	5.2	-30'111'864	-13'271'942
Withdrawals for residential property and divorce	5.2	-591'118	-699'615
Expenses for benefits and withdrawals		**-76'798'977**	**-58'891'996**
Release / (-) creation of Pension liabilities, Actuarial provisions and ECR		**-11'330'655**	**-6'082'837**
Variation in Active employees' liabilities		18'178'731	8'425'408
Variation in Pensioners' liabilities		-21'699'451	-4'206'567
Variation in Actuarial provisions		-3'233'062	-1'208'645
Interest on vested benefits paid		-15'050	-44'963
Interest on retirement savings capital	5.2	-4'561'823	-9'048'070

Operating account 2016 (2nd part)

	Notes	2016 CHF	2015 CHF
Income from insurance benefits		**1'448'968**	**1'140'007**
Insurance benefits		1'097'591	1'023'987
Share of insurance surpluses		351'377	116'020
Insurance expenses		**-2'047'038**	**-2'129'774**
Insurance premium	5.1	-1'954'812	-2'035'212
Contribution to Guarantee Fund		-92'226	-94'562
Net income from insurance activities	**5.10**	**-52'485'887**	**-19'900'938**
Net income from investments	**6.6**	**54'671'380**	**13'008'130**
Net income from Liquid funds		432'956	-352'387
Net income from Other debtors		0	455
Net income from Swiss bonds		1'507'913	2'499'239
Net income from Foreign bonds		2'639'572	-220'277
Net income from Swiss equities		2'490'999	-321'421
Net income from Foreign equities		18'293'551	-8'870'544
Net income from Alternative investments		-250'879	-2'262'251
Net income from Indirect real estate		8'497'619	5'104'822
Net income from Direct real estate		4'379'659	4'668'715
Variation in value of Direct real estate		21'401'812	6'089'880
Net income from Derivatives		454'727	12'135'250
Retrocessions received	6.9	29'004	42'219
Asset management expenses	6.7	-5'205'553	-5'505'570
Changes in non actuarial provisions	6.6	**-2'760'000**	**0**
Other income		**5'013**	**5'890**
General administration expenses		**-617'257**	**-746'813**
Actuary activities		-76'963	-114'426
External Audit		-50'858	-55'523
Supervisory authority		-21'032	-12'456
Marketing and advertising		-3'554	-4'638
General administration		-464'850	-559'770
Income / (-) Expenses before creating / releasing of Fluctuation reserve	**5.10**	**-1'186'751**	**-7'633'731**
Release / (-) creation of Fluctuation reserve	**6.2**	**1'186'751**	**7'633'731**
Income surplus / (-) Expense surplus of the period		**0**	**0**

Notes to the 2016 Financial Statements

1. General information and organization

1.1. Legal form and objective

Fondazione di Previdenza BSI SA (hereinafter the Foundation) 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) and it manages a Pension Fund.

The company aims at protecting BSI SA and its affiliates' personnel against the economic consequences of old-age, disability and death. Membership of an affiliate company is finalized by an affiliation contract, to be previously submitted to the Supervisory Authority's.
Benefits are issued according to the *defined contribution plan*. In any case, the Foundation complies with the minimum requirement set by applicable laws.

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.

1.2. LPP and Guarantee Fund registrations

In Compliance with article 48 LPP the Foundation is included in the registry of occupational retirement of the Canton Ticino under number TI-0039 and it pays contributions to the LPP guarantee fund.
Foundation address: Via Magatti 2, CH-6901 Lugano, at BSI SA.

1.3. Information about Statute and Regulations

	In force from	Notes
Statute	12.9.1944	Last modification:17.12.2014 Approved by the Supervisory Authority on 23.6.2015
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	24.7.2013	Approved by the Foundation Board on 24.7.2013
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	29.1.2016	Approved by the Foundation Board on 29.1.2016

All individuals in charge of the management or administration of the Foundation 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
Antonini Massimo	Chairman	7/2014-6/2018	Employees	joint signature of two authorized signatories
Moranzoni Maurizio	Vice-Chairman	12/2014-11/2018	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)
Soldini Pietro	Member	12/2016-11/2020	Employer	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Tognina Reto	Member	1/2016-12/2019	Employer	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Cerclé Thierry	Member	7/2014-6/2018	Employees	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Giamboni Pierrette	Member	7/2014-6/2018	Employees	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Mohorovic Sanjin	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 Massimo Antonini as Chairman and Maurizio Moranzoni 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 Sanjin Mohorovic as representative of employees and appointed the latter also as Secretary.

1.4.2. Committees of Foundation' Board

Remuneration and Appointment Committee (CRN)
The CRN is responsible for recruitment, remuneration and proposing candidates for appointment within the Management. The CRN is composed by the Chairman and the Vice Chairman of the Foundation. The Foundation Manager participates without any voting rights.

Security Investment Committee (CIM)
The CIM is in charge of analyzing and verifying the Foundation's investments in securities; it is composed by the following members:

	Function	Representative of
Cerclé Thierry*	Chairman	Employees
Tognina Reto**	Member	Employer
Moranzoni Maurizio	Member	Employer
Mohorovic Sanjin**	Member	Employees
Casartelli Michele	Secretary without voting rights	Foundation manager

* Cerclé Thierry has been appointed Chairman of CIM during the Foundation Board meeting on 21 July 2014.
** Tognina Reto and Mohorovic Sanjin have been appointed Members of CIM during the Foundation Board meeting on 10 February 2017.

Real Estate Investment Committee (CII)
The CII is in charge of analyzing and verifying the Foundation's investments in real estates; it is composed by the following members:

	Funzione	Rappresentanza
Tognina Reto*	Chairman	Employer
Antonini Massimo	Member	Employees
Giamboni Pierrette	Member	Employees
Moranzoni Maurizio	Member	Employer
Casartelli Michele	Secretary without voting rights	Foundation manager

* Tognina Reto has been confirmed as Chairman of CII during the Foundation Board meeting on 21 July 2014.

1.4.3. Delegates' Meeting
The Delegates' Meeting operates as an advisory and general control body of the Foundation.

On 31 December 2016 the Delegates' Meeting was composed as follows:
- **Active employees:** *Antonini Massimo, Aydemir Cihan, Baj Damiano, Balmelli Roberto, Battaini Giordano, Caggiano Massimo, Campana Marco, Cantieni Andri, Cerclé Thierry, Gessati Ciro, Giamboni Pierrette, Gianini Matteo, Mazza Andrea, Moser Christian, Ogna Ronald, Palmisano Antonio, Panozzo Marco, Perruchoud Jean-Marie*, Pinelli Simone, Roncoroni Moira, Rosazza Manuela, Santoro Domenico, Wick Caroline*

** Replacing Scaramella Michele from 1 January 2017.*

- **Pension beneficiaries:** *Ballinari Francesca, Beretti Manuela, Bosia Franco, Deluermoz Pierre, Gajo Ermanno, Panizzolo Donato, Piattini Aurelio, Poretti Giovanni, Prada Giancarlo, Rezzonico Renato, Riva Mario, Schilling Peter, Tagliati Augusto, Treter Jacek*

1.4.4. Management
Starting from 1 January 2012, an independent administrative department has been created within the Foundation by the employer in order to carry out administrative management, technical, accounting and business activities of the Foundation and similar foundations. Tasks and responsibilities are defined by the Foundation Board. The Foundation Manager can delegate some of his/her tasks to reports or other external consultants. On 31 December 2016 the administrative department was composed by 4 permanent employees (equivalent to 3.1 working units) and 1 part-time employee under the employer with a temporary contract.
Administrative, technical-accounting, business and financial-accounting management is performed by the Foundation also with regards to the Fondo Complementare di Previdenza BSI SA (hereinafter "Fondo", aimed at managing a supplementary pension plan).

1.5. Experts, auditors, advisors, supervisory authority

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

1.6. Affiliated employers

The amount of affiliate companies has developed as follows:

Development	BSI SA	Fondazione di previdenza BSI SA	Dreieck SA	Finnat SA	Patrimony 1873 SA	Total 2016	Total 2015
Situation at 1.1.	1'189	4	18	1	50	1'262	1'336
+ / - Transfers	-2	-	-	-	2	-	-
+ Entries[1]	45	-	-	-	2	47	44
- Departures[2] / Deaths	-108	-	-1	-	-17	-126	-85
- Retirements[3] / Disability	-20	-	-	-	-	-20	-33
Situation at 31.12.[4]	**1'104**	**4**	**17**	**1**	**37**	**1'163**	**1'262**

Remarks:

1 It includes also entries and departures within the year.

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

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

4 Participants with part-time contracts are considered as units.

In 2015 the amount of active employees decreased by 74 units net, whereas during the year it was reduced by 99 individuals. The amount of (voluntary) terminations is consistent during the two year period.
In the row "Retirements/Disability" 1 case of disability is included.

2. Active employees and pensioners

2.1. Active employees

Structure by gender	31.12.2016	31.12.2015
Men	726	792
Women	437	470
Total	**1’163**	**1’262**

The women to men ratio has remained virtually unchanged compared to 2015.

Structure by age range	31.12.2016	31.12.2015
Less then 24 years	12	15
24-32 years	118	131
33-42 years	321	381
43-54 years	523	551
From 55 years	189	184
Total	**1'163**	**1'262**
Average age	45.2	44.6

In the “33-42 years” of age range there is the highest amount of net termination relating to 60 people, whereas in the “43-54 years” range there is the most relevant number in relative terms, amounting to 44.97% of the total (2015: 43.66%). The latter figure, together with a slight increase in the average age of active employees, show a lack of generation turnover in the Foundation.
The trend of the active employees amount in the year is included in note 1.6.

2.2. Pensioners

Development	Retirement pensions beneficiaries[1]	Disability pensions beneficiaries[2]	Spouse pensions beneficiaries	Children pensions beneficiaries[3]	Total 2016	Total 2015
Situation at 1.1.	724	49	137	62	972	945
+ Entries	19	1	9	7	36	62
+ / - Conversion	5	-5	-	-	-	-
- Deaths / Terminations	-15	-2	-4	-10	-31	-35
Situation at 31.12.	**733**	**43**	**142**	**59**	**977**	**972**

Remarks:
1 It includes early and ordinary retirements.
2 At ordinary retiring age, disability benefits are turned into retirement benefits. Partial invalid is considered as a unit. In case of partially active employees, the participant is considered both as active employee and disabled beneficiary.
3 It includes the children of beneficiaries (of retirement and disability benefits) and orphans.

The net amount has increased by 5 units mainly due to ordinary and early retirements.

The 977 pensioners include 29 individuals for whom the Foundation 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 then18 years	-	-	-	26	26	26
18-24 years	-	-	-	33	33	36
25-54 years	-	16	5	-	21	26
55-64 years	154	27	18	-	199	213
65-74 years	342	-	53	-	395	404
75-84 years	193	-	50	-	243	217
85-94 years	42	-	16	-	58	48
Above 94 years	2	-	-	-	2	2
Total	**733**	**43**	**142**	**59**	**977**	**972**
Average age					68.1	67.3

Net transactions in 2016 and the more general constant increase in life expectancy have determined a slight increase of the relative weight of individuals over 75 years of age, which represent 31% of the population (2015: 27.5%).

2.3. Ratio between active employees and pensioners

The ratio between active employees and pensioners has changed from 1.30 on 31 December 2015 to 1.19 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

Since 1 January 2015 the Foundation has been applying a Pension Fund Regulation based *on the defined contribution plan*. The following table provides an overview of the benefits.

Retirement age	
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
Retirement benefits	
Type of benefit	Pension or capital (up to 50% of the employees' liabilities)
Retirement pension	Retirement savings capital multiplied by conversion rate
Conversion rates	60 years: 4.95% 61 years: 5.05% 62 years: 5.15% 63 years: 5.30% **64 years: 5.45%**
Children's retirement benefits	10% of retirement pension
Survivors benefits	
Spouse/civil partner's pension	Active employee: 70% of the disability pension (= 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 retirement benefits, as well as capital savings in the supplementary accounts "Early Retirement Redemption" and "AHV Bridging Pension Redemption" + the amount of Retirement credit (after deducting the aforementioned purchases and supplementary accounts) at the time of the employee death and net of the cash value of future benefits.
Disability benefits	
Disability pension	70% of the insured salary until ordinary retirement age
Children's disability benefits	15% of the insured salary
Vested termination benefits	
Vested benefits	Vested termination benefits are defined in compliance with paragraph 8 of the new Pension Fund Regulation.

3.2. Financing

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

Insured salary

The insured salary in principle corresponds to 7/6th of the annual basic salary (fixed annual basic salary excluding bonuses) minus the coordination amount, but anyway at least 4/7th of the annual basic salary.
The coordination amount corresponds to 5/3rd of the single maximum AHV pension (CHF 28'200 in 2016).
The maximum insured salary corresponds to 4 times the single maximum AHV pension (CHF 112'800 in 2016).

Risk contribution

Percentage of the insured salary

Employee:	2.0%
Employer:	3.0%

Total contribution

Percentage of the insured salary

Standard Contribution Plan

Age	Employee	Employer	Total
18-23	2.0%	3.0%	5.0%
24-32	6.5%	14.5%	21.0%
33-42	7.5%	14.5%	22.0%
43-52	8.5%	14.5%	23.0%
53-64	9.5%	14.5%	24.0%

Plus Contribution Plan (+3%)

Age	Employee	Employer	Total
18-23	2.0%	3.0%	5.0%
24-32	9.5%	14.5%	24.0%
33-42	10.5%	14.5%	25.0%
43-52	11.5%	14.5%	26.0%
53-64	12.5%	14.5%	27.0%

Top Contribution Plan (+6%)

Age	Employee	Employer	Total
18-23	2.0%	3.0%	5.0%
24-32	12.5%	14.5%	27.0%
33-42	13.5%	14.5%	28.0%
43-52	14.5%	14.5%	29.0%
53-64	15.5%	14.5%	30.0%

Retirement credit

The Savings contribution of the employee and the employer in percentage of the insured salary which are accrued on an annual basis as Retirement credit.

Standard Contribution Plan

Age	Employee	Employer	Total
18-23	0.0%	0.0%	0.0%
24-32	4.5%	11.5%	16.0%
33-42	5.5%	11.5%	17.0%
43-52	6.5%	11.5%	18.0%
53-64	7.5%	11.5%	19.0%

Plus Contribution Plan (+3%)

Age	Employee	Employer	Total
18-23	0.0%	0.0%	0.0%
24-32	7.5%	11.5%	19.0%
33-42	8.5%	11.5%	20.0%
43-52	9.5%	11.5%	21.0%
53-64	10.5%	11.5%	22.0%

Top Contribution Plan (+6%)

Age	Employee	Employer	Total
18-23	0.0%	0.0%	0.0%
24-32	10.5%	11.5%	22.0%
33-42	11.5%	11.5%	23.0%
43-52	12.5%	11.5%	24.0%
53-64	13.5%	11.5%	25.0%

Regulations on early retirement are included in the employer's General human resources Regulation. The financial neutrality for the Foundation 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 Foundation'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, asset management is entrusted to BSI SA and subcontracted to Patrimony 1873 SA (except for the Hedged Funds portfolio), whereas the real estate management of properties not leased to BSI SA is delegated to external service providers.

4.2.2. Valuation policies

Securities:	end of the period value
Current accounts:	nominal value adjusted to end of the period exchange rate
Derivatives:	end of the period replacement value
Liabilities:	nominal value
Real estates:	settlement value (until 31 December 2015 at market value)

Real estates:
Until 31 December 2015 the valuation of the real estate portfolio (direct real estates) was calculated on market value, as computed by Wüest & Partner SA with an income based dynamic method of the **Discounted Cashflow** (DCF) model. The market value of real estates was determined by the sum of expected net cash flows adjusted to the valuation date. For further information on the method and underwriting used in the past by Wüest & Partner SA see the annex to the annual report 2015.
On 23 December 2016 the Foundation entered into a transfer agreement (pursuant to article 69 of the Law on Mergers) with the company Swisscanto Anlagestiftung in Zurich (SAST) for the transfer of the entire direct real estate portfolio against the acquisition of the rights of participation in SAST (transaction hereinafter refereed to as **Real Estate Asset Swap**).
The underwriting price of assets is established by mutual agreement between the parties in CHF 126 mln, CHF 120 mln of which are to be paid by transferring to the Foundation the rights to participation in the investment group "SAST Immobilien Schweiz" of SAST without any purchase fee applied, and CHF 6 mln shall be paid in cash.
On 31 December 2016 the transfer of assets was not yet entered in the Commercial Register, as the execution terms detailed in paragraph 5.1 of the agreement were still pending.
However, as the aforementioned execution terms are substantially fulfilled upon signing the agreement (and subsequently formalized in the first quarter 2017), in compliance with the general "true and fair view" principle, we deemed appropriate to drop the market valuation and represent the "fair value" of real estates as of 31 December 2016 pursuant to paragraph 3, ch.13 of the Swiss GAAP FER 26 at the **settlement value** of said agreement.
The impact in the operating account due to the variation in the direct real estate valuation is included in the "net income from investments" under the item "Variation in value of Direct real estate" (see note 6.6 for more details).

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, except for the items stated in paragraph 4.2.2.

5. Actuarial risks, risk coverage and funding ratio

5.1. Type of risk coverage and re-insurance

The Foundation is a semi-independent pension fund. The risk of *longevity* and the risk connected to the *investment* of assets are fully borne by the Foundation. 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. Beneficiaries of disability pensions starting before 1 January 2009 are borne by the Foundation.
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 2.01% of the total insured salaries (2015: 2.01%). 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	301'262	315'362
Supplementary account "Early Retirement Redemption"	662	301
Supplementary account "AHV Bridging Pension Redemption"	313	191
Total of Active employees' liabilities	**302'237**	**315'854**
Number of active employees at 31.12.	*1'163*	*1'262*

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".

The participant can also finance a bridging pension or part thereof. Contributions are accrued in the supplementary account "AHV Bridging Pension Redemption".

The interest rate on the "Vested benefits" is established at the beginning of each year by the Board upon consideration of the Foundation's financial situation. In 2016 the interest rate amounted to 1.25% (2015: 2.75%) and in 2017 it will be 1%.
Supplementary accounts "Early Retirement Redemption" and "AHV Bridging Pension Redemption" (article 29 of the Pension Fund Regulation) are also subject to interests. The interest rate is established on an annual basis by the Board. In the years 2015, 2016 and 2017 the interest rate 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.	315'854	315'232
Employers and employees saving contributions	18'234	18'607
Earnings from Vested benefit transfers	4'623	3'305
One-time payments and purchase amounts	3'412	4'832
Buy-ins and Reimbursements from divorce	387	383
Repayment of withdrawals for residencial property	76	422
Withdrawals for residential property and divorce	-591	-700
Departures of Vested benefits	-30'112	-13'272
Retirement capital	-1'178	-1'004
Transfers to Pensioners' liabilities	-13'030	-20'999
Interest	4'562	9'048
Liabilities at 31.12.	**302'237**	**315'854**
Number of active employees at 31.12.	*1'163*	*1'262*

The reduction by CHF 13.617 mln of the "Active employees' liabilities" in the year is mainly due to the significant outflow of vested benefits in 2016 (+ CHF 16.840 mln compared to 2015), which was partially offset by lower conversions into pensions compared to 2015 amounting to CHF 7.969 mln and a lower payment of savings interests of CHF 4.486 mln.

5.3. Total retirement savings capital in accordance with LPP

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Retirement savings capital in accordance with LPP (shadow calculation)	**118'684**	**121'831**
LPP minimum interest rate defined by the Federal Council	*1.25%*	*1.75%*

The Federal Council established a LPP remuneration rate of 1% starting from 1 January 2017.

5.4. Development of Pensioners' liabilities

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Situation of Pensioners' liabilities at 1.1	592'616	588'410
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-4'310	4'206
Updating following changes in technical bases	9'958	-
Updating following changes in technical interest rate	16'052	-
Total of Pensioners' liabilities at 31.12	**614'316**	**592'616**
Number of pensioners' at 31.12.	*977*	*972*

The item "Update following changes in the Pension Fund Regulation and new calculations as of 31 December" amounts to CHF 4.310 mln and it includes the capital transfers from the "Active employees' liabilities" (2016: CHF 13.030 mln) and the extraordinary contributions paid by the employer for the retirements of the year (2016: CHF 1.292 mln), as well as 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).

The modification of technical bases detailed in note 5.8 amounts to a total of CHF 26.010 mln in 2016.

5.5. Composition, development and explanation of Actuarial provisions
In order to adequately cover all benefits under regulation and to prevent potential deviations from the actuarial bases, 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	2'255	-
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-97	2'255
Updating following changes in technical bases	2'198	-
Updating following changes in technical interest rate	424	-
Situation at 31.12	**4'780**	**2'255**

The reduction of CHF 0.097 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 2.622 mln in 2016.

5.5.2. Transitory measures provision (Active employees')
According to the Pension Fund Regulation in force since 1 January 2015, the active employees born in and before 1955 which were already insured by the Foundation as of 1 January 2013 will benefit from transitory measures applied to their retirement pension at the regular retirement age. Such pension is guaranteed and paid in Swiss francs as per pension certificate dated 31 December 2014 (see article 94, paragraph 4 of the Pension Fund Regulation).
The transitory measures provision covers technical losses generated at the time of retirement by this group of employees. The provision's value amounts to the difference between the expected pensioners' liabilities at regular retirement age and the vested benefits projections at regular retirement age. The amount is discounted at the date of calculation according to the technical interest rate as defined in note 5.7.
The provision reduces as the members of this group of employees retire or leave the Foundation.

	31.12.2016	**31.12.2015**
	CHF/000	CHF/000
Situation at 1.1	3'991	6'584
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-1'673	-2'593
Updating following changes in technical bases	246	-
Updating following changes in technical interest rate	409	-
Situation at 31.12	**2'973**	**3'991**

The modification of technical bases detailed in note 5.8 amounts to a total of CHF 0.655 mln in 2016.
The reduction of CHF 1.673 mln in the item "Update following changes in the Pension Fund Regulation and new calculations as of 31 December" is related to the retirements in the year.

5.5.3. Additional remuneration provision (Active employees')

Article 33 of the Foundation's Pension Fund Regulation establishes an additional remuneration of the retirement savings capital depending on the salary level of the employees. The Foundation has created an ad-hoc provision to cover this guarantee. The provision's value covers an annuity of such additional remuneration provision for the eligible subjects.
In case of under-coverage of the Foundation (namely with a coverage ratio lower than 100%), this provision can be relased pursuant to article 33, paragraph 6 of the Pension Fund Regulation. As soon as the coverage ratio rises over 100%, the provision must be rebuilt.

	31.12.2016	**31.12.2015**
	CHF/000	CHF/000
Situation at 1.1	657	657
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-5	-
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	-	-
Situation at 31.12	**652**	**657**

The limited release of the provision in the year was due to a modification in the composition of the active employees' salaries as of 31 December 2016 compared to 31 December 2015.

5.5.4. 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 Foundation 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 Foundation'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	5'567	4'020
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	1'420	1'547
Updating following changes in technical bases	120	-
Updating following changes in technical interest rate	192	-
Situation at 31.12	**7'299**	**5'567**

The modification of technical bases detailed in note 5.8 amounts to a total of CHF 0.312 mln in 2016. The cost of CHF 1.420 mln however refers to the new retirements of the year.

5.5.5. 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 "Technical Interest Rate Provision", 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)

5.5.6. Summary of Actuarial provisions

Evolution summary of actuarial provisions	**31.12.2016**	**31.12.2015**
	CHF/000	CHF/000
Situation at 1.1	12'470	11'261
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-355	1'209
Updating following changes in technical bases	2'564	-
Updating following changes in technical interest rate	1'025	-
Situation at 31.12	**15'704**	**12'470**

Composition summary of actuarial provisions	**31.12.2016**	**31.12.2015**
	CHF/000	CHF/000
Conversion rate provision	4'780	2'255
Transitory measures provision	2'973	3'991
Additional remuneration provision	652	657
Provision for increase in pensioners' life expectancy	7'299	5'567
Total of actuarial provisions	**15'704**	**12'470**

5.6. Conclusions of the last actuarial report

On February 2017 Willis Towers Watson released the Foundation'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 Foundation's coverage ratio as of 31 December 2016 in compliance with article 44, paragraph 1 OPP2 amounts to 100.9%;
– 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%. The actuary recommends the Board to lower the technical rate to 2.25% in a relatively short time;
– the Foundation 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 16.4% 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 Foundation 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 Foundation. 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	302'237	302'237	302'237	315'854
Pensioners' liabilities	614'316	598'264	588'306	592'616
Conversion rate provision	4'780	4'356	2'158	2'255
Transitory measures provision	2'973	2'564	2'318	3'991
Additional remuneration provision	652	652	652	657
Provision for increase in pensioners' life expectancy	7'299	7'107	6'987	5'568
Total of pension liabilities and actuarial provisions	**932'257**	**915'180**	**902'658**	**920'941**
Variation	17'077	12'522	-18'283	

The change in the technical bases defined a total increase of CHF 29.599 mln in the pension liabilities and actuarial provisions.

Evolution of pension liabilities and actuarial provisions	**31.12.2016**	**31.12.2015**
	CHF/000	CHF/000
Situation at 1.1	920'941	914'903
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-18'283	6'038
Updating following changes in technical bases	12'522	-
Updating following changes in technical interest rate	17'077	-
Situation at 31.12	**932'257**	**920'941**

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

Dreieck Fiduciaria SA did not waive the future use of the residual ECR of CHF 53’291 as of 31 December 2016.

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

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Pension liabilities and actuarial provisions (PL)	**932’257**	**920’941**
Total assets	959’442	938'570
./. Accounts payables	-10’908	-2'315
./. Accrued liabilities and deferred income	-5’356	-5'965
./. Employer contribution reserve	-53	-53
./. Non actuarial provisions	-2’760	-
Net pension assets (NPA)	**940’365**	**930’237**
Funding ratio (NPA/PL)*100	**100.9%**	**101.0%**

The funding ratio lost 0.1%, going from 101% at the end of 2015 to 100.9% on 2016 year end.
The worsening of the funding ratio is due to:

- an increase in pension liabilities and actuarial provisions by CHF 11.316 mln. The increase in liabilities owing to the change in the technical bases by CHF 29.599 mln was partially offset by the turnover releases in the amounting to CHF 18.283 mln (see note 5.8);
- an increase in the net assets by CHF 10.128 mln, which was insufficient to offset the liabilities increase (see note 6.6 for a detailed comment on the performance of the year and the net impact of the Real Estate Asset Swap amounting to CHF 17.968 mln).

The year 2016 closed with an expense surplus of CHF 1.186 mln before the use of the fluctuation reserve (dissolution 2015 CHF 7.634 mln).

The expense surplus is due to the negative income of the insurance activity by CHF 52.486 mln (of which CHF 29.599 mln due to the change in the technical bases) and it was only partially offset by the “Net income from investments” of CHF 54.671 mln net of the “Changes in non actuarial provisions” of CHF 2.760 mln. The “Net income from investments” amounts to a net income of 5.9% 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: 1.42%).

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 Board of Foundation delegates to CIM the definition, implementation and control of the investment policy.

The general principles state that the Foundation'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 Foundation 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 Foundation. Such asset management is carried out by the Head Portfolio Manager, Ogna 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 Foundation 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, the CIM and/or directly to the Foundation Board.

Since 1 January 2012 the Foundation 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	9’295	16'929
Release (-) / creation in operating account	-1’186	-7'634
Fluctuation reserve at 31.12.	**8’109**	**9’295**
Target fluctuation reserve	**152’890**	**153’797**
Shortfall in fluctuation reserve	144’781	144’502

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 Foundation’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 Foundation 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
σ = 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 16.4% of the total pension liabilities and actuarial provisions (31.12.2015: 16.7%).

In 2016 CHF 1.186 mln of the Fluctuation reserve were used (31.12.2015: CHF 7.634 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 Total assets		**Global Strategy Limits** from 1.9.2013			OPP2 limits
	CHF/000	**in %**	**Min**	**Neutral**	**Max**	**in %**
Operative cash in CHF[1]	12'209	1.3%				
Cash under mandate in CHF[1]	32'863	3.4%				
Cash under mandate in foreign currencies[1]	4'765	0.5%				
Money market in CHF and USD[1]	35'163	3.7%				
Total of liquid funds	**85'000**	**8.9%**	**0.0%**	**2.0%**	**33.0%**	
Swiss bonds[1]	136'283	14.2%	14.0%	21.0%	28.0%	
Foreign bonds (hedged)[1]	155'082	16.2%	12.0%	17.5%	23.0%	
Emerging markets bonds[1]	0	0.0%	0.0%	0.0%	5.0%	
Total of bonds	**291'365**	**30.4%**	**26.0%**	**38.5%**	**56.0%**	
Swiss equities[2]	62'850	6.6%	0.0%	6.0%	9.0%	
Foreign equities[2]	235'319	24.5%	0.0%	23.0%	34.0%	
Emerging markets equities[2]	22'685	2.3%	0.0%	4.0%	6.0%	
Total of equities	**320'854**	**33.4%**	**0.0%**	**33.0%**	**49.0%**	**50.0%**
Hedge funds (hedged)	42'766	4.5%	3.0%	4.5%	6.0%	
Private Equity	37	0.0%	0.0%	0.0%	0.0%	
Total of alternative investments	**42'803**	**4.5%**	**3.0%**	**4.5%**	**6.0%**	**15.0%**
Direct real estate[3]	126'000	13.1%	8.0%	12.0%	16.0%	
Indirect real estate	88'806	9.3%	7.0%	10.0%	13.0%	
Total of real estate[3]	**214'806**	**22.4%**	**15.0%**	**22.0%**	**29.0%**	**30.0%**
c/a Fondo Complementare di Previdenza BSI SA	0	0.0%		0.0%		
Other receivables	4'568	0.4%		0.0%		
Prepayments and accrued income	46	0.0%		0.0%		
Total of other assets and prepayment and accrued income[1]	**4'614**	**0.4%**		**0.0%**		
Total assets (art. 49 OPP2)	**959'442**	**100.0%**				
Foreign currencies unhedged[4]	62'382	6.5%	0.0%	9.0%	18.0%	30.0%
Cash under mandate with the employer	37'628	3.9%				5.0%

1 Individual investment limit per debtor in force since 1st January 2010: 10%.
2 Limit per participation: 5%.
3 Limit per each single real estate property: 5%.
4 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 Foundation's total cash amounts to 8.9% (2015: 6.4%) of total assets and it is composed by:
- Operating cash (including direct real estates and current accounts): CHF 12.209 mln (1.3% of total assets);
- Cash under "misto attivo" mandate (in CHF and foreign currency): CHF 36.506 mln (3.8% of total assets);
- Hedge funds cash deposit: CHF 1.122 mln (0.1% of total assets);
- Money market funds in CHF and USD: CHF 35.163 mln (3.7% of total assets).

The negative replacement value of open financial derivatives instruments as of 31 December 2016 amounting to CHF 0.331 mln (31.12.2015: CHF 0.119 mio) 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**	**Neutral**	**Max**
Cash under mandate in CHF	31'741	4.1%			
Cash under mandate in foreign currencies	4'765	0.6%			
Money market in CHF and USD	35'163	4.6%			
Total of liquid funds	**71'669**	**9.3%**	**0.0%**	**0.5%**	**35.0%**
Swiss bonds	136'283	17.6%	17.5%	25.5%	33.5%
Foreign bonds (hedged)	155'082	20.1%	15.0%	21.5%	28.0%
Emerging markets bonds	0	0.0%	0.0%	0.0%	6.0%
Total of bonds	**291'365**	**37.7%**	**32.5%**	**47.0%**	**67.5%**
Swiss equities	62'850	8.1%	0.0%	7.5%	10.5%
Foreign equities	235'319	30.5%	0.0%	28.0%	41.0%
Emerging markets equities	22'685	2.9%	0.0%	5.0%	7.0%
Total of equities	**320'854**	**41.5%**	**0.0%**	**40.5%**	**58.5%**
Indirect real estate	88'806	11.5%	8.5%	12.0%	15.5%
Total of real estate	**88'806**	**11.5%**	**8.5%**	**12.0%**	**15.5%**
Total of misto attivo portfolio	**772'694**	**100.0%**		**100.0%**	

For what concerns the "Hedge Funds Portfolio" mandate, as you can see in note 6.3, all limitations set by the Foundation'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	12'000'000	EUR/CHF	-76'668
2	31.03.2017	Sell	39'800'000	EUR/CHF	-254'283
Market value of open financial derivatives instruments at 31.12.2016					**-330'952**
Market value of open financial derivatives instruments at 31.12.2015					*-118'826*

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 Foundation or respectively to the asset management mandates with BSI SA or the direct real estate managements were considered as described in the following table:

	Total assets	of which Direct real estate	of which BSI mandates
	CHF	CHF	CHF
Assets at 31.12.2016	959'442'089	126'000'000	816'618'669
Assets at 1.1.2016	938'570'440	94'312'400	835'716'010
Average investment	**949'006'265**	**110'156'200**	**826'167'340**
Net income from Liquid funds*	432'956	-	417'019
Net income from Swiss bonds	1'507'913	-	1'507'913
Net income from Foreign bonds	2'639'572	-	2'639'572
Net income from Swiss equities	2'490'999	-	2'490'999
Net income from Foreign equities	18'293'551	-	18'293'551
Net income from Alternative investments	-250'879	-	-250'879
Net income from Indirect real estate	8'497'619	-	8'497'619
Net income from Direct real estate	4'379'659	4'379'659	-
Variation in value of Direct real estate	21'401'812	21'401'812	-
Net income from Derivatives	454'727	-	454'727
Retrocessions received	29'004	-	29'004
Asset management expenses	-5'205'553	-496'986	-4'708'567
Total of Net income from investments	**54'671'380**	**25'284'485**	**29'370'958**
Income in % of avarage investment at 31.12.2016	**5.76%**	**22.95%**	**3.56%**
Income in % of avarage investment at 31.12.2015	*1.38%*	*10.91%*	*0.30%*
Changes in non actuarial provisions	**-2'760'000**	**-2'760'000**	
Income net of non actuarial provisions in % of avarage investment at 31.12.2016	**5.47%**	**20.45%**	**3.56%**

* The income which is not allocated to direct real estate and BSI mandates refers to the operative cash.

The "Net income from investments" is higher by CHF 41.663 mln compared to 2015, thus reaching CHF 54.671 mln. As of 31 December 2016 the Foundation owns **10 direct real estates**, one of which is located in Mendrisio and it was purchased in June 2016 for total CHF 11 mln (including a down payment of CHF 0.3 mln paid in 2015).

As illustrated in note 4.2.2, on 23 December 2016 the Foundation signed a **Real Estate Asset Swap** agreement to be executed in 2017, which produced a settlement value of the entire direct portfolio amounting to CHF 126 mln. The gross profit from the adjustment as of 31 December 2016 of the portfolio valuation to the "liquidation value" is included in item "Variation in value of Direct Real Estate" amounting to CHF 20.988 mln. This item also includes CHF 0.414 mln from the refund of the 2016's Capital Gain Tax on Real Estate (TUI), paid in excess in 2015 and relating to the capital gain on the sale of the real estate in Chiasso.

The Real Estate Asset Swap agreement established that in case of negative outcomes of the "**Tax Ruling**" in the various cantons where real estates are located (with request for latent TUI payment deferral to the purchasing company SAST), the Foundation must pay the capital gain tax on real estate.
Therefore on 31 December 2016 a "**Non actuarial provision**" of CHF 2.760 mln was set up and it corresponds to the maximum cost borne by the Foundation for such taxes in case of an unfavorable scenario. The **net profit** in 2016 deriving from the Real Estate Asset Swap transactions net of the aforementioned provision and other expenses for professionals assisting the Foundation in completing the operation (amounting to CHF 0.260 mln included in the item "Asset management expenses") is CHF 17.968 mln.

The item "Net Income from Direct Real Estate expenses" amounting to 4.380 mln (2015: CHF 4.669 mln) is related to the operating profit 2016 of such owned real estates, which have been managed with the assistance of external trust companies.
The "Asset management expenses" for "Direct Real Estate" amounting to CHF 0.497 mln are related to the expenses for the trust companies managing direct real estates, "Real Estate Portfolio Manager" internal expenses and external costs for the Asset Swap transaction mentioned above.

A significant contribution to the positive performance in the period came from foreign equities and real estate funds.

Since the amount of forward currency transactions of CHF 0.455 mln is meant to full hedge the asset management mandates portfolio, it has been fully included in the amount of asset managed under mandate.

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

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 Foundation 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, the real estate expert for the appraisal of direct real estates, and the trust companies for managing own real estates (or "*Supplementary Cost – SC*");
- **internal expenses** relating to independently managed real estates;
- **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 3.203 mln (31.12.2015: CHF 3.520 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)	1'931	1'914
Internal costs	72	72
Indirect costs (calculated based on the cost ratio TER)	3'203	3'520
Total of asset management expenses	**5'206**	**5'506**
Total of transparent investments	942'291	929'678
Asset management expenses as a % of transparent investments	**0.55%**	**0.59%**

Indirect expenses are impacted by 34.4% by the Hedge Funds expenses estimated with TER ratio (2015: 30.5%), whose asset class covers 4.5% of the total assets as of 31 December 2016 (2015: 4.7%).

6.7.3. Cost transparency ratio

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Transparent investments	942'291	929'678
Asset management mandates and direct real estate investments	942'618	930'028
Cost transparency ratio	**99.97%**	**99.96%**

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

Pursuant to article 48a, paragraph 3 OPP2, on 31 December 2016 the portfolio contains two securities lacking a breakdown of the asset management expenses.

The aforementioned investments are as follows:

ISIN	Provider	Name of the security	Quantity at 31.12.2016	Currency	Market value in CHF at 31.12.2016	Market value in CHF at 31.12.2015
CH0011402895	Minicap Technology Investment AG	Azioni Nominative Minicap Technology Investment AG	10'000	CHF	36'600	36'600
IT0003685804	Pirelli RE	Parte Pirelli RE (2003-31.12.2021)	2.50	EUR	290'634	313'831
Total of investments with not transparent costs					**327'234**	**350'431**

They are minor securities included in the overall portfolio, which have been herein for a long time: the first security has been included for over a decade, whereas the second security was contained in the Pension Foundation of Banca Unione di Credito (entered into the Foundation on 1 January 2007). Both securities are not liquid and they are under constant monitoring by the Portfolio Manager and the Board of Foundation.

6.8. Explanation of investments and other receivables with the employers

Investments with the employers	31.12.2016		OPP2 limits	Article
	CHF/000	in %		
Operative cash in BSI SA[1]	12'209	1.27%		UFAS Journal N° 84/486
Cash under mandate in BSI SA	37'629	3.92%	5.00%	57 par. 2
Direct real estate:	47'630	4.96%	5.00%	57 par. 3
St. Moritz (Chesa Spedlas)	*3'500*	*0.36%*		
Lugano (via Canova 6)	*31'500*	*3.28%*		
Lugano (via Peri 21-23, S.Anna "blocco 4")	*12'630*	*1.32%*		
Prepayments and accrued income with employers	-	0.00%		
Total investments with the employers	**97'468**			
Total assets (art. 49 OPP2)	959'442	100%		

[1] Remuneration rate for 2016 ranges from 0% to 0.3% as established by BSI's FINRISK Committee (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 Foundation entered into a **collateral contract** with BSI SA; as employer the bank commits to guarantee the cash of the Foundation 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 39.418 mln with a 104.8% hedging of the invested capital with the employer.

6.9. Retrocessions

During 2016 the Foundation received CHF 29'004 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 42'219).

7. Comments on other balance sheet and operating account positions

7.1. Other receivables

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Credits for withholding Tax	2’021	1'575
Credits towards external trust companies for Real Estate management	308	273
Credits towards reinsurer	2’237	2'215
Other credits miscellaneous	1	13
Other receivables	**4’568**	**4’076**

Credits for withholding tax as of 31 December 2015 were fully received in April 2016. In March 2017 the tax refund request for the 2016 balance amount of CHF 2.021 mln was submitted.

7.2. Prepayments and accrued income

The item “Prepayments and accrued income” as of 31 December 2016 includes the insurance premiums for own real estates pertaining to 2017 and paid in 2016.

All open financial derivatives instruments on 31 December 2016 show a negative replacement value.

7.3. Accrued liabilities and deferred income

	31.12.2016	31.12.2015
	CHF/000	CHF/000
Deferred income from revenues pertaining to future periods	4’692	5'567
Negative replacement value for forward contracts open at end of year	331	119
Invoices to be received and other accrued liabilities	333	279
Accrued liabilities and deferred income	**5’356**	**5'965**

The reduction by CHF 0.6 mln in the item “Accrued liabilities and deferred income” is mainly due to the lower value of early retirement contributions already collected from the employer which, however, will generate a commitment for the Foundation starting from 1 January 2017 and included in the sub-item “Deferred income from revenues pertaining to future periods” (from CHF 5.3 mln in 2015 to CHF 4.4 mln in 2016). Early retirement contribution in the operating account are included in the “extraordinary contributions” and they ammount to CHF 1.292 mln (2015: 9.884 mln).

8. Requirements of the Supervisory Authority

Upon decision dated 16 September 2016, the Supervisory Authority acknowledged the annual report 2015.

On 10 November 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 Foundation 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 plan and organizational solutions of the two banks' pension funds.
  On the same date, all employees were informed about the changes occurred in the Foundation 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
Dreieck SA did not waive to the contribution reserve amounting to CHF 53'291.

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 Foundation. 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 Foundation.

9.8. Special business and asset transactions
On 23 December 2016 the Real Estate Asset Swap agreement was stipulated. For further details on the agreement and accounting impact of this transaction see paragraphs 4.2.2 and 6.6.

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 Pension Fund 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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Building a better working world

To the Foundation Board of

Fondazione 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 Fondazione di previdenza BSI SA, which comprise the balance sheet, operating account and notes (pages 7 to 39), 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.

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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
- the occupational pension accounts comply with legal 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	Michele Balestra
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Enclosure

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

FONDAZIONE
DI PREVIDENZA BSI SA