Fondazione di previdenza

Annual report 2017

Management report 2017

In the fourth quarter of 2017, following the approval by the Supervisory Authority and the registration to the Commercial Register, the update of the Statute and the procedure to modify the name of the Foundation were completed. We have now the pleasure to submit to you the **first annual report of Fondazione di Previdenza EFG SA** (hereinafter the "Foundation").

Coverage ratio and other key figures

For the Foundation, 2017 has been another good year for the net income of the asset management, which reached 6.99%. Thanks to this good performance and to the cautious and forward-looking management of the Foundation Board, the **coverage ratio** of the Foundation rose to **104.0%** at the end of 2017 (from 100.9% of 2016).
A portion of the income obtained has been allocated to update the technical bases, by changing from the LPP2015 **Generational Tables** of 2017 to LPP2015 of 2018 and by reducing the **Technical Rate** from 2.50% to **2.25%**.
The annual report of the Foundation closes the year with an income surplus of the period of **CHF 28.5 mln**, leading to an increase in the fluctuation reserve, which reached **CHF 36.6 mln** at the end of 2017 (CHF 8.1 mln at the end of 2016). We are moving in the right direction, but we are still very far from the target set for this reserve, 16.4% of the pension liabilities and actuarial provisions, i.e. CHF 151.8 mln! The increase in the fluctuation reserve remains a crucial target for the Foundation.
A pension fund with a full fluctuation reserve has a higher risk capacity and the financial strength required to look more confidently at the future. Such future appears to be increasingly complicated: the financial markets are characterized by high volatility and the interest rates are still substantially low, despite the increasing signs of a possible rise.
The net pension assets of the Foundation amounts to CHF 962.1 mln, while pension liabilities and actuarial provisions have recorded CHF 925.5 mln.
The Technical Rate is not 2.00% yet (as advised by the Swiss Chamber of Pension Actuaries at the end of September 2017), but the step undertaken with the decrease to 2.25% is important and goes in the right direction.
The Foundation is still well-positioned, despite the high proportion of the pensioners compared to the active employees, which is the major challenge that we have to face in the years to come.

Summary of the "key figures"	31.12.2017	31.12.2016
Coverage Ratio	104.0	100.9
Technical Rate (advice of 30.9.2017 by Chamber of Pension Actuaries = 2.00%)	2.25%	2.5%
Fluctuation reserve (target 31.12.2017 = CHF 151.8 mln)	CHF 36.6 mln	CHF 8.1 mln
Net pension assets	CHF 962.1 mln	CHF 940.4 mln
Pension liabilities and actuarial provisions	CHF 925.5 mln	CHF 932.3 mln

Introduction of a new Pension Plan and Reduction of the Conversion Rate

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

The acquisition of BSI by EFG forces us to look for a shared medium-long term solution for the Pension Funds of the two banks, in terms of pension plan and organization.
The first important step to take, in order to reach the goal of harmonizing the pension benefits for all the insured of the ex-BSI and EFG Pension Funds, was introduced in the New Pension Plan which, in principle, provides for the same benefits for all the new employees hired from 1 July 2017 by EFG or by the affiliated Employers, both at the **Foundation** (if hired in **Ticino**) and at the collective Pension Fund Trianon (if hired in the German and French-speaking Switzerland).

All benefits and forms of financing of the New Pension Plan have been included in the new Pension Fund Regulation published at the beginning of 2018.
Instead, with regard to all the persons already insured by the BSI Foundations before 1 July 2017, the Pension Fund Regulation previously in force still apply and will apply until the final integration and harmonization of the Pension Funds; however, the amendments to the Pension Fund Regulation detailed below were made with effect from 1.1.2018.
The benefits included in the new Pension Plan are the result of the search for a solution that could guarantee the future solidity and the best conditions for all the insured of the Bank. The conditions included in this Plan – in particular, the conversion rate – are the starting point from which the future Pension Plan harmonized for all the insured will be drafted.

In the new Plan, the conversion rate at the ordinary retirement age is 5.20%. This rate is still higher than the neutral conversion rate (4.90%) calculated by applying the LPP2015 Generational Tables of 2018 and the 2% Technical Rate. Moreover, for September 2018 the Chamber expects the Technical Rate to decline further to 1.75%, which corresponds to a neutral conversion rate of 4.75%. The difference between the regulatory and the neutral conversion rate is a cost to the Foundation. In addition, the Foundation's expected return on its assets in the medium/long term is lower at the Technical Rate of 1.75%.

Alignment as at 1.1.2018 of the conversion rate at the ordinary retirement age to 5.20% for the persons already insured by the Foundation as at 30.6.2017.
During the meeting held on 18.9.2017, the Foundation Board resolved by majority vote to lower as of 1.1.2018 the conversion rate at the ordinary retirement age to 5.20%.
This measure makes it possible, on one hand, to maintain an equal treatment of the active employees under the various plans currently in force and, on the other hand, to move closer the neutral conversion rate with the actuarial technical bases, thus reducing the cost for the fund and the active employees that are still far from the retirement age.
The reduction of the conversion rate at the ordinary retirement age has been implemented since 1.1.2018 in a new Pension Fund Regulation for the persons already insured with the Foundation as at 30.6.2017.
After the alignment of the conversion rate, the harmonization process of the pension plans within the Foundation (active employees already insured as at 30.6.2017 and the new hirings in Ticino from 1.7.2017), as well as between the ex BSI and EFG Pension Funds will continue in the following months, by harmonizing the benefits and the forms of financing for the insured of the new bank (i.e. insured salary, contribution structure, difference in the calculation of the expected benefits, etc.).

Integration of EFG Pension Funds
The activities related to the harmonization of the EFG (ex-BSI) and EFG/Trianon Pension Funds are moving forward, as announced in last year's report and in the communications sent in 2017 to the insured. There are many decisions to be taken regarding the future organizational set-up and the pension solutions to be adopted for all the Employer's employees.
Given the complexity of the issue and the importance of seeking solutions that are optimal for all the insured and that guarantee proven solidity of the structures, it is vital that a thorough analysis is carried out of every aspect relating to the two current Pension Funds, in order to identify the most appropriate vehicle for the future.
Starting from those assumptions, in April 2018 the Employer engaged an independent company to perform an assessment of the EFG (ex-BSI) and EFG/Trianon Pension Funds, and requested to assess and consider the advantages and disadvantages of the potential future solutions for all the players involved.
Currently, no significant decision has been taken yet. Given the long-term time horizon in the pension industry, the current structure could continue over the medium-long term, allowing us to identify without rush the most appropriate solution. Meanwhile, the two Pension Funds will continue to operate separately and independently.
We will keep you constantly posted on the developments of this important issue, which personally and crucially involves all employees and pensioners.

Overview and outlook on Financial Markets

Overview

Throughout 2017 the world financial markets enjoyed an economic situation close to “goldilocks”, i.e. an economy with satisfactory growth in the absence of inflationary pressure.
The fulfilment of some electoral promises in support of the American economy, the monetary policy that is still very favourable in Europe and Japan, and the strengthening of the prices of many commodities have created the ideal substratum for a good world economic growth, which has accelerated further to +3.7%.
On the geopolitical front, despite the persistent tensions on the Korean peninsula and in the Middle East, Europe has seen an improvement in the framework conditions, thanks to the results of the French presidential elections in May. That result eased the concerns of many financial operators about the resistance of the European Union and its currency against the numerous attacks of the nationalist parties, thus allowing the Euro to strengthen against all major currencies.
With regard to inflation, the situation still appears calm, below the alert levels of the central banks (2%). For 2018, inflation is expected to reach 2.1% in the US and 1.7% in the eurozone. The recent recovery in crude oil prices and the fact that the American labour market is increasingly close to maximum employment could, however, create the first tensions on labour costs and later on US inflation.

Outlook

The good global economic trend, which is expected to be almost stable at around +3.6%, combined with the recovery in inflation, is currently favouring the equity sector, while fixed income has been weighed down by it. In the near future, it will be important to understand whether the monetary policy of the FED and, recently, of the ECB, which aims at a gradual return to normal interest rates, will be appreciated by the market or not. The numerous increases in the key interest rates by FED, which will be followed by 3 more in 2018, have not yet created any concerns among investors.
On the basis of the assessments made by our manager, Patrimony 1873, we can see that the stock markets show a cost situation of around 15%, while the bond market is overvalued, with respect to the equilibrium interest rate, by around 70 basis points. If the latter market is normalised, the portfolio of the Pension Fund may suffer a capital loss of 3.5/4% on its bond portion.
On the basis of these assessments and the macroeconomic situation described above, our manager maintains a certain preference for equity investments (tactical position slightly higher than the strategic portfolio) at the expense of bond investments (strong underweight, at the lower limit allowed by the strategy).
With regard to the equity investment, they remain favourable to the Japanese and the European markets. Instead, the US stock market (which is very expensive, with a higher risk of rate rises) and the market of the emerging countries are underweight.
With regard to the bond portfolio, the manager maintains a prudent approach, with strong underexposure and average duration in the portfolios.
The issue of the interest rates at a historic low – in connection with the risk of a gradual increase – will occupy the Foundation Board in the coming months/years with the task to find alternatives that could minimize the risk of capital loss mentioned above.

Swiss and Foreign Real Estate Portfolio

Completion of the “Real Estate Asset Swap” transaction

With regard to the Foundation’s direct real estates, in 2017 the transaction known as “Real Estate Asset Swap” was finally completed.
The “Real Estate Asset Swap” transaction consisted in the transfer of the entire direct real estate portfolio against the acquisition of the participation rights in “Swisscanto Anlagestiftung” of Zurich (SAST), the largest Swiss Real Estate Investment Foundation in the market for pension funds.

In 2017, the net profit from the Asset Swap transaction of around CHF 18 mln realized in the 2016 financial statements was supplemented by a further CHF 1.9 mln from the savings made as a result of the granting by several cantonal authorities of our requests for "tax rulings" (we remind you that, when granted, a "tax ruling" is an exemption from transfer taxes and stamp duties, and enables to defer the payment of capital gain tax on real estate pending).
In addition to the great advantage of this transaction, consisting in the diversification of the portfolio, with the subsequent reduction of concentration risks, the quality of the SAST portfolio was confirmed with a performance of 4.78%, from April 2017 (date of receipt of the participation rights) to the end of December 2017, for a profit of approximately CHF 5.8 mln.

Sale of the Hedge Funds portfolio and purchase of the Foreign real estate product "UBS AST 3 Global real estate ex CH"
During 2017, with the support of the Investment Controller PPCmetrics AG in Zurich, the Foundation Board decided to replace the Hedge Funds investment with an alternative product that would not affect the risk budget, but would lead to a better diversification and decorrelation from the other investments in the portfolio. After a phase of analysis of the possible alternative investment categories, which led to the choice of the "Foreign Real Estate" segment, different products were assessed and the final choice fell on "UBS AST 3 Global Real Estate ex CH", a fund of unlisted real estate funds diversified globally (North America, Europe and the Asia/Pacific region), with a market value of approximately CHF 108 billion. The "switch" operation was structured in several stages and terminated with the receipt of the last tranche of the UBS product at the end of the third quarter of 2017.

Conclusions

In the second half of 2017, the Foundation carried out the important process of appointing the Delegates' Meeting, which terminated at the end of October. Just as important is the process of electing candidates for the active employees to the Foundation Board which, at the Delegates' Meeting, enables us to renew the Board members that represent the active employees.
Finally, we point out what we have already partially said, namely that the demographic structure of the Ex BSI Foundations (with a problematic ratio between the passive and active population), the continuous increase in life expectancy, the constant downward evolution of the Technical Rate, and the expectations of returns on assets below the Technical Rate are the very difficult challenges that we will be called upon to face in the coming years. In order to overcome these challenges, all the Board members, together with the Management and the employer, will have to develop scenarios and possible solutions to best address the situation and find measures to keep the Pension Fund of the new Bank financially sound, thus respecting the rights and expectations of all active employees and pensioners.

We are certain that all Board members and the Management team will face the numerous challenging activities and relevant decision-making processes with significant commitment and professional attitude.
In this regard, we wish to thank all the colleagues for the profitable results, including the outgoing Board members that were active during the previous four years, who contributed to the good results achieved in 2017.

Massimo Antonini
Chairman of the Board

Michele Casartelli
Foundation Manager

Contents

Balance sheet

ASSETS	NOTES	CHF 31.12.2017	CHF 31.12.2016
Investments		**966'193'916**	**959'395'627**
Liquid funds	6.3	97'067'219	84'999'919
Current account with Fondo Complementare di Previdenza EFG SA		264'198	0
Other receivables	7.1	2'296'972	4'568'222
Swiss bonds	6.3	139'093'680	136'282'890
Foreign bonds	6.3	147'121'384	155'081'683
Swiss equities	6.3	48'064'479	62'850'060
Foreign equities	6.3	276'762'197	258'003'689
Alternative investments	6.3	0	42'802'793
Direct real estate	6.3	0	126'000'000
Swiss real estate funds	6.3	212'318'925	88'806'371
Foreign real estate funds	6.3	43'204'862	0
Prepayments and accrued income	**7.2**	**0**	**46'461**
Information system		**1**	**1**
Total assets		**966'193'917**	**959'442'089**

LIABILITIES			
Accounts payables		**1'825'107**	**10'907'904**
Vested benefits and retirement capital to be paid		1'616'587	10'510'303
Liabilities for ex-BdG free funds distribution		0	1'695
Other accounts payables		208'520	395'906
Accrued liabilities and deferred income	**7.3**	**2'206'116**	**5'355'751**
Employer contribution reserve (ECR) without waiver of use	**5.9 / 9.2**	**53'291**	**53'291**
Non actuarial provisions	**6.6**	**8'200**	**2'760'000**
Pension liabilities and actuarial provisions		**925'481'203**	**932'256'524**
Active employees' liabilities	5.2	273'130'366	302'237'298
Pensioners' liabilities	5.4	637'667'140	614'315'829
Actuarial provisions	5.5	14'683'697	15'703'397
Fluctuation reserve	**6.2**	**36'620'000**	**8'108'619**
Dotation capital and free funds / underfunding		**0**	**0**
Dotation capital		10'000	10'000
Free funds / 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		**966'193'917**	**959'442'089**

Operating account

	NOTES	CHF 2017	CHF 2016
Ordinary and other contributions, buy-ins		**29'568'918**	**31'154'920**
Employer contributions			
Ordinary contributions		11'865'574	13'826'757
Extraordinary contributions	7.3	3'751'814	1'292'383
Employer payments for AHV bridging pension benefit		3'764'854	3'712'982
Employee contributions			
Ordinary contributions		7'736'710	8'911'204
One-time payments and purchase amounts	5.2	2'449'966	3'411'594
Entry lump sum transfers		**3'611'738**	**5'086'895**
Earnings from Vested benefit transfers	5.2	3'102'468	4'623'396
Buy-ins following a divorce		213'766	329'100
Reimbursements from divorce		290'504	57'886
Repayment of withdrawals for residential property	5.2	5'000	76'513
Income from contributions and entry payments		**33'180'656**	**36'241'815**

Regulatory benefits		**-48'573'288**	**-46'095'995**
Retirement pensions		-35'600'386	-34'859'838
Disability pensions		-1'003'303	-972'226
Spouse pensions		-4'814'892	-4'644'226
Orphan and children pensions		-668'941	-712'617
AHV bridging pensions		-3'775'076	-3'729'272
Retirement capital	5.2	-2'547'378	-1'177'816
Lump sum payments on death and disability		-163'312	0
Termination benefits		**-29'520'019**	**-30'702'982**
Departures of Vested benefits	5.2	-28'597'131	-30'111'864
Withdrawals for residential property and divorce	5.2	-922'888	-591'118
Expenses for benefits and withdrawals		**-78'093'307**	**-76'798'977**

Release / (-) creation of Pension liabilities, Actuarial provisions and ECR		**6'753'907**	**-11'330'655**
Variation in Active employees' liabilities		32'670'188	18'178'731
Variation in Pensioners' liabilities		-23'351'311	-21'699'451
Variation in Actuarial provisions		1'019'700	-3'233'062
Interest on vested benefits paid		-21'414	-15'050
Interest on retirement savings capital	5.2	-3'563'256	-4'561'823

Operating account (2nd part)

	NOTES	CHF 2017	CHF 2016
Income from insurance benefits		**1'858'533**	**1'448'968**
Insurance benefits		1'527'605	1'097'591
Share of insurance surpluses		330'928	351'377
Insurance expenses		**-1'894'074**	**-2'047'038**
Insurance premium	5.1	-1'798'189	-1'954'812
Contribution to Guarantee Fund		-95'885	-92'226
Net income from insurance activities	**5.10**	**-38'194'285**	**-52'485'887**
Net income from investments	**6.6**	**66'359'735**	**54'671'380**
Net income from Liquid funds		-479'112	432'956
Net income from Swiss bonds		-45'866	1'507'913
Net income from Foreign bonds		356'584	2'639'572
Net income from Swiss equities		10'084'709	2'490'999
Net income from Foreign equities		47'631'782	18'293'551
Net income from Alternative investments		2'173'270	-250'879
Net income from Direct real estate		883'547	4'379'659
Variation in value of Direct real estate		0	21'401'812
Net income from Swiss real estate funds		13'955'827	8'497'619
Net income from Foreign real estate funds		-135'873	0
Net income from Derivatives		-3'158'135	454'727
Retrocessions received	6.9	6'816	29'004
Asset management expenses	6.7	-4'913'814	-5'205'553
Release / (-) creation of NON actuarial provisions	**6.6**	**914'564**	**-2'760'000**
Other income		**4'962**	**5'013**
General administration expenses		**-573'595**	**-617'257**
Actuary activities		-78'951	-76'963
External Audit		-41'706	-50'858
Supervisory authority		-21'817	-21'032
Marketing and advertising		-5'128	-3'554
General administration		-425'993	-464'850
Income / (-) Expenses before creating / releasing of Fluctuation reserve	**5.10**	**28'511'381**	**-1'186'751**
Release / (-) creation of Fluctuation reserve	**6.2**	**-28'511'381**	**1'186'751**
Income surplus / (-) Expense surplus of the period		**0**	**0**

Notes to the 2017 Financial Statements

1. General information and organization

1.1. General information and organization

Fondazione di Previdenza EFG 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 Foundation was founded by BSI SA (hereinafter BSI) on 4 November 1944. Under the Asset Transfer Agreement between BSI and EFG Bank SA (hereinafter EFG) dated 5.4.2017, EFG acquired all rights and obligations of BSI in respect of the Foundation and took over the position of the Founder of "Fondazione di Previdenza BSI SA".

With the approval of the new Statute by the Foundation Board and the Supervisory Authority, subsequently filed with the Commercial Registry of Canton Ticino, the Pension Fund has changed its name from "Fondazione di previdenza BSI SA" to "Fondazione di previdenza EFG SA".

The Foundation's objective is to provide occupational retirement schemes within the scope of LPP and the ordinances regarding its implementation, against the economic consequences of old age, death and disability in favor of the employees of the Founder already insured with the Foundation by 30 June 2017 and all persons employed from 1.7.2017 in Ticino by EFG and by the entities affiliated with the Foundation, insofar as they have entered into an affiliation agreement, as well as the employees of the Foundation, their relatives and survivors.
Inclusion of an affiliated entity is made through a special written agreement, subject to the Supervisory Authority.

Benefits are issued according to the defined contribution plan. In any case, the Foundation complies with the minimum requirement set by applicable laws. For more details on the structure of the insurance plans, please refer to section 3.

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.
The Foundation is located at the offices of the Lugano branch of the Founder, EFG Bank SA, at via Magatti 2, Lugano.

1.3. Information about Statute and Regulations

	In force from	Notes
Statute	4.9.2017	Approved by the Foundation Board on 4.9.2017 Approved by the Supervisory Authority on 15.9.2017
Organization Regulation	26.7.2017	Approved by the Foundation Board on 26.7.2017
Electoral Regulation for the nomination of the delegates meeting and the representatives of the active employees in the Board of Foundation	26.7.2017	Approved by the Foundation Board on 26.7.2017
Pension Fund Regulation applicable to all the active employees admitted to the Foundation after 1.7.2017	1.7.2017	Approved by the Foundation Board on 17.7.2017
Pension Fund Regulation for employees and pensioners who were insured with the Foundation as at 30.6.2017	1.1.2018	Approved by the Foundation Board on 20.10.2017
Regulation on partial and full liquidation and merger	1.1.2009	Approved by the Supervisory Authority on 27.9.2010
Regulation of actuarial provisions	31.12.2017	Approved by the Foundation Board on 28.11.2017
Investment Regulation	13.11.2017	Approved by the Foundation Board on 13.11.2017

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:
To replace the resigning Alen Vukic with exit on 31.12.2016, the Foundation Board confirmed Sanjin Mohorovic as representative of employees from 1.1.2017 and appointed the latter also as Secretary. In May 2018, the new representatives of the insured persons will be nominated by the Delegates' Meeting.

1.4.2. Committees of Foundations 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

* Tognina Reto e Mohorovic Sanjin have been appointed Members of CIM during the Foundation Board meeting on 10.2.2017.

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:

	Function	Representative of
Tognina Reto	Chairman	Employer
Antonini Massimo	Member	Employees
Giamboni Pierrette	Member	Employees
Moranzoni Maurizio	Member	Employer
Casartelli Michele	Secretary without voting rights	Foundation manager

1.4.3. Delegates' Meeting
The Delegates' Meeting operates as an advisory and general control body of the Foundation.
In October 2017, active employees and pensioners were elected to form the Delegates' Meeting, effective from 1.1.2018.

Until 31.12.2017 the Delegates' Meeting was composed as follows:
- **Active employees:** Antonini Massimo, 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
- **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

Starting from 1.1.2018 the Delegates' Meeting is composed as follows:
- **Active employees:** Balmelli Roberto, Battaini Giordano, Bianchi Giacomo, Bizzozero Sergio, Butti Alessandro, Caggiano Massimo, Campana Marco, Cantieni Andrì, Cattaneo Lorenzo, Ciocco Gian Paolo, Dal Pozzo Daniela, Daldini Andrea, Donati Olivier, Gianini Matteo, Mazza Andrea, Moser Christian, Pagnamenta Maurizio, Palmisano Antonio, Perletti Maurizio, Perruchoud Jean-Marie, Pinelli Simone, Roncoroni Moira, Rossi Omar, Russi Andrea, Spaggiari Antonella, Tironi Francesco
- **Pension beneficiaries:** Ballinari Francesca, Beretti Manuela, Bosia Franco, Bussani Alessandro, Cantoni Gianfranco, Castelli Giuliano, Delmenico Renzo, Etter Walter, Fioroni Giampiero, Gajo Ermanno, Piattini Aurelio, Poretti Giovanni, Prada Giancarlo, Rezzonico Gianni, Rezzonico Renato, Riva Mario, Rusca Cornelio, Sauty Claire-Lise, Schilling Peter

1.4.4. Management
Starting from 1.1.2012, 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 31.12.2017 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 EFG 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 banks/Asset manager/ Portfolio manager	EFG Bank SA, Lugano branch	The bank has delegated the Foundation's Portfolio Manager activities to its subsidiary with 100% participation Patrimony 1873 SA, Lugano.
	Client Relationship Manager: Boschung Martin (succeeded Muschietti Danny in the last quarter of year 2017)	Head Portfolio Manager until 31.3.2018 Ogna Ronald and starting from 1.4.2018 Laurent Andrea (Deputy: Campana Marco).
	Zürcher Kantonalbank, Zurigo	For the deposit of the investment in Swiss real estate funds of the Swisscanto Anlagestiftung, Zurich (note 4.2.2)
	UBS Switzerland AG, Lugano	For the deposit of the investment in foreign real estate funds (note 6.3)
Investment Controller	PPCMetrics SA, Zurigo: Fusetti Alfredo	
Asset & Liability Management Study (ALM)		
Direct real estate management	External trust companies until 31.3.2017	

1.6. Affiliated employers

The amount of affiliated companies has developed as follows:

	EFG	Fondazione di previdenza EFG SA	Dreieck SA	Finnat SA	Patrimony 1873 SA	EFG AM	Total 2017	Total 2016
Situation at 1.1.	1'104	4	17	1	37	-	1'163	1'262
+ / - Transfers	-49	-	-	-	13	36	-	-
+ Entries [1]	22	-	2	-	4	1	29	47
- Departures [2] / Deaths	-127	-	-3	-	-5	-3	-138	-126
- Retirements [3] / Disability	-41	-	-	-	-	-	-41	-20
Situation at 31.12. [4]	**909**	**4**	**16**	**1**	**49**	**34**	**1'013**	**1'163**

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 ar considered as units.

In May 2017, the company "EFG Asset Management (Switzerland) SA" (EFG AM) was founded, and several employees of the acquired BSI have been transferred to it. The affiliation agreement between EFG AM and the Foundation was signed into in June 2017, effective from 1.5.2017.
In 2017, the number of active employees fell by 150 in net terms (2016: -99). The number of voluntary departures is consistent within the two-year period.
In 2017 there were no new disabled persons and 1 death occurred.

2. Active employees and pensioners

2.1. Active employees

	*Plan 1**	*Plan 2**	**Total 31.12.2017**	**31.12.2016**
Men	*616*	*9*	625	726
Women	*381*	*7*	388	437
Total	***997***	***16***	**1'013**	**1'163**

* See section 3 for more detailed information in relation to the two plans.

The women to men ratio has remained virtually unchanged compared to 2016.

Structure by age range	**31.12.2017**	**31.12.2016**
Less then 24 years	10	12
24-32 years	95	118
33-42 years	257	321
43-54 years	477	523
From 55 years	174	189
Total	**1'013**	**1'163**
Avarage age	45.9	45.2

In the "33-42 years" of age range there is the highest amount of net termination relating to 64 people (2016: -60), whereas in the "43-54 years" range there is the most relevant number in relative terms, amounting to 47.09% of the total (2016: 44.97%). 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

	Retirement pensions beneficiaries [1]	**Disability pensions beneficiaries [2]**	**Spouse pensions beneficiaries**	**Children pensions beneficiaries [3]**	**Total 2017**	**Total 2016**
Situation at 1.1.	733	43	142	59	977	972
+ Entries	41	2	2	16	61	36
+ / - Conversions	3	-3	-	-	-	-
- Deaths / Terminations	-9	-	-	-6	-15	-31
Situation at 31.12.	**768**	**42**	**144**	**69**	**1'023**	**977**

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 46 units mainly due to ordinary and early retirements (2016: +5 units).
The 1023 pensioners include 30 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 2017	Total 2016
Less then 18 years				30	30	26
18-24 years				39	39	33
25-54 years		14	4		18	21
55-64 years	160	28	15		203	199
65-74 years	351		56		407	395
75-84 years	208		48		256	243
85-94 years	47		21		68	58
Above 94 years	2				2	2
Total	**768**	**42**	**144**	**69**	**1'023**	**977**
Average age					68.1	68.1

Net changes in 2017 with +46 units 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 31.9% of the population (2016: 31%).

2.3. Ratio between active employees and pensioners

The ratio between active employees and pensioners has changed from 1.19 on 31.12.2016 to 0.99 on 31.12.2017. 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 plans

3.1. Explanation of the pension plans

The acquisition of BSI by EFG, as described in paragraph 1.1, requires the search in the medium to long term for a common pension and organizational solution for the two Pension Funds of the employer (the Foundation and the Collective Pension Fund Trianon).

In order to harmonize the pension benefits for all **new insured persons as from 1.7.2017** by EFG or by affiliated employers, a New Pension Plan (hereinafter referred to as "Plan 2") has been introduced, which essentially provides for the same benefits at the Foundation (if hired **in Ticino**) and the Trianon Collective Pension Fund (if hired in German and French-speaking Switzerland). Plan 2 is based on the *contribution plan* and applies a conversion rate of 5.20% at the ordinary retirement age.

For the persons **already insured** with the Foundation **as at 30.6.2017**, by resolution of the Foundation Board dated 18.9.2017, the pension plan in force as from 1.1.2017 (hereinafter referred to as "Plan 1") was updated, lowering the conversion rate to 5.20% for the ordinary retirement age effective from 1.1.2018 and introducing other minor changes to align it with Plan 2.

The following table provides an overview of the two plans.

	Pension Fund Regulation for employees and pensioners who were insured with the Foundation as at 30.6.2017 - PLAN 1	Pension Fund Regulation applicable to all the active employees admitted to the Foundation after 1.7.2017 - PLAN 2
RETIREMENT AGE		
Ordinary retirement age Minimum retirement age Maximum retirement age	64 years for women and men 60 years for women and men 70 years for women and men	64 years for women 65 years for men 60 years for women and men 70 years for women and men
RETIREMENT BENEFITS		
Type of benefit	Pension or capital (up to 100% of the employees' liabilities)	Pension or capital (up to 100% of the employees' liabilities)
Retirement pension	Retirement savings capital multiplied by conversion rate	Retirement savings capital multiplied by conversion rate
Conversion rates in %	Women and men 60 years: 4.71 61 years: 4.82 62 years: 4.94 63 years: 5.07 **64 years: 5.20** 65 years: 5.34 66 years: 5.50 67 years: 5.66 68 years: 5.84 69 years: 6.03 70 years: 6.24	Women / Men 60 years: 4.71 / 4.60 61 years: 4.82 / 4.71 62 years: 4.94 / 4.82 63 years: 5.07 / 4.94 **64 years:** **5.20** / 5.07 **65 years:** 5.34 / **5.20** 66 years: 5.50 / 5.34 67 years: 5.66 / 5.50 68 years: 5.84 / 5.66 69 years: 6.03 / 5.84 70 years: 6.24 / 6.03
Children's retirement benefits	10% of retirement pension	20% 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	Active employee: 50% of the insured salary (see definition in note 3.2) Disabled individual: 50% of the relevant income for the calculation of the current 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	Active employee: 10% of the insured salary Disabled individual: 10% of the relevant income for the calculation of the current disability pension Pensioner: 20% of the retirement pension
Lump-sum death benefit	100% of the insured salary • + purchases in maximum retirement benefits, as well as capital savings in the supplementary accounts "Early Retirement Redemption" and "AHV Bridging Pension Redemption" • + the amount of retirement savings capital (after deducting the aforementioned purchases and supplementary accounts) at the time of the active employee's death and net of the cash value of future benefits for survivors	Purchases in maximum retirement benefits, as well as capital savings in the supplementary accounts "Early Retirement Redemption" and "AHV Bridging Pension Redemption" • + the amount of retirement savings capital (after deducting the aforementioned purchases and supplementary accounts) at the time of the active employee's death and net of the cash value of future benefits for survivors
DISABILITY BENEFITS		
Disability pension	70% of the insured salary until ordinary retirement age	60% of the insured salary until ordinary retirement age
Children's disability pension	15% of the insured salary	10% of the insured salary
VESTED BENEFITS		
Vested benefits	Vested benefits are defined in compliance with paragraph 8 of the Pension Fund Regulation.	Vested 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 two pension plans. The Foundation shall bear all management costs.

	PLAN 1	PLAN 2
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 insured salary is equal to the determining annual salary, which is equal to the fixed basic annual salary according to the contractual provisions with the employer, without variable components.
	The coordination amount corresponds to 5/3rd of the single maximum AHV pension (CHF 28'200 in 2018).	No coordination
	The maximum insured salary corresponds to 4 times the simple maximum AHV pension (CHF 112'800 in 2018).	The maximum insured salary is equal to 34/7 of the maximum value of the simple AHV pension. For the year 2018 this amounts to CHF 136'971 (in proportion to the level of employment).
Risk contributions Percentage of the insured salary	Employee: 2.0% Employer: 3.0%	Employee: 0.833% Employer: 1.667%

Total contributions
Percentage of the insured salary

PLAN 1

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%

PLAN 2

Standard Contribution Plan

Age	Employee	Employer	Total
18-19	0.833%	1.667%	2.5%
20-34	4.583%	9.167%	13.75%
35-44	5.583%	11.167%	16.75%
45-54	6.583%	13.167%	19.75%
55-64/65	7.583%	15.167%	22.75%

Plus Contribution Plan (+2%)

Age	Employee	Employer	Total
18-19	0.833%	1.667%	2.5%
20-34	6.583%	9.167%	15.75%
35-44	7.583%	11.167%	18.75%
45-54	8.583%	13.167%	21.75%
55-64/65	9.583%	15.167%	24.75%

Top Contribution Plan (+4%)

Age	Employee	Employer	Total
18-19	0.833%	1.667%	2.5%
20-34	8.583%	9.167%	17.75%
35-44	9.583%	11.167%	20.75%
45-54	10.583%	13.167%	23.75%
55-64/65	11.583%	15.167%	26.75%

	PLAN 1				PLAN 2			
Retirement credits	**Standard Contribution Plan**				**Standard Contribution Plan**			
The Savings contributions of the employee and the employer in percentage of the insured salary which are accrued on an annual basis as retirement savings capital.	Age	Employee	Employer	Total	Age	Employee	Employer	Total
	18-23	0.0%	0.0%	0.0%	18-19	0.0%	0.0%	0.0%
	24-32	4.5%	11.5%	16.0%	20-34	3.75%	7.5%	11.25%
	33-42	5.5%	11.5%	17.0%	35-44	4.75%	9.5%	14.25%
	43-52	6.5%	11.5%	18.0%	45-54	5.75%	11.5%	17.25%
	53-64	7.5%	11.5%	19.0%	55-64/65	6.75%	13.5%	20.25%
	Plus Contribution Plan (+3%)				**Plus Contribution Plan (+2%)**			
	Age	Employee	Employer	Total	Age	Employee	Employer	Total
	18-23	0.0%	0.0%	0.0%	18-19	0.0%	0.0%	0.0%
	24-32	7.5%	11.5%	19.0%	20-34	5.75%	7.5%	13.25%
	33-42	8.5%	11.5%	20.0%	35-44	6.75%	9.5%	16.25%
	43-52	9.5%	11.5%	21.0%	45-54	7.75%	11.5%	19.25%
	53-64	10.5%	11.5%	22.0%	55-64/65	8.75%	13.5%	22.25%
	Top Contribution Plan (+6%)				**Top Contribution Plan (+4%)**			
	Age	Employee	Employer	Total	Age	Employee	Employer	Total
	18-23	0.0%	0.0%	0.0%	18-19	0.0%	0.0%	0.0%
	24-32	10.5%	11.5%	22.0%	20-34	7.75%	7.5%	15.25%
	33-42	11.5%	11.5%	23.0%	35-44	8.75%	9.5%	18.25%
	43-52	12.5%	11.5%	24.0%	45-54	9.75%	11.5%	21.25%
	53-64	13.5%	11.5%	25.0%	55-64/65	10.75%	13.5%	24.25%

3.3. Further information about pension plan activities

Now that the conversion rate at the ordinary retirement age is aligned, the process of pension plans harmonization will continue for the next two years, both within the Foundation (Plan 1 to Plan 2) and between the Pension Funds Ex BSI and Trianon, with the aim of harmonizing all the benefits and forms of financing for the employees of the new bank.

Notes 5.7 and 5.8 contain the detailed modifications to the technical bases implemented in 2017 compared to 2016.

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 close on 31 December.

Financial accounting is managed internally by the Management, asset management is entrusted to EFG and subcontracted to Patrimony 1873 SA, whereas the real estate management of properties was delegated to external service providers until 31.3.2017.

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
Direct Real estates:	settlement value at 31.12.2016

Real estates:
On 23.12.2016 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 referred to as Real Estate Asset Swap).

On 31.12.2016 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 were 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 31.12.2016 (pursuant to paragraph 3, ch. 13 of the Swiss GAAP FER 26) at the settlement value of said agreement amounted to CHF 126 mln.

Finally, SAST fulfilled the contract by paying the purchase price for the assets:
- CHF 6 mln by way of cash transfer with a value date of 21.3.2017,
- CHF 120 mln by way of transfer to the Foundation in early April 2017 of participation rights in the "SAST Immobilien Schweiz" investment group of SAST without the application of purchase commissions. This investment, together with investments in listed Swiss Real Estate Funds, is reported under item "Swiss real estate funds" in the balance sheet (see paragraph 6 for a detailed description of the composition and respective returns in 2017).

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 2017, except for the items stated in paragraph 4.2.2.

5. Actuarial risks, risk coverage and coverage 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 Jan. 2009. Beneficiaries of disability pensions starting before 1 January 2009 are borne by the Foundation.
The reinsurance agreement has been renegotiated in 2015, with expiry date on 31 December 2018 and automatic annual renewal in case of absence of a formal 6 months’ notice of termination to the reinsurer.
In 2017 the premium risk rate amounted to 2.01% of the total insured salaries (2016: 2.01%). Premium surcharges are applied on increased risks through separate calculation. The total amount of premiums paid during the year is shown in the operating account under the item “Insurance premium”.

5.2. Development of Active employees’ liabilities

The “Active employees’ liabilities” are composed as follows:

	Plan 1	*Plan 2*	**CHF/000 Total 31.12.2017**	**CHF/000 31.12.2016**
Vested benefits	*270’777*	*1’220*	271’997	301’262
Supplementary account “Early retirement redemption”	*732*	-	732	662
Supplementary account “AHV Bridging pension redemption”	*401*	-	401	313
Total of Active employees’ liabilities	***271’910***	***1’220***	**273’130**	**302’237**
Number of Active employees at 31.12.	997	16	1’013	1’163

In addition to the purchase of maximum benefits, 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 2017 the interest rate amounted to 1% (2016: 1.25%) and in 2018 it will be 1%. Supplementary accounts “Early Retirement Redemption” and “AHV Bridging Pension Redemption” are also subject to interests. The interest rate is established on an annual basis by the Board. In the years 2016, 2017 and 2018 the interest rate is in line with the rate on “Vested benefits”.

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

	CHF/000 31.12.2017	CHF/000 31.12.2016
Liabilities at 1.1.	302'237	315'854
Employers and employees savings contributions	15'504	18'234
Earnings from Vested benefit transfers	3'102	4'623
One-time payments and purchase amounts	2'450	3'412
Buy-ins and Reimbursements from divorce	504	387
Repayment of withdrawals for residencial property	5	76
Withdrawals for residential property and divorce	-923	-591
Departures of Vested benefits	-28'597	-30'112
Retirement capital	-2'547	-1'178
Lump sum payments on death an disability not re-insured	-163	-
Transfers to Pensioners' liabilities	-22'005	-13'030
Interest	3'563	4'562
Liabilities at 31.12.	**273'130**	**302'237**
Number of active employees at 31.12.	1'013	1'163

The decrease in a year by CHF 29.107 mln in "Active employees' liabilities" is mainly caused by the significant reduction in the number of insured persons in 2017, with the consequent payment of outgoing PLP or pension capital or reclassification of retirement savings in "Pensioners' liabilities" for the conversion of capital into a pension.
The decreasing trend in the number of active employees over the last three years has also resulted in a constant and significant drop in annual savings contributions.

5.3. Total retirement savings capital in accordance with LPP

	CHF/000 31.12.2017	CHF/000 31.12.2016
Retirement savings capital in accordance with LPP (shadow calculation)	**107'844**	**118'684**
LPP minimum interest rate defined by the Federal Council	1.00%	1.25%

The Federal Council established a LPP remuneration rate of 1% starting from 1.1.2018.

5.4. Development of Pensioners' liabilities

	CHF/000 31.12.2017	CHF/000 31.12.2016
Situation of Pensioners' liabilities at 1.1	614'316	592'616
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	6'557	-4'310
Updating following changes in technical bases	-	9'958
Updating following changes in technical interest rate	16'794	16'052
Total of Pensioners' liabilities at 31.12	**637'667**	**614'316**
Number of pensioners' at 31.12.	1'023	977

The item “Update following changes in the Pension Fund Regulation and new calculations as of 31 December” amounts to CHF 6.557 mln and it includes the capital transfers from the “Active employees’ liabilities” (2017: CHF 22.005 mln), the extraordinary contributions paid by the employer for the retirements of the year (2017: CHF 3.752 mln), as well as the pensions paid in the period net of insurance benefits (2017: CHF - 40.560 mln), 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 item “Updating following changes in technical interest rate” relates in 2017 to the cost of moving from 2.50% to 2.25% in technical interest rate (2016: from 2.75% to 2.50%).

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 in 2016 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 in 2017 to the cost of moving from 2.5% to 2.25% in technical interest rate (2016: from 2.75% to 2.50%).

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.

	CHF/000 31.12.2017	CHF/000 31.12.2016
Situation at 1.1	4’780	2’255
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-3’520	-97
Updating following changes in technical bases	-	2’198
Updating following changes in technical interest rate	2’429	424
Situation at 31.12	**3’689**	**4’780**

The regulatory conversion rates are based on the following technical bases:

a) Active employees already insured with the Foundation as at 30.6.2017 (Plan 1)
- technical rate: 2.60% (on average)
- mortality tables: LPP 2015 generational of the year 2018

b) Active employees hired in Ticino since 1.7.2017 by EFG Bank AG and by entities affiliated to the Foundation (Plan 2)
- technical rate: 2.40 - 2.50%
- mortality tables: LPP 2015 generational of the year 2018.

As the regulatory technical bases do not coincide with those applied in the financial statements, the conversion rate provision was updated in 2017.
The reduction of CHF 3.520 mln in the item “Update following changes in Pension Fund Regulation and new calculations as of 31.12.” in 2017 includes the impact of the decrease of the conversion rate at the ordinary retirement age from 5.45% to 5.20% adopted in Plan 1 for CHF - 3.683 mln.

5.5.2. Transitory measures provision (Active employees')

According to the Pension Fund Regulation in force since 1.1.2015, the active employees born in and before 1955 which were already insured by the Foundation as of 1.1.2013 will benefit from transitory measures applied to their retirement pension at the regular retirement age. Such pension is guaranteed as a fixed amount as per pension certificate dated 31.12.2014.
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.

	CHF/000 31.12.2017	CHF/000 31.12.2016
Situation at 1.1	2'973	3'991
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-1'750	-1'673
Updating following changes in technical bases	-	246
Updating following changes in technical interest rate	20	409
Situation at 31.12	**1'243**	**2'973**

The reduction of CHF 1.750 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')

The Foundation's Pension Fund Regulations establish 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 totally released. As soon as the coverage ratio rises over 100%, the provision must be rebuilt.

	CHF/000 31.12.2017	CHF/000 31.12.2016
Situation at 1.1	652	657
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-52	-5
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	-	-
Situation at 31.12	**600**	**652**

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 2017 compared to 31 December 2016.

5.5.4. Provision for the longevity risk

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 2017. 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 (without children). 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 2017, the provision amounted to 1.45% of the total "Pensioners' liabilities (without children)".

	CHF/000 31.12.2017	CHF/000 31.12.2016
Situation at 1.1	7'299	5'567
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	1'610	1'420
Updating following changes in technical bases	-	120
Updating following changes in technical interest rate	243	192
Situation at 31.12	**9'152**	**7'299**

The cost of CHF 1.610 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 2017, the actuary did not deem necessary to set up any of these specific provisions (31.12.2016: 0)

5.5.6. Summary of Actuarial provisions

Evolution summary of actuarial provisions	CHF/000 31.12.2017	CHF/000 31.12.2016
Situation at 1.1	15'704	12'470
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-3'712	-355
Updating following changes in technical bases	-	2'564
Updating following changes in technical interest rate	2'692	1'025
Situation at 31.12	**14'684**	**15'704**

Composition summary of actuarial provisions	CHF/000 31.12.2017	CHF/000 31.12.2016
Conversion rate provision	3'689	4'780
Transitory measures provision	1'243	2'973
Additional remuneration provision	600	652
Provision for the longevity risk	9'152	7'299
Total of actuarial provisions	**14'684**	**15'704**

5.6. Conclusions of the last actuarial report

On February 2018 Willis Towers Watson released the Foundation's technical annual report as of 31 December 2017. 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 2017 in compliance with article 44, paragraph 1 OPP2 amounts to 104%;
- the 2.25% technical interest rate is higher than both the benchmark technical interest rate for 30 September 2017 (defined at 2% 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 2017 the technical rate was reduced from 2.5% to 2.25%. The actuary recommends the Board to lower the technical rate to 2% in a relatively short time;
- the LPP 2015 generational tables 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);
- since there are a lot of pensioners insured with the Pension Fund and the technical interest rate should be reduced to 2% (or lower) in the near future, great care must be taken in determining the interest rate on retirement savings so as not to jeopardize the restructuring capacity;
- the expert noted that the potential for recapitalization using restructuring contributions is limited, as the coverage ratio can only be increased by 0.24% with a usual contribution of 3%.

On 31 December 2017 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.

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 2017, the actuarial calculations have been made according to the following assumptions:

- **LPP 2015 generational actuarial bases of the year 2018** (31.12.2016: LPP 2015 generational bases of the year 2017). 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 2.25%** (31.12.2016: 2.5%). 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 2017 the conversion rate at ordinary retirement age was reduced (modification in pension plans) and the technical rate was reduced from 2.5% to 2.25%.

The table below summarizes the impact of such modifications:

	CHF/000	CHF/000	CHF/000
Date:	**31.12.17**	**31.12.17**	**31.12.16**
Base:	**LPP 2015-G18**	**LPP 2015-G18**	**LPP 2015-G17**
Rate:	**2.25%**	**2.50%**	**2.50%**
Pension plans in force from	**01.01.18**	**01.01.18**	**01.01.17**
Active employees' liabilities	273'130	273'130	302'237
Pensioners' liabilities	637'667	620'873	614'316
Conversion rate provision	3'689	1'260	4'780
Transitory measures provision	1'243	1'223	2'973
Additional remuneration provision	600	600	652
Provision for the longevity risk	9'152	8'909	7'299
Total of pension liabilities and actuarial provisions	**925'481**	**905'995**	**932'257**
Variation	19'486	-26'262	

The reduction by CHF 26.262 mln in the total "pension liabilities and actuarial provisions" resulted from: in the amount of CHF 3.683 mln – the reduction in the conversion rate at the ordinary retirement age as described in section 5.5.1; in the amount of CHF 31.144 mln – the payment of outgoing PLP and retirement capital; and as for the remainder – the change in active employees and pensioners during the year.

Evolution of pension liabilities and actuarial provisions	**CHF/000 31.12.2017**	**CHF/000 31.12.2016**
Situation at 1.1	932'257	920'941
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-26'262	-18'283
Updating following changes in technical bases	-	12'522
Updating following changes in technical interest rate	19'486	17'077
Situation at 31.12	**925'481**	**932'257**

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 2017.

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

	CHF/000 31.12.2017	CHF/000 31.12.2016
Pension liabilities and actuarial provisions (PL)	**925’481**	**932’257**
Total assets	966’194	959’442
./. Accounts payables	-1’825	-10’908
./. Accrued liabilities and deferred income	-2’207	-5’356
./. Employer contribution reserve	-53	-53
./. Non actuarial provisions	-8	-2’760
Net pension assets (NPA)	**962’101**	**940’365**
Coverage ratio (NPA/PL) *100	**104.0%**	**100.9%**

In 2017, the coverage ratio increased by 3.1 percentage points compared to 2016.
The improvement in the coverage ratio resulted from:

- an increase of net assets by CHF 21.736 mln, as a result of a good annual performance (see note 6.6) which more than offset the heavy outlays for PLP payments and retirement capital of CHF 31.144 mln.
- a reduction by CHF 6.776 mln in pension capital and actuarial provisions, where the release for the year’s turnover of CHF 26.262 mln was partially absorbed by the increase in the value of liabilities due to the reduction of the technical interest rate of CHF 19.486 mln (see note 5.8).

The year 2017 closed with an Income surplus of CHF 28.511 mln before the increase of the Fluctuation reserve (expense surplus 2016 CHF 1.187 mln).

The Income surplus is due to the “Net income from investments” of CHF 66.360 mln that totally offset the “Net income form insurance activities” of CHF - 38.194 mln (of which CHF - 19.486 mln due to technical interest rate modification). The “Net income from investments” amounts to a net income of 7.1% on “passive capitals” calculated as the simple average of the starting and end of the year values of the “Pension liabilities and actuarial provisions” (2016: 5.9%).

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.

As from 1.1.2012, the Foundation Board has entrusted PPCMetrics with the activities of an independent **Investment Controller**.

On 13.11.2017, the Board approved the new Investment Regulation, which came into force on the same date.
During the year 2017, various Board decisions made it necessary to update the said Regulation, while maintaining unchanged the risk budget defined in 2013 by the ALM.
In particular:

- Given the negative performance of Thalia hedge funds in 2015-2016 and its high correlation with the mandate to Patrimony, with the support of PPCMetrics, the Board decided to **abandon** the "**Alternative Investments**" in favor of the "Foreign Real Estate Funds", investing in the securities "UBS AST 3 Global Real Estate (ex CH)" (hereinafter "**UBS Funds**"). The total repayment of Thalia funds was made in two tranches, in May and July. Then, on 2.8.2017, the mandate to manage the "Funds of hedged funds" portfolio to EFG was revoked. 80% of UBS Funds were subscribed in June and 20% in September. The securities are deposited with UBS Switzerland AG, Lugano. As at 31.12.2017, this investment was worth CHF 43.2 mln (balance sheet item: "Foreign real estate funds").
- As mentioned in section 4.2.2, in April 2017 the **Real Estate Asset Swap** contract was concluded. SAST securities are included in the balance sheet under "Swiss real estate funds", as at 31 December 2017 they amount to CHF 126.8 mln and are deposited with Zürcher Kantonalbank, Zurich.

The Investment Regulation was updated to include foreign real estate and unlisted Swiss real estate in the investment categories, and to exclude investments in new Hedge funds; to define benchmarks to assess the performance of investments made in the new categories; and to determine the weight of the new global neutral strategy (see note 6.3).

In 2017 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.

The asset management, excluding UBS Funds and SAST securities as mentioned above, is entrusted to EFG, Lugano branch (employer).
The "misto attivo" mandate, which was updated with effect from 1.12.2017, implements the permitted investment limits and categories, in accordance with the new weight defined in the Investment Regulation. The bank fully **delegated** to the subsidiary "Patrimony 1873 SA" the "misto attivo" portfolio management of the Foundation.

Portfolio Managers:
- 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.

6.2. Target value and calculation method of the Fluctuation reserve

	CHF/000 31.12.2017	CHF/000 31.12.2016
Situation at 1.1 of fluctuation reserve	8’109	9’295
Release (-) / creation in operating account	+28’511	-1’186
Fluctuation reserve at 31.12.	**36’620**	**8’109**
Target fluctuation reserve	**151’779**	**152’890**
Shortfall in fluctuation reserve	115’159	144’781

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 (31.12.2016: 16.4%).
In 2017 the Fluctuation reserve was increased of CHF 28.511 mln (31.12.2016: CHF 1.186 mln used).

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

	31.12.2017					
	Total assets		Global strategy limits from 13.11.2017			OPP2 Limits
	CHF/000	in %	Min	Neutral	Max	in %
Operative cash in CHF [1]	4'008	0.4%				
Cash under mandate in CHF [1]	50'270	5.2%				
Cash under mandate in foreign currencies [1]	7'984	0.8%				
Money market funds in CHF and USD [1]	34'805	3.6%				
Total of liquid funds	**97'067**	**10.0%**	**0.0%**	**2.0%**	**33.0%**	
Swiss bonds [1]	139'094	14.4%	14.0%	21.0%	28.0%	
Foreign bonds (hedged) [1]	147'121	15.2%	12.0%	17.5%	23.0%	
Emerging markets bonds [1]	0	0.0%	0.0%	0.0%	5.0%	
Total of bonds	**286'215**	**29.6%**	**26.0%**	**38.5%**	**56.0%**	
Swiss equities [2]	48'065	5.0%	0.0%	6.0%	9.0%	
Foreign equities [2]	247'328	25.6%	0.0%	23.0%	34.0%	
Emerging markets equities [2]	29'434	3.0%	0.0%	4.0%	6.0%	
Total of equities	**324'827**	**33.6%**	**0.0%**	**33.0%**	**49.0%**	**50.0%**
Total of alternative investments	**0**	**0.0%**	**0.0%**	**0.0%**	**2.0%**	**15.0%**
Not quoted swiss real estate funds [3]	126'784	13.1%	8.0%	12.0%	16.0%	
Quoted swiss real estate funds [3]	85'535	8.9%	7.0%	10.0%	13.0%	
Total of swiss real estate funds	**212'319**	**22.0%**	**15.0%**	**22.0%**	**29.0%**	**30.0%**
Total of foreign real estate funds (hedged)	**43'205**	**4.5%**	**3.0%**	**4.5%**	**6.0%**	**10.0%**
c/a with Fondo Complementare di Previdenza EFG SA	264	0.0%		0.0%		
Other receivables	2'297	0.3%		0.0%		
Prepayments and accrued income [1]	0	0.0%		0.0%		
Total of other assets and prepayment and accrued income [1]	**2'561**	**0.3%**		**0.0%**		
Total assets (art. 49 OPP2)	**966'194**	**100.0%**		**100.0%**		
Foreign currencies unhedged [4]	**56'037**	**5.8%**	**0.0%**	**9.0%**	**18.0%**	**30.0%**
Cash under mandate with the employer	**58'254**	**6.0%**				**5.0%**

[1] Individual investment limit per debtor in force since 1.1.2011: 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 31.12.2017

As of 31 December 2017, all category limits pursuant to OPP2 (article 55) and the fluctuation margins on the total assets defined in the new Investment Regulation were respected.
From a tactical standpoint, at the end of 2017 the portfolio was characterized by a defensive approach towards bonds (with a clear underweighting and excess if Liquid funds) and underweighting of Emerging Markets equities.
Investments in foreign real estate (4.5% of total assets as at 31.12.2017, equal to the investment in UBS funds illustrated in note 6.1) and in Swiss real estate (22%, of which unlisted securities correspond to SAST securities) are instead in line with the neutral strategy.

As of 31 December 2017, the Foundation's total cash amounts to 10% (2016: 8.9%) of total assets and it is composed by:
• Operating cash: CHF 4.008 mln (0.4% of total assets);
• Cash under "misto attivo" mandate (in CHF and foreign currency): CHF 58.254 mln (6% of total assets);
• Money market funds in CHF and USD: CHF 34.805 mln (3.6% of total assets).

The negative replacement value of open financial derivatives instruments as of 31 December 2017 amounting to CHF 0.139 mln (31.12.2016: CHF 0.331 mln) 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 2016 and 31 December 2017).
See note 6.5 for the breakdown of open financial derivatives instruments as of 31 December 2017.

6.4. Compliance with EFG asset management mandate limits

As of 31 December 2017, all limitations to steering provided by the "misto attivo" mandate have been respected:

	31.12.2017 "Misto attivo" portfolio		Limits of "misto attivo" mandate from 1.12.2017		
	CHF/000	**in %**	**Min**	**Neutral**	**Max**
Cash under mandate in CHF	50'270	6.4%			
Cash under mandate in foreign currencies	7'984	1.0%			
Money market funds in CHF and USD	34'805	4.4%			
Total of liquid funds	**93'059**	**11.8%**	**0.0%**	**0.5%**	**35.0%**
Swiss bonds	139'094	17.6%	17.5%	25.5%	33.5%
Foreign bonds (hedged)	147'121	18.6%	15.0%	21.5%	28.0%
Emerging markets bonds	0	0.0%	0.0%	0.0%	6.0%
Total of bonds	**286'215**	**36.2%**	**32.5%**	**47.0%**	**67.5%**
Swiss equities	48'065	6.1%	0.0%	7.5%	10.5%
Foreign equities	247'328	31.3%	0.0%	28.0%	41.0%
Emerging markets equities	29'434	3.7%	0.0%	5.0%	7.0%
Total of equities	**324'827**	**41.1%**	**0.0%**	**40.5%**	**58.5%**
Quoted swiss real estate funds	85'535	10.9%	8.5%	12.0%	15.5%
Total of swiss real estate funds	**85'535**	**10.9%**	**8.5%**	**12.0%**	**15.5%**
Total of "Misto attivo" portfolio	**789'636**	**100.0%**		**100.0%**	

Since the investment in UBS Funds covers 4.5% of the total assets as at 31.12.2017, in line with the weight of Thalia hedge funds as at 31.12.2016, the new "*misto attivo*" management mandate has left unchanged the strategy defined on 1.9.2013 and indicated in the table above. Therefore, the new contract of mandate covered formal rather than substantive aspects.

6.5. Open financial derivatives instruments

Open financial derivatives instruments as of 31 December 2017 and 31 December 2016 are completely aimed at hedging foreign currency investments.

Progressive	Expiry		Volume at 31.12.2017		31.12.2017
					CHF
1	26.02.18	Sell	16'300'000	EUR/CHF	-139'430
Market value of open financial derivatives instruments at 31.12.2017					**-139'430**
Market value of open financial derivatives instruments at 31.12.2016					*-330'952*

6.6. Comments on Net income from investments

For a better understanding of the "Net income from investments", please refer to the balance sheet and operating account items relating to the total assets of the Foundation or the management mandate with EFG, as shown in the following table:

	Total assets	of which "Misto attivo" mandate
	CHF	CHF
Assets at 31.12.2017	966'193'917	789'636'385
Assets at 1.1.2017	959'442'089	772'693'423
Average investment	**962'818'003**	**781'164'904**
Net income from Liquid funds	-479'112	-500'864
Net income from Swiss bonds	-45'866	-45'866
Net income from Foreign bonds	356'584	356'584
Net income from Swiss equities	10'084'709	10'075'729
Net income from Foreign equities	47'631'782	47'631'782
Net income from Alternative investments	2'173'270	
Net income from Swiss real estate funds	13'955'827	6'550'841
Net income from Foreign real estate funds	-135'873	
Net income from Direct real estate	883'547	
Net income from Derivatives	-3'158'135	-2'180'025
Retrocessions received	6'816	6'816
Asset management expenses	-4'913'814	-4'543'545
Total of Net income from investments*	**66'359'735**	**57'351'452**
Income in % of average investment at 31.12.2017	**6.89%**	**7.34%**
Income in % of average investment at 31.12.2016	*5.76%*	*3.47%*
Changes in NON Actuarial provisions	**914'564**	
Income including Changes in Non Actuarial provisions in % of avarage investment at 31.12.2017	**6.99%**	

* The income which is not allocated to "misto attivo" mandate refers to the operative cash, to SAST investment and to UBS Foreign real estate funds managed directly by the Board

"Net income from investments", being CHF 66.360 mln, is CHF 11.688 mln higher than in 2016.
The equity portfolio significantly contributed to the positive result for the year, with a total change by CHF 36.932 mln in Switzerland and abroad from 2016 to 2017.

As mentioned in note 4.2.2, in the first quarter of year 2017 the Real Estate Asset Swap contract was executed, whereby 10 direct real estates were transferred from the Foundation to SAST.

The item “Net income from Direct real estate”, equal to CHF 0.884 mln (2016: CHF 4.380 mln), relates to the operating profit of real estates owned up to 31.3.2017. The “Asset management expenses” for “Direct real estate” for the quarter amount to CHF 0.249 mln and are related to the costs of the fiduciary companies for the management of direct real estate, the internal costs of the “Real Estate Portfolio Manager” and the external costs of completing the Asset Swap transaction (2016: CHF 0.497 mln).

The Real Estate Asset Swap contract also set forth that, in the event of a negative outcome of the “Tax Ruling” in the various cantons where the real estate is located (with request for latent TUI (*capital gains tax on real estate*) payment deferral to the acquiring company SAST), the Foundation would have to pay the tax. To cover the maximum cost to the Foundation in the event of an unfavorable scenario, a “Non-actuarial provision” of CHF 2.760 million had been set up as at 31.12.2016. In 2017, this reserve was used in the amount of CHF 1.837 mln for the payment of the TUI based on Tax Ruling with negative results and was released in the amount of CHF 0.915 for real estate in cantons with positive Tax Ruling. As at 31.12.2017, the reserve remained open for CHF 8.200 for a property where a Tax Ruling is still pending.

The income from SAST securities from April to December 2017 amounts to CHF 7.405 mln and is included in the item “Net Income from Swiss Real Estate Funds”, which also shows the income from listed funds under the “*misto attivo*” management mandate. The income for SAST includes CHF 1 mln attributed to the Foundation in parts in December 2017, in pursuance of clause 9.1 of the Asset Swap contract. According to this clause, if SAST had savings on the costs of the transfer and the cantonal stamp duty thanks to the acceptance of the Tax Ruling, the same would “return” this benefit to the Foundation in the form of new parts.

The “Net Income from Alternative Investments” of CHF 2.173 mln is due, for CHF - 0.037 mln, to the total writing-off of the non-transparent investment Minicap (see note 6.7.4) and, for CHF 2.210 mln, to the result of the total liquidation of the investment in Hedge Funds Thalia.
The “Net Income from Derivatives” related to foreign exchange hedging transactions includes CHF 2.180 mln from the “misto attivo” portfolio management mandate and CHF 0.978 mln from the investment in Hedge Funds Thalia.

The “Net Income from Foreign Real Estate Funds” refers to the results of UBS funds in 2017; however, it should be noted that the dividend of CHF 1.332 mln for the year 2017 was received in February 2018.

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 EFG; third party broker commission fees, settlement expenses and tax on single transactions (or “*Transaction and tax cost – TTC*”); “*Product and Volume fees*” in compliance with the “Institutional Fund Access (IFA) – Investment agreement” related to Credit Suisse platform; expenses invoiced from the investment controller and the trust companies for managing own real estates until 31.3.2017 (or “*Supplementary Cost – SC*”);
- internal expenses relating to independently managed real estates (linked to the activities related to the closure of the Asset Swap Real Estate contract in 2017; in 2018 they will no longer be present);
- 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 2017, the total value of collective investment’s expense ratios calculated with the TER ratio amounts to CHF 2.876 mln (31.12.2016: CHF 3.203 mln).

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

	CHF/000 31.12.2017	CHF/000 31.12.2016
Direct costs	1'967	1'931
Internal costs	71	72
Indirect cost (calculated based on the cost ratio TER)	2'876	3'203
Total of asset management expenses	**4'914**	**5'206**
Total of transparent investments	959'621	942'291
Asset management expenses as a % of transparent investments	**0.51%**	**0.55%**

The expenses estimated with the TER index for Hedged Funds included in the indirect expenses amount to CHF 1.102 mln in 2016 and CHF 0.460 mln for the holding period in 2017 until the final sale. The estimated TER expenses for the "successor" UBS funds for the holding period in 2017 amount to CHF 0.202 mln.

In 2017, an "Institutional Fund Access (IFA) - Investment agreement" was concluded with Credit Suisse in order to minimize the cost of assets management under the "*misto attivo*" mandate.
Securities managed on this platform are subject to "*Product and Volume Fees*" (in the amount of CHF 0.173 mln in 2017 included under item "Direct expenses") instead of estimated indirect expenses with the TER index (CHF 0.532 mln in 2016 under "Indirect expenses").

6.7.3. Cost transparency ratio

	CHF/000 31.12.2017	CHF/000 31.12.2016
Transparent investments	959'621	942'291
Investments in "misto attivo" mandate, in SAST and UBS real estate funds*	959'625	942'618
Cost transparency ratio	**100.00%**	**99.97%**

* As at 31.12.2016, this related to investments in direct real estate and "misto attivo" and "hedged funds portfolio" mandates.

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 2017 the portfolio contains two securities lacking a breakdown of the asset management expenses. The aforementioned investments are as follows:

ISIN	Provider	Name of security	Quantity at 31.12.2017	Currency	Market value in CHF at 31.12.2017	Market value in CHF at 31.12.2016
CH0011402895	Minicap Technology Investment AG	Azioni Nominative Minicap Technology Investment AG	10'000	CHF	0	36'600
IT0003685804	Pirelli RE	Parte Pirelli RE (2003-31.12.2021)	2.50	EUR	3'641	290'634
Total of investments with not transparent costs					**3'641**	**327'234**

These are two minor positions in the total portfolio that have existed for a long time:

- The investment in "Minicap" has existed for more than a decade and, due to the difficulty in disposing of the shares, in 2017 the Bank decided to write down the value of this security to 100%, generating a loss of CHF 36'600;
- The residual value as of 31.12.2017 of the investment in "Pirelli" of CHF 3'641 was fully collected on 29.1.2018, followed by the final settlement of the position.

6.8. Explanation of investments and other receivables with the employers

Investments with the employers	31.12.2017	in %	OPP2 limits	Article
	CHF/000			
Operative cash in EFG SA [1]	4'008	0.4%		UFAS Journal n. 84/486
Cash under mandate in EFG SA	58'254	6.0%	5.00%	57 par. 2
Direct real estate	-	0.0%	5.00%	57 par. 3
Prepayments and accrued income with employers	-	0.0%		
Total investments with the employers	**62'262**			
Total assets (art. 49 OPP2)	**966'194**	**100%**		

[1] Remuneration rate for 2017 ranges from 0% to 0.125% (2016: 0% - 0.3%)

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.

Between the Foundation and EFG there is collateral contract, which commits the employer to guarantee the cash of the Foundation deposited on the asset management current accounts ("misto attivo" mandate) by setting up a collateral deposit. As of 31 December 2017, the collateral deposited amounts to CHF 63.442 mln with a 108.9% hedging of the invested capital with the employer.

6.9. Retrocessions

During 2017 the Foundation received CHF 6'816 by BSI SA as net "retrocessions" collected by the Bank from third parties for asset management in the year 2016 (the collected amount in 2016 relating to the year 2015 was CHF 29'004).

7. Comments on other balance sheet and operating account positions

7.1. Other receivables

	CHF/000 31.12.2017	CHF/000 31.12.2016
Credits for withholding Tax	47	2'021
Credits towards External trust companies for Real Estate management	19	308
Credits towards reinsurer	2'226	2'237
Other credits miscellaneous	5	1
Other receivables	**2'297**	**4'568**

Credits for withholding tax as of 31 December 2016 were fully received in April 2017.
The Credits towards reinsurer as at 31.12.2017 include the advance payment of risk insurance premiums for 2018 for CHF 1.787 mln.

7.2. Prepayments and accrued income

The item “Prepayments and accrued income” as of 31 December 2016 included the insurance premiums for own real estates pertaining to 2017 and paid in 2016.
All open financial derivatives instruments on 31 December 2017 show a negative replacement value.

7.3. Accrued liabilities and deferred income

	CHF/000 31.12.2017	CHF/000 31.12.2016
Deferred income from revenues pertaining to future periods	1’822	4’692
Negative replacement value for forward contracts open at end of year	139	331
Invoices to be received and other accrued liabilities	245	333
Accrued liabilities and deferred income	**2’206**	**5’356**

The reduction by CHF 3.150 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 2018 and included in the sub-item “Deferred income from revenues pertaining to future periods” (from CHF 4.4 mln in 2016 to CHF 1.5 mln in 2017). Early retirement contribution in the operating account are included in the “extraordinary contributions” and they amount to CHF 3.752 mln (2016: 1.292 mln).

8. Requirements of the Supervisory Authority

By decision of 15.9.2017, the Supervisory Authority approved the change of name, purpose and the new Statute approved by the Board on 4.9.2017. The Commercial Registry Office of Canton Ticino has recorded the amendments to the Statute, pursuant to art. 97 of the ORC.

By decision of 5.10.2017, the Supervisory Authority acknowledged the 2016 annual report.

On 28.11.2017, the Supervisory Authority confirmed the *formal assessment* of the following Foundation regulations:
- “Regulation of Actuarial Provisions”, approved by the Board on 10.2.2017, effective as of 31.12.2016;
- “Organization Regulation”, approved by the Board on 26.7.2017, effective immediately;
- “Electoral Regulation”, approved by the Board on 26.7.2017, effective immediately;
- “Pension Fund Regulation applicable to all the active employees admitted to the Foundation after 1.7.2017”, approved by the Board on 17.7.2017, effective as of 1.7.2017;
- “Pension Fund Regulation for employees and pensioners who were insured with the Foundation as at 30.6.2017”, approved by the Board on 20.10.2017, effective as of 1.1.2018;
- “Investment Regulation”, approved by the Board on 13.11.2017, effective immediately.

On 30.3.2018, the Supervisory Authority confirmed the *formal assessment* of the “Regulation of Actuarial Provisions”, approved by the Board on 28.11.2017 and effective from 31.12.2017.

9. Further information regarding the financial situation

During 2017 the Board has informed more than once active employees and pensioners on the situation of the Foundation and the Fondo (hereinafter the “Foundations”).
Specifically:

- A communication note dated 16.2.2017 informed all active employees on the new benchmark amounts of occupational pension, remuneration interests 2017, coverage ratio and performance 2016, pension certificates 2017, higher scale of contribution and buy-backs 2017.
- A communication note dated 16.2.2017, 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’ Meeting 2017.
- A communication note dated 13.4.2017 posted on the company’s web portal, simultaneous to the receipt of the pension certificate 2017, informed all active employees about the integrations to the relevant guidelines for readers.
- On 16.5.2017 detailed information on the annual report 2016 was released and made available to all active employees and pensioners respectively by posting on the company’s web portal and public website.
- On 5.10.2017, the active employees were informed of: the adoption of a new pension plan for personnel hired in Ticino from 1.7.2017; the lowering, as of 1.1.2018, of the conversion rate at the ordinary retirement age to 5.20% for the persons already insured with the Foundations by 30.6.2017; of the update of the Statute and of the change of name of the two Foundations.
- On 28.9.2017, the role of the Delegates’ Meeting was explained to the active employees and pensioners (by means of a communication on the company portal or by post, respectively) and the process of collecting applications for the four-year period 2018-2021 was launched.
- On 13.10.2017, the composition of the Delegates’ Meeting for the four-year period 2018-2021 was communicated to the active employees and pensioners, by publication on the company portal or by post, respectively.
- On 6.11.2017 all active employees were informed about end of the year deadlines.
- A communication note dated 5.2.2018 informed all active employees on the new benchmark amounts of occupational pensions, remuneration interests 2018, coverage ratio and performance 2017, pension certificates 2018, higher scale of contribution and buy-backs 2018.
- By notice of 8.2.2018, along with the receipt of their pension certificates, each pensioner was notified of certain important information, such as the new Statutes and the change of the name of the “BSI” Foundations to “EFG”, the publication of the new Pension Fund Regulation, the coverage ratio and the performance of year 2017, the information and communication obligations, the 2018 Delegates’ Meeting.

9.1. Underfunding / measures taken (article 44 OPP2, paragraph 2)
During 2017 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 2016-2017 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 2016-2017 with negative outcome.
The assessment will be repeated on the two-year period 2017-2018.

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 2017 no legal proceedings were brought against the Foundation.

9.8. Special business and asset transactions

Not applicable.

10. Events after the balance sheet date

Not applicable.

11. Report of the statutory auditor on the financial statements 2017

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To the Foundation Board of

Fondazione di previdenza EFG SA, Lugano

Lugano, 11 April 2018

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Fondazione di previdenza EFG SA, which comprise the balance sheet, operating account and notes (pages 7 to 40), for the year ended 31 December 2017.

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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Opinion
In our opinion, the financial statements for the year ended 31 December 2017 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
Licensed audit expert
(Auditor in charge)

Michele Balestra
Licensed audit expert

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

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