

Fondazione di Previdenza

Annual report 2019

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

Management report 2019

Renewal of the Board Members

For 2020 EFG Bank SA (“EFG”) has appointed 4 new Board members as representatives of the employer: Dimitrios Politis, Jacques-André Schneider, Josué M’Bon and Yves Bersier.

During the meeting of 7.2.2020, the Foundation Board, in compliance with the principle of an alternate presidency between representatives of the employees and the employer, elected Yves Bersier as succeeding President to Massimo Antonini, whilst Christian Moser was elected Vice-President and Giordano Battaini confirmed as Secretary.

The Foundation Board confirmed Andrea Russi as representative of the employees from 1.1.2020, in replacement of resigning Tiziano Calderari.

Coverage ratio and other key figures

2019 was an excellent year for financial markets, generating a net performance in the asset management of the Fondazione di Previdenza EFG SA (“Fondazione”) of 10.62%. As a direct consequence of the very positive financial results, **the coverage ratio** is now in positive territory **reaching 105.6% as of 31.12.2019**, despite the important reduction of the technical interest rate from 2.25% to 1.75% and the annual update of the technical bases (Generational tables LPP2015G of the year 2020).

The annual accounts of Fondazione therefore closed the year with **a gain of CHF 64.1 mln**, which led to a **reconstitution of the Fluctuation reserve amounting to CHF 49.8 mln**. The target set for this reserve corresponds to 15.7% of the Pension liabilities and actuarial provisions at 31.12.2019, therefore CHF 139 mln. A pension fund that can count on the full constitution of the fluctuation reserve has a greater risk capacity and financial strength to face the future with confidence.

The Net pension assets of Fondazione are CHF 935.3 mln, whilst pension liabilities and actuarial provisions are CHF 885.6 mln.

Summary of the “key figures”	31.12.2019	31.12.2018
Coverage ratio	105.6%	98.4%
Technical interest rate	1.75%	2.25%
Net investment performance	+10.62%	-3.04%
Fluctuation reserve (target 31.12.2019 = CHF 139 mln)	CHF 49.8 mln	CHF 0 mln
Net pension assets	CHF 935.3 mln	CHF 891.8 mln
Pension liabilities and actuarial provisions	CHF 885.6 mln	CHF 906.1 mln

Effect of recapitalization measures – creation of the “Steering Committee Pension Funds EFG”

The **recapitalization measures** implemented during the year by the working group set up by the Foundation Board at the beginning of 2019 with the aim of ensuring the long-term balance of the Pension Fund have also had their effect. In addition to the results of asset management, these measures have contributed to the improvement of the economic situation of Fondazione and its coverage ratio.

We recall below the measures introduced in 2019, communicated to all beneficiaries on 28.6.2019, and then implemented in the new Pension Fund Regulation valid from 1.1.2020:

- Remuneration of 0% on Vested benefits and supplementary accounts of employees, and suspension of the additional interest for the lower salary bands, for the year 2019;
- Reduction of the regulatory conversion rate at ordinary retirement age from 5.20% to 5.00%;
- Limitation of the maximum annual retirement pension to a total of CHF 99'540 between Fondazione and Fondo Complementare di Previdenza EFG SA (“Fondo”); surplus capital being paid out as a lump sum;
- Reduction of the pension for spouses / life partners of a pensioner from 60% to 50% of the retirement pension;
- Reduction of the pension for children and orphans of a pensioner from the 10% (Plan 1) and 20% (Plan 2) of the retirement pension to the LPP Minimum benefit.

Following the definition and implementation of the recapitalization measures, the employer set up the “**Steering Committee Pension Funds EFG**” in autumn 2019. This committee, led by Yves Bersier, new President of the Fondazione, resumes the activities previously followed by the Working Group in charge of the harmonization of the EFG (ex-BSI) and EFG / Trianon Pension Funds.

The activities that concern the definition of the future organizational structure and the pension solutions to be adopted for all employees of EFG are manifold. The Steering Committee is working on finding solutions for the following priority topics:

- The demographic structure of the Fondazione, which presents an increasingly problematic relationship between the number of employees and pensioners, which in recent years has gone from 1.48% in 2013 to 0.77% at the end of 2019;
- The aim for EFG to set up an optimal and attractive pension solution valid for all its employees.

We will keep you constantly informed on the developments and decisions that will be made by the Foundation Board on the basis of the analyses and proposals that will be presented by the Steering Committee.

Solidarity and demographic challenges - a future to be built

The second pillar is based on a principle of prefinancing through capital accumulation during the employment phase and not of direct intergenerational financing, as is the case in the first pillar. Nonetheless, the demographic evolution, and in particular its predictability, has an important impact on the situation of pension funds and is only partially mitigated by the solidarity components present in the second pillar, which are:

- **An insurance solidarity**, which covers the risk of disability (everyone pays, only the disabled take advantage), the death risk of an employee (those who do not die pay for the survivors of the deceased) and the longevity risk (pensioners who die prematurely finance those who live longer);
- **Solidarity linked to demography**. The conversion rates used are unique; therefore, there is solidarity between single and married persons, between insured persons with and without children and between insured persons with older spouses and insured persons with younger spouses;
- **A temporal solidarity**, which manifests itself through the establishment of the Fluctuation reserve. In the most profitable years, the reserve is formed, which will be used at times when the third contributor (the financial markets) will not be able to bring its results;
- **A funding solidarity**, which is the result of retirement losses generated by more favorable conversion rates than reality. In this case, solidarity is manifested through the financing of the pensioners' capital with a waiver of remuneration (or a reduction) in the interest assigned to the capital of the employees.

All these solidarities are at the basis of the current Swiss pension system: it is the duty of the pension fund boards to anticipate the negative demographic changes for the fund and to operate judiciously and promptly within these solidarities, to alleviate increasing financial transfers between active beneficiaries in the allocation of investment returns and, possibly, savings contributions are to finance retirement pensions.

Anticipating demographic changes is not an easy task. The current three pillars system dates back to the years 1970-1980. The general framework was different, life expectancy was shorter and the number of pensioners much lower. The risk of negative interest rates was not even conceivable, and the structure of the pension funds system was very well suited to the situation of the time, meeting the objectives set.

But times have changed, and our three-pillar pension funds system is experiencing likely new structural adaptations. It has therefore become important to find solutions in particular in pension funds with a high proportion of pensioners. As mentioned in the previous chapter, this will be one of the main challenges with which the newly established "Steering Committee Pension Funds EFG" will be confronted.

Asset management mandate delegation from Patrimony to EFGAM

The contract with an asset management mandate signed by Fondazione with EFG bank allows for the delegation of the management to group companies of EFG. At the end of November 2019, EFG decided that, starting from 1.1.2020, the management of the discretionary mandate previously delegated to Patrimony 1873 SA ("Patrimony") will be taken over by the asset management company EFG Asset Management (Switzerland) SA ("EFGAM"), wholly owned by EFG and the centre of investment competence in the Group. The team of asset managers responsible for our mandate at EFGAM is coordinated by Francesco D'Agostino. This change has no impact on the investment directives stipulated by the mandate contract signed with EFG, which remain unchanged.

Retrospective and outlook of the financial markets

The financial markets during 2019 experienced a strong rally that more than recovered the losses incurred in 2018. This increase was driven both by technical reasons (more attractive equity valuations) and by political reasons (such as the assurances expressed by President Trump on the successful outcome of trade negotiations with China), but also and above all for monetary policy reasons. In fact, the decisive factor for this market rally were the decisions made by the main central banks in support of a slowing global economy. As for the US, the FED announced the end of the rate hike phase and, as promised, reduced the reference rates. For its part, the ECB has announced its willingness to resume stimulus packages through the purchase of debt securities (QE) and the reduction of base rates.

On the risk front, however, there are still some political uncertainties such as the recent impeachment process against president Trump and geopolitics such as the growing tension in the Persian Gulf between Iran and the US. As regards Europe, some political risks have eased up, especially after the May elections, which have limited the influence of sovereign movements such as the change of government in Italy. The situation on Brexit remains delicate, as the newly elected conservative government will soon have to act on it. Among the medium-term risks we mention the Chinese economic trend, which at this stage of the trade war could undergo a significant slowdown, even if the stimulus countermeasures implemented by the government and the Chinese central bank should avoid the worst.

In conclusion, it can be said that the worsening economic conditions and the threats of trade war have forced the main monetary authorities to review their policies, giving new life to the financial markets both in fixed income and in equity and driving the equity indices to record levels during the second half of 2019. With regard to the inflationary trend, the forecasts indicate levels that are always contained and largely below the targets of the main central banks. The outspread of the Coronavirus and its potentially important financial consequences represent a significant risk for 2020.

Conclusions

We have experienced an excellent year for the results of asset management, the implementation of forward-looking and targeted recapitalization measures in collaboration with the employer EFG, the establishment by the employer of a new committee with the task to coordinate all the activities concerning EFG's Pension Funds. These results constitute the necessary basis for facing the future challenges.

These are known: the demographic structure of Fondazione, the continuous increase in life expectancy, the new method for defining the reference technical interest rate, as well as the expected returns on assets increasingly difficult to predict with continued low interest rate conditions.

However, we are sure that all the members of the Board, together with the Administration and in collaboration with the employer, will be able to face the challenges that will arise with the utmost determination and professionalism. We wish to thank all colleagues, including outgoing Board members, who have worked with commitment and motivation in the interest of all beneficiaries.

Finally, a heartfelt thanks to Massimo Antonini, who chaired the Fondazione with energy, tenacity, professionalism, sensitivity and attachment for the past four years and at the same time best wishes to the incoming President, Yves Bersier, who took over the presidency with great enthusiasm.



Massimo Antonini
Outgoing President of the Board



Yves Bersier
Incoming President of the Board



Michele Casartelli
Foundation Manager

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Balance sheet

ASSETS	NOTES	CHF 31.12.2019	CHF 31.12.2018
Investments		938'922'715	896'172'543
Liquid funds	6.3	36'962'518	89'982'736
Other receivables	7.1	2'861'389	3'955'757
Swiss bonds	6.3	140'544'980	139'444'480
Foreign bonds	6.3	173'074'814	151'207'664
Swiss equities	6.3	56'650'655	34'736'868
Foreign equities	6.3	252'128'181	216'571'735
Swiss real estate funds	6.3	231'421'214	214'510'348
Foreign real estate funds	6.3	45'278'964	45'762'955
Prepayments and accrued income	7.2	0	0
Information system		1	1
Total assets		938'922'716	896'172'544
LIABILITIES			
Accounts payables		3'045'395	3'051'040
Vested benefits and retirement capital to be paid		2'996'099	3'018'860
Other accounts payables		49'296	32'180
Accrued liabilities and deferred income	7.3	483'537	1'225'586
Employer contribution reserve (ECR) without waiver of use	5.9 / 9.2	53'291	53'291
Pension liabilities and actuarial provisions		885'557'203	906'140'546
Active employees' liabilities	5.2	225'288'628	256'144'110
Pensioners' liabilities	5.4	642'108'431	633'588'617
Actuarial provisions	5.5	18'160'144	16'407'819
Fluctuation reserve	6.2	49'783'290	0
Dotation capital and free funds / underfunding		0	-14'297'919
Dotation capital		10'000	10'000
<i>Free funds / Underfunding</i>			
Balance at the beginning of the period		-14'307'919	-10'000
Income surplus / (-) Expense surplus of the period		14'297'919	-14'297'919
Balance at the end of the period		-10'000	-14'307'919
Total liabilities		938'922'716	896'172'544

Operating account

	NOTES	CHF 2019	CHF 2018
Ordinary and other contributions, buy-ins		26'836'116	25'853'680
<i>Employer contributions</i>			
Ordinary contributions		9'790'965	10'947'875
Extraordinary contributions	7.3	4'378'219	1'708'615
Employer payments for AHV bridging pension benefits		3'165'547	3'504'952
<i>Employee contributions</i>			
Ordinary contributions		6'510'024	7'210'238
One-time payments and purchase amounts	5.2	2'991'361	2'482'000
Entry lump sum transfers		4'079'221	4'186'242
Earnings from Vested benefit transfers	5.2	3'883'682	4'086'242
Buy-ins and reimbursements from divorce		20'000	50'000
Repayment of withdrawals for residential property	5.2	175'539	50'000
Income from contributions and entry payments		30'915'337	30'039'922
Regulatory benefits		-47'471'889	-46'253'434
Retirement pensions		-36'704'870	-36'181'024
Disability pensions		-775'295	-862'240
Spouse pensions		-4'935'522	-4'874'052
Orphan and children pensions		-649'495	-650'150
AHV bridging pensions		-3'186'419	-3'518'820
Retirement capital	5.2	-1'203'207	-167'148
Lump sum payments on death and disability		-17'081	0
Termination benefits		-36'706'212	-25'283'230
Departures of Vested benefits	5.2	-35'821'841	-24'663'630
Withdrawals for residential property and divorce	5.2	-884'371	-619'600
Expenses for benefits and withdrawals		-84'178'101	-71'536'664
Release / (-) creation of Pension liabilities, Actuarial provisions and ECR		20'579'457	19'373'173
Variation in Active employees' liabilities		31'140'014	20'285'010
Variation in Pensioners' liabilities		-8'519'814	4'127'099
Variation in Actuarial provisions		-1'752'325	-1'724'122
Interest on vested benefits paid		-3'886	-16'060
Interest on retirement savings capital	5.2	-284'532	-3'298'754

Operating account (2nd part)

	NOTES	CHF 2019	CHF 2018
Income from insurance benefits		1'381'994	1'614'209
Insurance benefits		1'152'669	1'248'629
Share of insurance surplus		229'325	365'580
Insurance expenses		-1'402'187	-1'548'097
Insurance premium	5.1	-1'309'911	-1'458'485
Contribution to Guarantee Fund		-92'276	-89'612
Net income from insurance activities	5.10	-32'703'500	-22'057'457
Net income from investments	6.6	97'449'919	-28'281'892
Income from Liquid funds		-366'161	-93'741
Income from Swiss bonds		5'190'571	349'345
Income from Foreign bonds		7'737'760	-1'214'656
Income from Swiss equities		11'926'706	-4'691'340
Income from Foreign equities		50'117'070	-28'408'125
Income from Direct real estate		293'552	35'541
Income from Swiss real estate funds		24'580'346	3'722'012
Income from Foreign real estate funds		2'619'700	4'328'909
Income from Derivatives		-516'446	1'699'406
Retrocessions received	6.9	105'751	35'437
Asset management expenses	6.7	-4'238'930	-4'044'680
Other income		5'540	3'455
General administration expenses		-670'750	-582'025
Actuary activities		-136'456	-47'090
External Audit		-41'242	-40'734
Supervisory authority		-15'516	-17'263
Marketing and advertising		-1'343	-1'770
General administration		-476'193	-475'168
Income / (-) Expenses before creating / releasing of Fluctuation reserve	5.10	64'081'209	-50'917'919
Release / (-) creation of Fluctuation reserve	6.2	-49'783'290	36'620'000
Income surplus / (-) Expense surplus of the period		14'297'919	-14'297'919

Notes to the 2019 Financial Statements

1. General information and organization

1.1. Legal form and objective

“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 on 4 November 1944.

With the approval in 2017 of the new Statutes 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.

Starting from 1.1.2015 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” (EFG), at via Magatti 2, Lugano.

1.3. Information about Statute and Regulations

	In force from	Note
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 rules 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 for employees and pensioners who were insured with “Fondazione di Previdenza EFG SA” as at 30.6.2017 (Plan 1)	1.1.2020	Approved by the Foundation Board on 23.9.2019
Pension fund regulation (Plan 2)	1.1.2020	Approved by the Foundation Board on 23.9.2019
Regulation on partial and full liquidation and merger	1.1.2018	Approved by the Supervisory Authority on 30.3.2018
Regulation of actuarial provisions	31.12.2019	Approved by the Foundation Board on 27.4.2020
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 in the Organization regulation, as well as in 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. Foundation Board

	Role	Mandate Duration	Representatives	Signing authorities
Bersier Yves	Chairman	1/2020-12/2024	Employer	joint signature of two authorized signatories
Moser Christian	Vice-Chairman	7/2018-6/2022	Employees	joint signature of two authorized signatories
Politis Dimitrios	Member	1/2020-12/2024	Employer	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
M'Bon Josué	Member	1/2020-12/2024	Employer	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Schneider Jacques-André	Member	2/2020-12/2024	Employer	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Antonini Massimo	Member	7/2018-6/2022	Employees	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Russi Andrea	Member	1/2020-6/2022	Employees	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Battaini Giordano	Member/Secretary	1/2019-6/2022	Employees	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)

Modifications in the composition of the Foundation Board:

From 2020 EFG has appointed Politis Dimitrios, Schneider Jacques-André, Bersier Yves and M'Bon Josué as new representatives of the employer in replacement of Polloni Franco, Moranzoni Maurizio, Lüscher Daniel, Tognina Reto. During the meeting of 7.2.2020, the new Board appointed Bersier Yves as Chairman and Moser Christian as Vice-Chairman, confirming Battaini Giordano as Secretary.

In replacement of Calderari Tiziano who resigned as of 31.12.2019, the Board confirmed Russi Andrea as incoming member representing the employees.

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 Administration. 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
M'Bon Josué	Chairman	Employer
Bersier Yves	Member	Employer
Battaini Giordano	Member	Employees
Russi Andrea	Member	Employees
Casartelli Michele	Secretary without voting rights	Foundation manager

The new composition of the CIM from 1.1.2020 was decided during the meeting of the Board of 7.2.2020. Until 31.12.2019 it was composed of Battaini Giordano (Chairman), Tognina Reto, Moranzoni Maurizio, Moser Christian.

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
M'Bon Josué	Chairman	Employer
Bersier Yves	Member	Employer
Battaini Giordano	Member	Employees
Russi Andrea	Member	Employees
Casartelli Michele	Secretary without voting rights	Foundation manager

The new composition of the CII from 1.1.2020 was decided during the meeting of the Board of 7.2.2020. Until 31.12.2019 it was composed of Tognina Reto (Chairman), Antonini Massimo, Calderari Tiziano, Lüscher Daniel.

1.4.3. Delegates' Meeting

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

Starting from 1.1.2020 the Delegates' Meeting is composed as follows:

- **Active employees:** Balmelli Roberto, Battaini Giordano, Bianchi Giacomo, Bizzozero Sergio, Butti Alessandro, Caggiano Massimo, Cantieni Andri, Dal Pozzo Daniela, Daldini Andrea, Gianini Matteo, Mazza Andrea, Moser Christian, Pagnamenta Maurizio, Palmisano Antonio, Perletti Maurizio, Perruchoud Jean-Marie, Roncoroni Moira, Russi Andrea, Spaggiari Antonella, Tironi Francesco
- **Pension beneficiaries:** Ballinari Francesca, Beretti Manuela, Boissard Gilbert, Bosia Franco, Bussani Alessandro, Cantoni Gianfranco, Castelli Giuliano, Delmenico Renzo, Etter Walter, Fioroni Giampiero, Gajo Ermanno, Morelli Claudio, 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 pension funds. 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 31.12.2019 the administrative department was composed by 5 permanent employees (equivalent to 3.7 working units).

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	Towers Watson AG ("TW"), Zürich: Zanella Peter	
Auditor	Ernst & Young SA, Lugano: Caccia Stefano	
Supervisory Authority	Vigilanza sulle fondazioni e LPP della Svizzera Orientale, Muraltto: Cadloni Ivar	
Custodian banks/Asset manager/ Portfolio manager	EFG Bank SA, Lugano branch	The bank has delegated from 1.1.2020 the Foundation's Portfolio Manager activities to its subsidiary with 100% participation "EFG Asset Management (Switzerland) SA" (EFGAM), Geneva. Until 31.12.2019 they were delegated to the 100% participated "Patrimony 1873 SA" (Patrimony), Lugano. Both EFGAM and Patrimony are Securities dealers.
	Client Relationship Manager: Boschung Martin	Head Portfolio Manager until 31.12.2019 Laurent Andrea and from 1.1.2020 D'Agostino Francesco (Deputy: Orelli Luca).
	Zürcher Kantonalbank, Zürich	For the deposit of the investment in Swiss real estate funds of the "Swisscanto Anlagestiftung", Zurich (SAST see note 6).
	UBS Switzerland AG, Lugano	For the deposit of the investment in foreign real estate funds ("UBS Funds" see note 6)
Investment Controller / Asset & Liability Management studies (ALM)	PPCMetrics SA, Zürich: Fusetti Alfredo	

1.6. Affiliated employers

The amount of affiliated companies has developed as follows:

	EFG	Fondazione di previdenza EFG SA	Dreieck SA	Finnat SA	Patrimony	EFGAM	Total 2019	Total 2018
Situation at 1.1.	808	5	17	1	48	34	913	1'013
+ / - Transfers	-1				3	-2	-	-
+ Entries ¹	22		3		4		29	33
- Departures ² / Deaths	-104		-2		-11	-3	-120	-110
- Retirements ³ / Disability	-20				-1		-21	-23
Situation at 31.12.⁴	705	5	18	1	43	29	801	913

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

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

In 2019, the number of active employees fell by -112 units in net terms (2018: -100). The number of voluntary departures is still high in the year (see note 9.3).

In 2019 there was one new disabled person and no deaths occurred.

2. Active employees and pensioners

2.1. Active employees

	Plan 1*	Plan 2*	Total 31.12.2019	31.12.2018
Men	447	37	484	561
Women	292	25	317	352
Total	739	62	801	913

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

The women to men ratio has remained virtually unchanged compared to 2018.

Structure by age range	31.12.2019	31.12.2018
Less than 24 years	5	8
24-32 years	61	83
33-42 years	181	217
43-54 years	372	417
From 55 years	182	188
Total	801	913
Average age	47.2	46.5

Although in the "43-54 years" of age range the highest number of departures was recorded in 2019 (-45), this age range remains the most important in relative terms amounting to 46.44% of the total (2018: 45.67%). The latter figure, together with a slight increase in the average age of active employees, show a lack of generational turnover in the employers. 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 2019	Total 2018
Situation at 1.1.	785	36	146	70	1'037	1'023
+ Entries	20	1	11	11	43	43
+ / - Conversions	3	-3	-	-	-	-
- Deaths / Terminations	-17	-1	-9	-14	-41	-29
Situation at 31.12.	791	33	148	67	1'039	1'037

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 +2 units compared to last year (2017/2018: +14 units).

All the 20 pre-retirements of 2019 created the increase of the pensioners.

The 1'039 pensioners include 31 individuals for whom the Foundation is refunded of the paid benefits by the insurance company "Helvetia (2018: 31)", since the Pension Fund has reinsured the disability and death risk (see note 5.1).

Structure by age range	Retirement pensions beneficiaries	Disability pensions beneficiaries	Spouse pensions beneficiaries	Children pensions beneficiaries	Total 2019	Total 2018
Less than 18 years				24	24	25
18-24 years				36	36	45
25-54 years		12	4	7	23	17
55-64 years	128	19	15		162	191
65-74 years	360	2	50		412	413
75-84 years	230		46		276	258
85-94 years	70		30		100	85
Above 94 years	3		3		6	3
Total	791	33	148	67	1'039	1'037
Average age					69.4	68.7

Net changes in life expectancy have determined a slight increase of the relative weight of individuals over 75 years of age, which represent 36.8% of the population (2018: 33.4%).

2.3. Ratio between active employees and pensioners

The ratio between active employees and pensioners has changed from 0.88 on 31.12.2018 to 0.77 on 31.12.2019. 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 hiring 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

Since the acquisition of BSI in 2017 by EFG, the Foundation has had two “defined contribution” pension plans:

- “Plan 1” for employees already insured by Foundation as of 30.6.2017,
- “Plan 2” for all employees employed in Ticino by EFG and by affiliated employers, from 1.7.2017.

Due to the continuous demographic worsening of the Fund (note 2.3) and the underfunding situation of 98.4% as at 31.12.2018, the Foundation Board adopted in 2019 recapitalization measures (note 9.1), part of which with regulatory impact and implemented in the new pension fund regulations valid from 1.1.2020.

The following table offers an overview of the benefits of the two plans valid from 1.1.2020, indicating in brackets the values up to 31.12.2019 if different:

Pension fund regulation for employees and pensioners who were insured with the “Fondazione di Previdenza EFG SA” as at 30.6.2017 – Plan 1

Pension fund regulation – Plan 2

RETIREMENT AGE

Ordinary retirement age	64 years for women and men	64 years for women 65 years for men
Minimum retirement age	60 years for women and men	60 years for women and men
Maximum retirement age	70 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. From 1.1.2020 maximum retirement pension limited to CHF 99'540 in total between Foundation and Fondo	Retirement savings capital multiplied by conversion rate. From 1.1.2020 maximum retirement pension limited to CHF 99'540 in total between Foundation and Fondo	
Conversion rates in %	<p>Women and men</p> 60 years: 4.51 (2019: 4.71) 61 years: 4.62 (2019: 4.82) 62 years: 4.74 (2019: 4.94) 63 years: 4.87 (2019: 5.07) 64 years: 5.00 (2019: 5.20) 65 years: 5.14 (2019: 5.34) 66 years: 5.30 (2019: 5.50) 67 years: 5.46 (2019: 5.66) 68 years: 5.64 (2019: 5.84) 69 years: 5.83 (2019: 6.03) 70 years: 6.04 (2019: 6.24)	<p>Women</p> 60 years: 4.51 (2019: 4.71) 61 years: 4.62 (2019: 4.82) 62 years: 4.74 (2019: 4.94) 63 years: 4.87 (2019: 5.07) 64 years: 5.00 (2019: 5.20) 65 years: 5.14 (2019: 5.34) 66 years: 5.30 (2019: 5.50) 67 years: 5.46 (2019: 5.66) 68 years: 5.64 (2019: 5.84) 69 years: 5.83 (2019: 6.03) 70 years: 6.04 (2019: 6.24)	<p>Men</p> 4.40 (2019: 4.60) 4.51 (2019: 4.71) 4.62 (2019: 4.82) 4.74 (2019: 4.94) 4.87 (2019: 5.07) 4.87 (2019: 5.07) 5.00 (2019: 5.20) 5.14 (2019: 5.34) 5.14 (2019: 5.34) 5.30 (2019: 5.50) 5.46 (2019: 5.66) 5.46 (2019: 5.66) 5.64 (2019: 5.84) 5.64 (2019: 5.84) 5.83 (2019: 6.03)
Children's retirement benefits	Minimum required by LPP (2019: 10% of retirement pension)	Minimum required by LPP (2019: 20% of retirement pension)	

SURVIVORS BENEFITS

Spouse/civil partner's pension	Active employee: 49% of the insured salary (see definition in note 3.2)	Active employee: 50% of the insured salary (see definition in note 3.2)
	Disabled individual: 70% of the disability pension	Disabled individual: 50% of the relevant income for the calculation of the current disability pension
	Pensioner: 50% of the retirement pension (2019: 60%)	Pensioner: 50% of the retirement pension (2019: 60%)
Orphan's pension	Active employee: 15% of the insured salary	Active employee: 10% of the insured salary
	Disabled individual: 15% of the insured salary	Disabled individual: 10% of the relevant income for the calculation of the current disability pension
	Pensioner: Minimum required by LPP (2019: 10% of the retirement pension)	Pensioner: Minimum required by LPP (2019: 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 Pension fund regulation.
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3.2. Financing

The recapitalization measures implemented in 2019 have no impact on the financing structure of the Fund.

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	<p>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.</p> <p>The coordination amount corresponds to 5/3rd of the single maximum AHV pension (from 2019 CHF 28'440).</p> <p>The maximum insured salary corresponds to 4 times the simple maximum AHV pension (from 2019 CHF 113'760), in proportion to the level of employment.</p>	<p>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.</p> <p>No coordination.</p> <p>The maximum insured salary is equal to 34/7 of the maximum value of the simple AHV pension (from 2019 CHF 138'137), in proportion to the level of employment.</p>																																																
Total contributions	Standard Contribution Plan	Standard Contribution Plan																																																
Percentage of the insured salary	<table border="1"> <thead> <tr> <th>Age</th> <th>Employee</th> <th>Employer</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>18-23</td> <td>2.0%</td> <td>3.0%</td> <td>5.0%</td> </tr> <tr> <td>24-32</td> <td>6.5%</td> <td>14.5%</td> <td>21.0%</td> </tr> <tr> <td>33-42</td> <td>7.5%</td> <td>14.5%</td> <td>22.0%</td> </tr> <tr> <td>43-52</td> <td>8.5%</td> <td>14.5%</td> <td>23.0%</td> </tr> <tr> <td>53-64</td> <td>9.5%</td> <td>14.5%</td> <td>24.0%</td> </tr> </tbody> </table>	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%	<table border="1"> <thead> <tr> <th>Age</th> <th>Employee</th> <th>Employer</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>18-19</td> <td>0.833%</td> <td>1.667%</td> <td>2.5%</td> </tr> <tr> <td>20-34</td> <td>4.583%</td> <td>9.167%</td> <td>13.75%</td> </tr> <tr> <td>35-44</td> <td>5.583%</td> <td>11.167%</td> <td>16.75%</td> </tr> <tr> <td>45-54</td> <td>6.583%</td> <td>13.167%</td> <td>19.75%</td> </tr> <tr> <td>55-64/65</td> <td>7.583%</td> <td>15.167%</td> <td>22.75%</td> </tr> </tbody> </table>	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%
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Risk contributions	Employee: 2.0%	Employee: 0.833%																																																
Percentage of the insured salary	Employer: 3.0%	Employer: 1.667%																																																

	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

All employees of EFG already present prior to the acquisition of BSI, as well as all the employees hired from 1.7.2017 by EFG, or by the other Group companies, in the German and French-speaking part of Switzerland are insured by the Trianon Collective Pension Fund.

With the aim of aligning the pension benefits and the financing forms for all employees of the Group, EFG has created in 2019 the "Steering Committee Pension Funds EFG".

Given the fact that there are no urgent measures to be taken in the short term on the subject and having completed the analysis of the existing situation in the two current Pension Funds of the employer, EFG will inform the active insured and the pensioners when the working plan of the Steering Committee will be approved.

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 (1.1.2014).

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 Administration, management of a part of the assets is entrusted to EFG and subcontracted to Patrimony until 31.12.2019 and to EFGAM from 1.1.2020.

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

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 2019.

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", which is in force since 1.1.2009. Beneficiaries of disability pensions starting before 1.1.2009 are borne by the Foundation.

In 2019 the premium risk rate is equal to 1.90% of the total insured salaries (2018: 2.01%), without application of premium surcharge but registration of a health reserve on subjects with increased risk.

The reinsurance contract was renegotiated in 2019 for the three-year period 2020-2022, with the possibility of early cancellation communicated to the counterpart by June 30 of each year. The risk premium rate will be 2.21% of the total insured salaries.

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 31.12.2019	CHF/000 31.12.2018
Vested benefits	217'369	7'180	224'549	255'002
Supplementary account "Early retirement redemption"	439	-	439	813
Supplementary account "AHV Bridging pension redemption"	301	-	301	329
Total of Active employees' liabilities	218'109	7'180	225'289	256'144
Number of Active employees at 31.12.			801	913

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 “Vested benefits” is established at the beginning of each year by the Board, upon consideration of the Foundation’s financial situation.

Given the underfunding situation at 31.12.2018, as first recapitalization measure, on 30.1.2019 the Board resolved not to remunerate the Vested benefits in 2019. Following the exceptional performance achieved in 2019, in the meeting of 7.2.2020 the Board set the interest rate on Vested benefits for 2020 at 2%.

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. From 2017, the interest rate is in line with the rate on “Vested benefits”.

The trend of “Active employees’ liabilities” is as follows:

	CHF/000 31.12.2019	CHF/000 31.12.2018
Liabilities at 1.1.	256'144	273'130
Employers and employees savings contributions	13'011	14'430
Earnings from Vested benefit transfers	3'884	4'086
One-time payments and purchase amounts	2'991	2'482
Buy-ins and reimbursements from divorce	20	50
Repayment of withdrawals for residential property	176	50
Withdrawals for residential property and divorce	-884	-620
Departures of Vested benefits	-35'822	-24'664
Retirement capital	-1'203	-167
Transfers to Pensioners’ liabilities	-13'312	-15'932
Interest on retirement savings capital	284	3'299
Liabilities at 31.12.	225'289	256'144
Number of active employees at 31.12.	801	913

The decrease in a year by CHF 30.855 mln in “Active employees’ liabilities” is mainly caused by the significant reduction in the number of insured persons in 2019, with the consequent payment of “Departures of Vested benefits” or “Retirement 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.

In the absence of remuneration for 2019, the item “Interest on retirement savings capital” only includes active insured who at 31.12.2019 have the minimum amount of Retirement savings capital pursuant to article 17 of the Federal Vested Benefits Law (LFLP) higher than the value of the Retirement savings capital pursuant to article 31 of the Pension fund regulations.

5.3. Total retirement savings capital in accordance with LPP

	CHF/000 31.12.2019	CHF/000 31.12.2018
Retirement savings capital in accordance with LPP (shadow calculation)	93'484	102'225
LPP minimum interest rate defined by the Federal Council	1.00%	1.00%

The Federal Council established a LPP remuneration rate of 1% starting from 1.1.2020.

5.4. Development of Pensioners' liabilities

	CHF/000 31.12.2019	CHF/000 31.12.2018
Situation of Pensioners' liabilities at 1.1	633'589	637'667
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-24'227	-4'078
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	32'746	-
Total of Pensioners' liabilities at 31.12	642'108	633'589
Number of pensioners' at 31.12.	1'039	1'037

The item "Updating following changes in technical interest rate" indicated the cost of decreasing the technical interest rate from 2.25% to 1.75%.

The item "Update following changes in the Pension Fund Regulation and new calculations as of 31 December" includes in 2019:

- The savings from the changes in the Pension fund regulation from 1.1.2020, in particular relating to the reduction of the expectancy spouse and child pensions for CHF -13.376 mln.
- For the pensioners of the year that have opted for an old age pension, the capital transfers from the "Active employees' liabilities" for CHF +13.312 mln as well as extraordinary contributions paid by the employer for CHF +1.779 mln (included in the item "Extraordinary contributions").
- The pensions, net of insurance benefits, paid in the period for CHF -41.930 mln.
- The "implicit" interests at the technical interest rate of last year on the initial capital for estimated CHF +14.256 mln.
- Other evolutions of the year in the "passive" population for CHF +1.732 mln (for instance redemptions for deaths, terminations of the pensions for children, conversions of the retirement pensions into spouse pensions, updating of longevity).

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 in the following paragraphs, the item "Update following changes in the technical rate" at 31.12.2019 indicated the cost of decreasing the technical interest rate from 2.25% to 1.75%.

5.5.1. Conversion rate provision (Active employees')

Conversion rates of active employees and invalids under defined contribution 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 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 31.12.2019	CHF/000 31.12.2018
Situation at 1.1	4'618	3'689
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-3'505	929
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	5'582	-
Situation at 31.12	6'695	4'618

From 1.1.2020 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: 2.25% on average (until 31.12.2019 2.60% on average)
 - mortality tables: LPP 2015 generational of the year 2020 (until 31.12.2019 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: 2.05-2.15% (until 31.12.2019 2.40-2.50%)
 - mortality tables: LPP 2015 generational of the year 2020 (until 31.12.2019 LPP 2015 generational of the year 2018).

The lowering of the regulatory conversion rates from 1.1.2020 (from 5.20% to 5% at 64 years of age, for more details see note 3.1) have led to narrowing the gap to the closing technical bases as at 31.12.2018, therefore to a release of the value of the opening reserve of CHF 3.137 mln included in the item "Update following changes in Pension Fund Regulation and new calculations as of 31.12."

However, bringing the technical interest rate at 31.12.2019 to 1.75%, the gap with the technical bases reflected in the regulations once again grows, giving rise to a reserve of CHF 5.582 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 31.12.2019	CHF/000 31.12.2018
Situation at 1.1	564	1'243
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-427	-679
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	39	-
Situation at 31.12	176	564

The net contraction of CHF 0.388 million relates to retirements of 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 value of the reserve covers an annuity of this additional remuneration for the eligible subjects.

	CHF/000 31.12.2019	CHF/000 31.12.2018
Situation at 1.1	554	600
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-75	-46
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	-	-
Situation at 31.12	479	554

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 2019 compared to 31 December 2018.

5.5.4. Provision for the longevity risk (Pensioners')

The overall bank system in Switzerland shows a statistical lower mortality rate (average age of death) than the generate average rate contained in the generational mortality tables used for the period 2019, which discount the average expected future rise in longevity during the retirement period. Subsequently, we expect the pensioners of the Foundation to have a longer average life expectancy, which results in the payment of annuities 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 will need an annuity paid on average half a year longer than the average duration of retirement annuities according to the generational mortality tables LLP 2015.

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 2019, the value of this provision corresponds to the target value equal to 1.7% of the total Pensioners' liabilities (without children).

	CHF/000 31.12.2019	CHF/000 31.12.2018
Situation at 1.1	10'672	9'152
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-418	1'520
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	556	-
Situation at 31.12	10'810	10'672

The savings deriving from the update of the Pension fund regulation in force from 1.1.2020 are included in the item "Update following changes in Pension Fund Regulation and new calculations as of 31.12." and amount to CHF -0.228 mln.

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 2019, the actuary did not deem necessary to set up any actuarial provisions (31.12.2018: 0).

5.5.6. Summary of Actuarial provisions

Evolution summary of actuarial provisions	CHF/000 31.12.2019	CHF/000 31.12.2018
Situation at 1.1	16'408	14'684
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-4'425	1'724
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	6'177	-
Situation at 31.12	18'160	16'408

Composition summary of actuarial provisions	CHF/000 31.12.2019	CHF/000 31.12.2018
Conversion rate provision	6'695	4'618
Transitory measures provision	176	564
Additional remuneration provision	479	554
Provision for the longevity risk	10'810	10'672
Total of actuarial provisions	18'160	16'408

5.6. Conclusions of the last actuarial report

The actuarial report as of 31.12.2019 prepared in March 2020 by Towers Watson contains the following comments:

- the coverage ratio of the Pension fund in compliance with article 44, paragraph 1 OPP2 amounts to 105.6% as of 31.12.2019;
- the technical bases applied (BVG 2015 GT, 2020) correspond to the latest available bases and are currently sufficiently prudential;
- the actuarial provisions cover the promised benefits which are not or not sufficiently covered by contributions or which are subject to fluctuations as well as known or foreseeable obligations;
- the target value of the Fluctuation reserve is sufficient in our assessment based on the investment strategy and the selected security level;
- due to the continuous reduction in active membership the recapitalization capacity of the Pension fund has further deteriorated and continues to be challenging;
- the pension plan rules with regards to actuarial regulations on pension benefits and their funding are compliant with legal requirements;
- the financing of the risk benefits and administrative costs through contributions is sufficient;
- based on the expert recommendation, the Board reduced the technical interest rate to 1.75% as of 31.12.2019. The ongoing financing situation has thus improved, as the expected return is above the target return;
- the currently valid regulatory conversion rate (5.0% at ordinary retirement age, 64 in Plan 1 and 65/64 in Plan 2) is above the actuarially neutral conversion rate based on the applied technical bases and the technical interest rate. The Conversion rate provision covers the expected retirement losses for active employees aged 55 and over. However, the regulatory conversion rate must be reviewed regularly.

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 2019, the actuarial calculations have been made according to the following assumptions:

- **LPP 2015 generational actuarial bases of the year 2020** (31.12.2018: LPP 2015 generational bases of the year 2019). 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 1.75%** (31.12.2018: 2.25%). 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 the current year the Pension fund regulation have been changed (in particular with the lowering of the expected spouse pensions and of the regulatory conversion rate) and also the technical interest rate (lowered from 2.25% to 1.75%).

The following table summarises the impact of the changes:

	CHF/000 31.12.19	CHF/000 31.12.19	CHF/000 31.12.19	CHF/000 31.12.18
<i>Date</i>				
<i>Base</i>	LPP 2015-G20	LPP 2015-G20	LPP 2015-G20	LPP 2015-G19
<i>Rate</i>	1.75%	2.25%	2.25%	2.25%
<i>Pension plans in force from</i>	01.01.20	01.01.20	01.04.18	01.04.18
Active employees' liabilities	225'289	225'289	225'289	256'144
Pensioners' liabilities	642'108	609'362	622'738	633'589
Conversion rate provision	6'695	1'113	4'250	4'618
Transitory measures provision	176	137	151	564
Additional remuneration provision	479	479	479	554
Provision for the longevity risk	10'810	10'254	10'482	10'672
Total of Pension liabilities and actuarial provisions	885'557	846'634	863'389	906'141
<i>Variation</i>	+38'923	-16'755	-42'752	

In 2019 the departures of active insured, the terminations of pensions or conversions in spouse pensions determined a total reduction of CHF 42.752 mln in the actuarial liabilities.

The changes in the Pension fund regulation generated a saving of CHF 16.755 mln, while the reduction of the technical interest rate of 0.5 percentage point caused a cost of CHF 38.923 mln.

	CHF/000 31.12.2019	CHF/000 31.12.2018
Evolution of pension liabilities and actuarial provisions		
Situation at 1.1	906'141	925'481
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-59'507	-19'340
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	38'923	-
Situation at 31.12	885'557	906'141

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 2019.

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

	CHF/000 31.12.2019	CHF/000 31.12.2018
Pension liabilities and actuarial provisions (PL)	885'557	906'141
Total assets	938'923	896'173
./. Accounts payables	-3'046	-3'051
./. Accrued liabilities and deferred income	-484	-1'226
./. Employer contribution reserve	-53	-53
Net pension assets (NPA)	935'340	891'843
Coverage ratio (NPA/PL)*100	105.6%	98.4%

The coverage ratio gained 7.2 percentage points, from the underfunding of 2018 to the positive coverage of 105.6% at the end of 2019.

The improvement of the coverage ratio is due to:

- The increase of the Net assets of CHF 43.497 mln, thanks to the exceptional performance of the year (details in note 6.6) which has more than compensated the big outputs for payments of Vested Benefits and retirement capital for a total of CHF -37.025 mln.
- To a reduction of CHF -20.584 mln of the Pension liabilities and actuarial provisions, where the releases for the turnover of the year of CHF -42.752 mln have been partially absorbed by the increase of the value of the liabilities for the changes in the technical bases (see note 5.8).

The 2019 financial year closed with a gain before the destination to the Fluctuation reserve of CHF 64.081 mln (2018: loss of CHF -14.298 mln after complete dissolution of the Fluctuation reserve).

Such gain is due to the “Net income from investments” of CHF 97.450 mln, which has totally absorbed the negative “Net income from insurance activities” of CHF -32.703 mln (of which CHF -22.168 mln for the changes in the Pension Fund Regulations and in the technical bases).

In 2019 the “Net income from investments” gives a return of 10.62% on average investments (see note 6.6, 2018: - 3.04%), against a remuneration of Active employees’ liabilities in 2019 of 0% and of Pensioners’ liabilities for a theoretical 1.75%.

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**.

During 2019 the Foundation invested in securities exclusively using collective funds (without any possibility to bindingly exercise the right of vote) and consequently 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 (see note 1.5), is entrusted to EFG, Lugano branch (employer).

The bank then fully **delegated** to the subsidiary Patrimony the “Misto Attivo” portfolio management mandate of the Foundation until 31.12.2019 and to the subsidiary EFGAM from 1.1.2020.

The new mandate signed with the Bank on 9.1.2020, in paragraph 14, only changes the asset manager. In the absence of changes in 2019 in the Investment regulations, the new mandate incorporates the limits and categories of investment defined in the previous mandate.

The 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 Board.

6.2. Target value and calculation method of the Fluctuation reserve

	CHF/000 31.12.2019	CHF/000 31.12.2018
Situation at 1.1 of Fluctuation reserve	-	36'620
Release (-) / creation in operating account	49'783	-36'620
Fluctuation reserve at 31.12.	49'783	-
Target Fluctuation reserve	139'032	147'701
Shortfall in Fluctuation reserve	89'249	147'701

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 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 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 15.7% of the total pension liabilities and actuarial provisions (31.12.2018: 16.3%).

At 31 December 2019, the Fluctuation reserve was partially rebuilt for CHF 49.783 mln, after its full utilization occurred in 2018.

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

	31.12.2019		Global strategy limits from 13.11.2017			OPP2 Limits
	Total assets		Min	Neutro	Max	in %
	CHF/000	in %				
Operative cash in CHF ¹	9'837	1.0%				
Cash under mandate in CHF ¹	7'330	0.8%				
Cash under mandate in foreign currencies ¹	6'158	0.6%				
Money market funds in CHF and USD ¹	13'638	1.5%				
Total of liquid funds	36'963	3.9%	0.0%	2.0%	33.0%	
Swiss bonds ¹	140'545	15.0%	14.0%	21.0%	28.0%	
Foreign bonds (hedged) ¹	154'836	16.5%	12.0%	17.5%	23.0%	
Emerging markets bonds ¹	18'239	1.9%	0.0%	0.0%	5.0%	
Total of bonds	313'620	33.4%	26.0%	38.5%	56.0%	
Swiss equities ²	56'651	6.0%	0.0%	6.0%	9.0%	
Foreign equities ²	220'960	23.5%	0.0%	23.0%	34.0%	
Emerging markets equities ²	31'168	3.4%	0.0%	4.0%	6.0%	
Total of equities	308'779	32.9%	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	139'640	14.9%	8.0%	12.0%	16.0%	
Quoted Swiss real estate funds ³	91'781	9.8%	7.0%	10.0%	13.0%	
Foreign real estate funds (hedged)	45'279	4.8%	3.0%	4.5%	6.0%	10.0%
Total of real estate	276'700	29.5%	18.0%	26.5%	35.0%	30.0%
c/a with Fondo Complementare di Previdenza EFG SA	0	0.0%		0.0%		
Other receivables	2'861	0.3%		0.0%		
Prepayments and accrued income ¹	0	0.0%		0.0%		
Total of other assets and prepayment and accrued income ¹	2'861	0.3%		0.0%		
Total assets (art. 49 OPP2)	938'923	100.0%		100.0%		
Foreign currencies unhedged ⁴	39'908	4.3%	0.0%	9.0%	18.0%	30.0%
Cash under mandate with the employer	13'488	1.4%				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 31.12.2019

As of 31.12.2019, all category limits pursuant to OPP2 (article 55) and the fluctuation margins on the total assets defined in the Investment regulation were respected.

During the last years, at a tactical level, Patrimony has always maintained the portfolio of the "Misto Attivo" mandate of the Foundation defensively positioned on bonds, with a clear overweight in liquidity.

In order to ensure a tactically neutral change to EFGAM on 1.1.2020, market operations were carried out in December in order to approach the neutral limits of the strategy, albeit still with a slight underweight on the bond.

As of 31.12.2019 investments in unlisted Swiss real estate funds (SAST) and in foreign real estate (UBS funds), both with very satisfactory performances in 2019, are slightly overweight (see note 6.6).

As of 31.12.2019, the Foundation's total cash amounts to 3.9% (2018: 10%) of total assets and it is composed by:

- Operating cash: CHF 9.837 mln (1.0% of total assets);
- Cash under "Misto Attivo" mandate (in CHF and foreign currency): CHF 13.488 mln (1.4% of total assets);
- Money market funds in CHF and USD: CHF 13.638 mln (1.5% of total assets).

As of 31.12.2019 there are no replacement values registered in the "Prepayments and accrued income" and "Accrued liabilities and deferred income" items, because there are no open financial derivatives instruments at the end of the year (2018: no value in the "Prepayments and accrued income" and "Accrued liabilities and deferred income").

6.4. Compliance with EFG asset management mandate limits

As of 31.12.2019, all limitations to steering provided by the "Misto Attivo" mandate have been respected:

	31.12.2019		Limits of "Misto Attivo" mandate from 1.12.2017		
	CHF/000	in %	Min	Neutro	Max
Cash under mandate in CHF	7'330	1.0%			
Cash under mandate in foreign currencies	6'158	0.8%			
Money market funds in CHF and USD	13'638	1.9%			
Total of liquid funds	27'126	3.7%	0.0%	0.5%	35.0%
Swiss bonds	140'545	18.9%	17.5%	25.5%	33.5%
Foreign bonds (hedged)	154'836	20.9%	15.0%	21.5%	28.0%
Emerging markets bonds	18'239	2.5%	0.0%	0.0%	6.0%
Total of bonds	313'620	42.3%	32.5%	47.0%	67.5%
Swiss equities	56'651	7.6%	0.0%	7.5%	10.5%
Foreign equities	220'960	29.8%	0.0%	28.0%	41.0%
Emerging markets equities	31'168	4.2%	0.0%	5.0%	7.0%
Total of equities	308'779	41.6%	0.0%	40.5%	58.5%
Quoted Swiss real estate funds	91'781	12.4%	8.5%	12.0%	15.5%
Total of Swiss real estate	91'781	12.4%	8.5%	12.0%	15.5%
Total of "Misto Attivo" portfolio	741'306	100.0%		100.0%	
Credit for withholding Tax in "Other receivables", managed by the Administration, referred to the "Misto Attivo" mandate	1'292				
Total "Assets" Misto Attivo mandate (used in note 6.6)	742'598				

6.5. Open financial derivatives instruments

At 31 December 2019, as at 31 December 2018, there are no open derivatives instruments.

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 its components, as shown in the following table:

	Total assets	of which Misto Attivo mandate	of which SAST	of which UBS Funds
	CHF/000	CHF/000	CHF/000	CHF/000
Assets at 31.12.2019	938'923	742'598	139'640	45'279
Assets at 1.1.2019	896'173	709'031	133'120	45'763
Average investment	917'548	725'815	136'380	45'521
Income from Liquid funds*	-366	-382		
Income from Swiss bonds	5'190	5'190		
Income from Foreign bonds	7'738	7'738		
Income from Swiss equities	11'927	11'927		
Income from Foreign equities	50'117	50'117		
Income from Swiss real estate funds	24'580	17'389	7'191	
Income from Foreign real estate funds	2'620			2'620
Income from Direct real estate (contingent assets)*	293			
Income from Derivatives	-516	-516		
Retrocessions received	106	106		
Asset management expenses	-4'239	-2'886	-682	-671
Total of Net income from investments	97'450	88'683	6'509	1'949
Income in % of average investment at 31.12.2019	10.62%	12.22%	4.77%	4.28%
Income in % of average investment at 31.12.2018	-3.04%	-5.12%	4.87%	8.31%

* The result of the Total Assets which is not allocated to the 3 components of the investment pertains to operative cash.

The “Net income from investments” went from the loss of 2018 of CHF -28.282 mln to the gain of CHF 97.450 mln.

The equity sector impacted strongly to the positive result of the year, with a total Swiss + foreign that went from CHF -33.099 mln in 2018 to CHF +62.044 mln in 2019.

Also the “Income from Swiss real estate funds” recovered strongly, from CHF +3.722 mln in 2018 to +24.580 mln in 2019. Within this category, in particular the quoted Swiss real estate funds have a better performance than last year from CHF -3.266 mln in 2018 to CHF +17.389 mln in 2019, while the investment in not quoted Swiss real estate fund SAST has a stable positive performance of CHF +7.191 mln (2018: CHF +6.988 mln).

The “Income from Foreign real estate funds” refers entirely to the UBS Funds, which includes the dividend received for CHF +2.633 mln (2018: CHF +1.332 mln).

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 (or "*Supplementary Cost – SC*");
- **indirect expenses** offset with revenues or assets in the collective investment schemes and calculated according to the "*Total Expense Ratio - TER*". The relevant asset classes' amounts in the "Net income from investments" have increased accordingly.

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

As of 31 December 2019, the total value of collective investment's expense ratios calculated with the TER ratio amounts to CHF 2.532 mln (31.12.2018: CHF 2.309 mln).

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

	CHF/000 31.12.2019	CHF/000 31.12.2018
Direct costs	1'707	1'736
Indirect cost (calculated based on the cost ratio TER)	2'532	2'309
Total of asset management expenses	4'239	4'045
Total of transparent investments	927'517	887'914
Asset management expenses as a % of transparent investments	0.46%	0.46%

6.7.3. Cost transparency ratio

	CHF/000 31.12.2019	CHF/000 31.12.2018
Transparent investments	927'517	887'914
Investments in "Misto Attivo" mandate, in SAST and UBS real estate funds	927'517	887'914
Cost transparency ratio	100.00%	100.00%

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 2019 the portfolio contain one security lacking a breakdown of the asset management expenses: due to the difficulties in disposing of the shares, the security was completely depreciated at 31 December 2017. The aforementioned investment is as follows:

ISIN	Provider	Name of security	Quantity at 31.12.2019	Currency	Market value in CHF at 31.12.2019
CH0011402895	Minicap Technology Investment AG	Registered shares Minicap Technology Investment AG	10'000	CHF	0

6.8. Explanation of investments and other receivables with the employers

Investments with the employers	31.12.2019	in %	OPP2 limits	Article
	CHF/000			
Operative cash in EFG SA	9'837	1.0%		UFAS Journal n. 84/486
Cash under mandate in EFG SA	13'488	1.4%	5.00%	57 par. 2
Prepayments and accrued income with employers	-	0.0%		
Total investments with the employers	23'325			
Total assets (art. 49 OPP2)	938'923	100%		

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 2019, the collateral deposited amounts to CHF 14.634 mln with a 108.49% hedging of the invested capital with the employer.

6.9. Retrocessions

The Foundation receives retrocessions only from EFG.

From 2019 the Bank has changed its calculation method, paying the retrocessions monthly for the competence period, while in the past it paid during the first quarter of the following year those of competence of the closed year.

As a consequence in the year 2019 the Foundation has received CHF 32'304 for competence of the year 2018 and CHF 73'447 for competence of 2019 (2018: CHF 35'437 for competence of 2017).

7. Comments on other balance sheet and operating account positions

7.1. Other receivables

	CHF/000 31.12.2019	CHF/000 31.12.2018
Credits for withholding Tax	1'298	2'457
Credits towards reinsurer	1'561	1'499
Other credits miscellaneous	2	-
Other receivables	2'861	3'956

Credits for withholding tax as of 31 December 2018 were fully received in July 2019.

The Credits towards reinsurer as at 31.12.2019 include the advance payment of risk insurance premiums for 2020 for CHF 1.372 mln.

7.2. Prepayments and accrued income

As of 31.12.2019 and 31.12.2018, there are no "prepayments and accrued income".

7.3. Accrued liabilities and deferred income

	CHF/000 31.12.2019	CHF/000 31.12.2018
Deferred income from revenues pertaining to future periods	288	1'036
Invoices to be received and other accrued liabilities	196	190
Accrued liabilities and deferred income	484	1'226

The reduction by CHF 0.742 mln in the item "Accrued liabilities and deferred income" is mainly due to the absence at the end of the current year of early retirement contributions already collected from the employer with a commitment for the Foundation for the following year (while in 2018 they amounted to CHF 0.764 mln included in the sub-item "Deferred income from revenues pertaining to future periods").

Early retirement contribution in the operating account are included in the "Extraordinary contributions" and they amount to CHF 1.778 mln (2018: 1.709 mln).

8. Requirements of the Supervisory Authority

By decision of 19.9.2019, the Supervisory Authority *acknowledged* the 2018 annual report.

On 24.12.2019, the Supervisory Authority confirmed the *formal assessment* of the following Foundation regulations:

- “Pension fund regulation for employees and pensioners who were insured with “Fondazione di Previdenza EFG SA” as at 30.6.2017 (Plan 1)” approved by the Board on 23.9.2019, with validity from 1.1.2020;
- “Pension fund regulation (Plan 2)”, approved by the Board on 23.9.2019, with validity from 1.1.2020.

9. Further information regarding the financial situation

During 2019 the Board has informed more than once active employees and pensioners on the situation of the Foundation and the Fondo (hereinafter the “EFG Lugano Foundations”).

Specifically:

- A communication note dated 10.1.2019, simultaneous to the receipt of the benefit certification 2018, in which a confirmation of tax domicile has been requested to all pensioners.
- A communication note dated 1.2.2019 informed all active employees on the new benchmark amounts of occupational pensions: new coordination amount due to the change in the simple maximum AHV pension, remuneration interests 2019, coverage ratio and performance 2018, pension certificates 2019, higher scale of contribution and buy-ins 2019.
- A communication note dated 1.2.2019 informed all beneficiaries about relevant information, such as the coverage ratio and the performance 2018, the Pension fund regulations valid from 1.1.2019 and the Delegates Assembly 2019.
- On 7.5.2019 detailed information on the annual report 2018 was released and made available to all active employees and pensioners respectively by posting on the company’s web portal and public website.
- A communication note dated 24.5.2019 posted on the company’s web portal, simultaneous to the receipt of the pension certificate 2019, informed all active employees about the updating to the relevant guidelines for readers.
- With communication note dated 28.6.2019, all active employees and pensioners have been informed concerning the recapitalization measures 2018-2019 approved during the month of June by the Boards of EFG Lugano Foundations.
- On 30.9.2019 all active employees were informed about end of the year deadlines.
- With communication note dated 3.1.2020 all active employees have been informed on the publication on the company’s web portal of the Pension fund regulation valid from 1.1.2020.
- On 7.1.2020 the benefit certification 2019 has been sent to the pensioners.
- With communication dated 7.2.2020 all active employees have been informed on the change of the Chairman in the Boards of EFG Lugano Foundations, on the new benchmark amounts of occupational pensions such as remuneration interests 2020, coverage ratio and performance 2019, pension certificates 2020, higher scale of contribution and buy-ins 2020.

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

As at 31.12.2018, the Foundation showed a slight underfunding of 98.4% (note 5.10).

Considering the trend of the demographic situation of the Foundation (always older, with preponderance of pensioners on the active population), during the Board meeting of 30.1.2019, the Board promptly created a Working Group dedicated to the identification of measures and a plan to recapitalize the Pension Fund in the medium term.

Pursuant to article 65c paragraph 2 LPP, on 1.2.2019 the Foundation informed the active employees and beneficiaries of the size and causes of this underfunding.

With communication note dated 28.6.2019, all active employees and pensioners have been informed concerning the recapitalization measures decided on 26.6.2019 by the Boards of EFG Lugano Foundations, specifying for each Pension funds and people involved.

Following the detail of the measures implemented:

- a) **Remuneration of 0% on Vested benefits and supplementary accounts** of the active employees of Foundation and Fondo, and **suspension of the additional interest for the lower salary bands** of active employees of Foundation for year 2019 (note 5.2).
- b) **Reduction of the regulatory conversion rates from 1.1.2020**. The conversion rate at the ordinary retirement age reduces from the 5.20% to 5.00% (note 3.1).
- c) **Limitation of the maximum annual retirement pension to a total of CHF 99'540 between Foundation and Fondo. The surplus capital will be paid out as a lump sum**. The measure applies to new retirements **from 2020** (note 3.1).
- d) **Reduction of the pension for spouses / life partner of a pensioner from 60% to 50%** of the retirement pension beginning **from 1.1.2020**. The new percentage applies to all new widows / widowers of Foundation and Fondo from 1.1.2020 (note 3.1),
- e) **Reduction of the pension for children and orphans of a retirement pension beneficiary** from the current 10% (Plan 1) and 20% (Plan 2) of the retirement pension to the **LPP Minimum benefit**. The measure applies from 1.1.2020 to all children of new pensioners of Foundation and Fondo, and to all children born from January 2020 by individuals which are already pensioners in Foundation and in Fondo (nota 3.1).

With the aim of contributing to the recapitalization process, the employer EFG decided to pay the Foundation CHF 2.2 mln in 2019 as a **voluntary additional contribution** shown in the operating account under the item "Extraordinary contributions", together with the early retirement contributions.

Savings resulting from recapitalization measures with regulatory impact are detailed in note 5.8 and amount to CHF 16.755 mln, plus a lower cost in 2019 for interest on savings capital estimated at CHF 2.3 million.

These recapitalization measures, together with the exceptional performance of the portfolio (note 6.6), took the coverage ratio in 2019 in positive territory (note 5.10).

In the event of future deterioration in the coverage ratio, the "Steering Committee Pension Funds EFG" (note 3.3) will evaluate any recapitalization measure of the current employer Pension funds as a whole.

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" establishes that the conditions for a partial liquidation are fulfilled:

- a) In case of staff reductions, if the number of **involuntary departures** of insured persons and their vested benefits are **at least 10%**. If the staff reduction takes place for the same reason during a period between one and two years, the conditions are also fulfilled;
- b) In case of **abandonment of entire sectors** by the employer or in case of **outsourcing** of entire sectors to other companies not affiliated to the Foundation due to involuntary departures. In both cases the number of the insured persons and of their vested benefits must be **at least 5%**;
- c) If an **affiliation agreement is terminated**. In this case, the number of insured persons must be **at least 5%** of all active employees and pensioners (if the latter are affected by the termination of the affiliation agreement) and at least 5% of the vested benefits (including the pensioners' liabilities if the pensioners are affected by the termination of the affiliation agreement). At the time of termination, the affiliation agreement between the leaving company and the Foundation must have been in force for at least two years.

In the two-year period 2018-2019 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 2018-2019 with **negative outcome**.

The assessment will be repeated on the two-year period 2019-2020.

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 2019 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 2019



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To the Foundation Board of

Fondazione di Previdenza EFG SA, Lugano

Lugano, 27 April 2020

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 38), for the year ended 31 December 2019.

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 control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2019 comply with Swiss law and 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.

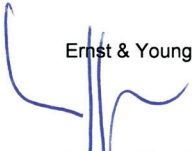
We have assessed whether:

- ▶ 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 discretionary dividends from insurance contracts have been used in compliance with the legal and regulatory provisions
- ▶ in the event of a funding gap, the pension fund has taken the necessary measures to restore full coverage
- ▶ 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 accounts and notes)

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