Fondazione di previdenza

Annual report 2018

Management report 2018

Renewal of representatives on the Foundation Board

During the Delegates' Meeting on 7 May 2018, the following individuals were elected as Board members representing the active employees for the four-year term 2018-2022: Massimo Antonini, Christian Moser, Tiziano Calderari and Omar Rossi.
During the Foundation Board meeting of 30 July 2018, the new Board reconfirmed Massimo Antonini as Chairman, while Thomas Müller was elected Vice-Chairman and Omar Rossi secretary.
Following the resignation from EFG on 31.12.2018 of Thomas Müller and Pietro Soldini, EFG appointed Franco Polloni and Daniel Lüscher, respectively, as the new employer representatives from 1.1.2019. Franco Polloni was also elected Vice-Chairman during the Board meeting of 30 January 2019.
To replace the resigning member Omar Rossi with date 31.12.2018, the Foundation Board confirmed Giordano Battaini as representative of the active employees and appointed the latter also as Secretary.

Coverage ratio and other key figures

2018 was a highly unfavourable year for the financial markets, generating negative performance of the Foundation's asset management by -3.04%. As a direct consequence of the negative financial results and the demographic structure of the Foundation (which has an increasingly problematic ratio between active employees and pensioners, which went in the last 5 years from 1.48% in 2013 to 0.88% at the end of 2018), the **coverage ratio** has undergone a significant reduction, losing 5.6 percentage points and passing from a situation of over-coverage in 2017 to a level of under-coverage that **reaches 98.4%** at the end of 2018. Projections of the coverage ratio for the coming years unfortunately predict a steady decrease, considering the increasing longevity of the pensioners and the presumably limited hirings of new employees, as well as the strong likelihood that the financial markets will continue to be characterised in the coming years by high volatility, combined with low interest rates.
To facilitate the activities that will be carried out during 2019 by the Work Group for integration of the former BSI and EFG/Trianon Pension Funds in order to render the two funds comparable as of 31 December 2018 with uniform technical bases, the Foundation Board has decided to **maintain the Technical Rate at 2.25%** rather than 2%, as suggested by the Swiss Chamber of pension fund actuaries.
The annual report of the Foundation closes the year with a **deficit of CHF -14.3 mln**, and a complete dissolution of the 2017 fluctuation reserve of CHF 36.6 mln. The goal set for this reserve corresponds as of 31.12.2018 to 16.3% of the pension liabilities, i.e. CHF 147.7 mln. A pension fund with a full fluctuation reserve has a higher risk capacity and the financial strength required to look more confidently at the future.
The net pension assets of the Foundation amounts to CHF 891.8 mln, while pension liabilities and actuarial provisions have recorded CHF 906.1 mln.

Summary of the "key figures"	31.12.2018	31.12.2017
Coverage Ratio	98.4%	104.0%
Technical Rate (advice by Chamber of Pension Actuaries = 2.00%)	2.25%	2.25%
Net income from investments	-3.04%	6.99%
Fluctuation reserve (target 31.12.2018 = CHF 147.7 mln)	CHF 0 mln	CHF 36.6 mln
Net pension assets	CHF 891.8 mln	CHF 962.1 mln
Pension liabilities and actuarial provisions	CHF 906.1 mln	CHF 925.5 mln

Worsening of the coverage ratio - Work Group recapitalisation measures

During the meeting held on 30 January 2019, the Foundation Board, acknowledging the worsening of the coverage ratio, set up a Work Group with the task of developing recapitalisation measures and an implementation plan, which will be presented in the coming months to the competent authorities (Supervisory Authority – "Vigilanza sulle Fondazioni e LPP della Svizzera Orientale), as well as to the Foundation's employees and pensioners.
The Work Group consists of the actuary Willis Towers Watson (WTW), three representatives of the Foundation Board (the Chairman Massimo Antonini, Christian Moser and Daniel Lüscher) and the Foundation Manager.
The Work Group will perform its activities already taking account of the most complete and reliable deficit estimate with the goal of covering, in the medium term, the deficit deriving from application of a technical rate of 2% (as suggested by the Chamber of Pension Actuaries in September 2017).

It will also be important to consider that the Chamber of Pension Actuaries is holding discussions of proposals for changing the method of calculating the technical reference rate. The reference rate currently in force is calculated on the basis of an assessment that considers the average yield of the Pictet LPP 25 plus index for the last 20 years for two-thirds, and the current level of the interest rates for ten-year Confederation bonds for one-third. The result is then reduced by 0.5% and rounded to the nearest 0.25%. The proposals for amendment are now moving toward also including in the model of calculation the expected yield rate and an indicator which takes account of the demographic structure of the pension fund. If these proposals are approved, in the case of the Foundation it would lead to application of a much lower technical rate, in view of the high weight of the pensioners and negative market yield of the "Risk free rate".
The first task of the Work Group is to draft the guidelines of the measures and timing for the recapitalisation they intend to pursue.

The measures intended to remedy the underfunding will have to be based on the regulatory provisions and take account of the specific situation of the Foundation, in particular of the composition of its asset and its commitments, such as pension plans, the demographic structure and the foreseeable development of the number of employees and pensioners. They will have to be proportional and adequate for the extent of the deficit, and will also have to be integrated within a balanced global concept.
As a first, immediate recapitalisation measure, the Foundation Board unanimously decided not to remunerate retirement savings of the active employees in 2019.

The main other forms of recapitalisation that can be applied, also described in Chapter V, Art. 30 of the Pension Fund Regulation, are as follows:
- Adjustment of financing (savings and risk contributions) and of obligations (such as the Conversion Rate, expected benefits for the widows and children of retirees) that are in excess of obligations pursuant to the LPP.
- Requiring the employers and employees to pay a recapitalisation contribution for a limited period of time. The employer's contribution must be at least equal to the amount contributed by the employees.
- Changing the investment strategy to respond more adequately to the financial risk capacity of the Foundation.

The Work Group for remediation measures will also have to take account of the guidelines that will be outlined in the process of merging the two current employers' funds, which should lead to uniform obligations and forms of financing for all the employees of the new bank, and sustainable over the long term.

We will take care to inform you periodically, also through special meetings, with regard to the measures taken to absorb the deficit and the status of their implementation. We think it is important to assure you, however, that there are not any problems with regard to the short/medium-term liquidity of the Pension Fund, which is able to meet its commitments. The recapitalisation measures are being taken in order to guarantee the equilibrium of the Pension Fund in the long term, restoring it to a solid economic situation within 5 / 7 years.

Integration of EFG Pension Funds

The Work Group for the integration of the EFG (ex-BSI) and EFG/Trianon Pension Funds resumed its activity in January 2019 under the guidance of the new head of HR of the EFG Group, Daniel Lüscher, and with a new composition, which includes the Foundation Manager, in addition to the employer's representative members.
There are many decisions to be taken regarding the future organizational set-up and the pension solutions to be adopted for all the Employer's employees.
Given the complexity of the issue and the importance of seeking solutions that are optimal for all the insured and that guarantee proven solidity of the structures, it is vital that a thorough analysis is carried out of every aspect relating to the two current Pension Funds, in order to identify the most appropriate vehicle for the future.
Before taking any decisions on key subjects connected with integration of the Pension Funds, the Employer will have to have a clear view of the advantages and disadvantages of the various potential future solutions for all the stakeholders involved.
Currently, no significant decision has been taken yet. Given the long-term time horizon in the pension industry, the current structure could continue over the medium term, allowing us to identify without rush the most appropriate solution.
Meanwhile, the two Pension Funds continue to operate separately and independently.
We will keep you constantly posted on the developments of this important issue, which personally and crucially involves all employees and pensioners.

Overview and outlook on Financial Markets

Overview

In 2018, the financial markets were marked by uncertainty deriving both from political factors (increased tension in the trade sector, clashes with the FED, uncertainty about the outcome of the Brexit process and social tension throughout Europe), and by economic factors (such as the future degree of restriction of the monetary policies by the FED and BCE, with their developments on the rates of exchange and interest rates). These factors have led, especially in the last month, to extreme volatility on markets that were already showing signs of weakness.
Following the rising emphasis on the aforementioned protectionist threats and the increasing costs of capital and labour, estimates for economic growth worldwide are now set at +3.7% in 2018 and +3.3% for 2019. On the other hand, the recent decrease in the price of crude oil should ease the rapidity of the ongoing economic slowdown.
In the United States, the GDP increased slightly in 2018 to 2.9% thanks, in particular, to the fiscal reform, while the first estimates for 2019 predict a decline to 2.4%. In the Euro zone, where the impact of the higher crude oil prices and various economic sanctions was greater, the estimate of growth at +1.9% for 2018 has again been revised downward, while it remains stable (+1.8%) in 2019.
Among the short- and medium-term risks is the performance of the Chinese economy which, in this stage of contemporary recapitalisation of business and trade war, could experience a major slowdown with the disastrous effects we saw at the end of 2015. The future monetary policy of the FED will also have to be very cautious in managing the increased cost of money (estimates are that there may be two more increases of 0.25% in 2019). With regard to inflation, expectations have been adjusted downward in the U.S. to +2.4% and somewhat higher in the Euro zone to +1.8%.

Concluding, the economic and financial situation can be summarised by observing that two epochal changes are currently under way. The first is connected to the worsening monetary conditions, considering that after more than ten years, the liquidity placed on the market by the main central banks will be negative. This will undermine investors' confidence and they will have to be more circumspect in placing their investments. The second significant element, at least in the next few years, will be the end of the process of globalisation. This factor will cause a further slowing of economic growth worldwide, due to the higher costs of production, largely relative to the tariffs imposed.

Outlook

In the sector of equity investments, the reduction in growth worldwide and the increasingly restrictive monetary policies will force our asset manager to exercise greater wariness. In the fixed income segment, the attitude is one of prudence, although the inflationary fears have abated somewhat, aided by the recent recovery of prices. The level of costliness and the poor budgetary control of many countries are not harbingers of a favourable season in this sector.

At the level of assessment of the main asset classes, the equity market barometers used by our manager indicate a situation of moderate costliness, on the order of 8%, while the bond market shows an increasing tendency to over-evaluation, with rates at 60 base points above the level of equilibrium. In particular, American and British bonds are greatly over-valued.

New partial liquidation regulation - preliminary analysis of the risk of partial liquidation

By law, the Foundation is required to resolve on the matter of a "Regulation on partial and full liquidation and merger". In place of the previous version in force from September 2010, starting 1.1.2018 the new "Regulation of partial and full liquidation and on the employment of collectives" has gone into effect.

In case of a significant number of departures of active employees for the same reason, both in terms of units and in retirement savings, whether the Pension fund dispose of free funds or, on the contrary, a situation of severely under-coverage exists, the partial liquidation process has the objective of safeguarding the terminated employees in the former case and the active employees remaining in the latter, respectively adjusting personal retirement savings by a positive amount in case of surplus or by a negative amount in case of deficit.

The number of terminations reported in the study performed by WTW in collaboration with the Management for the last two biannual periods did not reach the minimum number sufficient to necessitate initiating a process of partial liquidation.

The process of partial liquidation is lengthy, with high management costs (heavily involving the actuary, the Management, the Foundation Board and the Supervisory Authority), with the risk of decreased benefits in case of deficit, when it becomes necessary to trace the terminated employees and request return of vested benefits previously paid.

The conditions that have to be filled in order to initiate the process of partial liquidation are detailed in note 9.3 of the annual report.

Conclusions

The demographic structure of the Foundation, the continuous increase in life expectancy, the new method for definition of the technical reference rate and the performance expectations below the technical rate applied, are the unknowns and challenges that will have to be faced with the maximum determination in the near future.

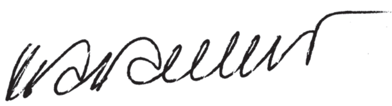
In the immediate future, the Foundation also finds itself in a situation of under-coverage which by law will have to be the subject of recapitalisation measures in the medium/long-term.

All the Board members, together with the Management and the Employer, will have to develop scenarios and possible solutions to best address the situation and find measures to keep the Pension Fund financially sound, respecting the rights and expectations of all active employees and pensioners.

We are certain that all the actors involved will face the numerous challenging activities and relevant decision-making processes with significant commitment and professional attitude.

We would like to thank all our colleagues, including the outgoing Board members who have worked with such commitment and motivation in the interests of all the ensured.

Massimo Antonini
Chairman of the Board



Michele Casartelli
Manager

Contents

Balance sheet

ASSETS	NOTES	CHF 31.12.2018	CHF 31.12.2017
Investments		**896'172'543**	**966'193'916**
Liquid funds	6.3	89'982'736	97'067'219
Current account with Fondo Complementare di Previdenza EFG SA		0	264'198
Other receivables	7.1	3'955'757	2'296'972
Swiss bonds	6.3	139'444'480	139'093'680
Foreign bonds	6.3	151'207'664	147'121'384
Swiss equities	6.3	34'736'868	48'064'479
Foreign equities	6.3	216'571'735	276'762'197
Swiss real estate funds	6.3	214'510'348	212'318'925
Foreign real estate funds	6.3	45'762'955	43'204'862
Prepayments and accrued income	**7.2**	**0**	**0**
Information system		**1**	**1**
Total assets		**896'172'544**	**966'193'917**

LIABILITIES			
Accounts payables		**3'051'040**	**1'825'107**
Vested benefits and retirement capital to be paid		3'018'860	1'616'587
Other accounts payables		32'180	208'520
Accrued liabilities and deferred income	**7.3**	**1'225'586**	**2'206'116**
Employer contribution reserve (ECR) without waiver of use	**5.9 / 9.2**	**53'291**	**53'291**
Non actuarial provisions		**0**	**8'200**
Pension liabilities and actuarial provisions		**906'140'546**	**925'481'203**
Active employees' liabilities	5.2	256'144'110	273'130'366
Pensioners' liabilities	5.4	633'588'617	637'667'140
Actuarial provisions	5.5	16'407'819	14'683'697
Fluctuation reserve	**6.2**	**0**	**36'620'000**
Dotation capital and free funds / underfunding		**-14'297'919**	**0**
Dotation capital		10'000	10'000
Free funds / Underfunding			
Balance at the beginning of the period		-10'000	-10'000
Income surplus / (-) Expense surplus of the period		-14'297'919	0
Balance at the end of the period		-14'307'919	-10'000
TOTAL LIABILITIES		**896'172'544**	**966'193'917**

Operating account

	NOTES	CHF 2018	CHF 2017
Ordinary and other contributions, buy-ins		**25'853'680**	**29'568'918**
Employer contributions			
Ordinary contributions		10'947'875	11'865'574
Extraordinary contributions	7.3	1'708'615	3'751'814
Employer payments for AHV bridging pension benefits		3'504'952	3'764'854
Employee contributions			
Ordinary contributions		7'210'238	7'736'710
One-time payments and purchase amounts	5.2	2'482'000	2'449'966
Entry lump sum transfers		**4'186'242**	**3'611'738**
Earnings from Vested benefit transfers	5.2	4'086'242	3'102'468
Buy-ins following a divorce		50'000	213'766
Reimbursements from divorce		0	290'504
Repayment of withdrawals for residential property	5.2	50'000	5'000
Income from contributions and entry payments		**30'039'922**	**33'180'656**

	NOTES	CHF 2018	CHF 2017
Regulatory benefits		**-46'253'434**	**-48'573'288**
Retirement pensions		-36'181'024	-35'600'386
Disability pensions		-862'240	-1'003'303
Spouse pensions		-4'874'052	-4'814'892
Orphan and children pensions		-650'150	-668'941
AHV bridging pensions		-3'518'820	-3'775'076
Retirement capital	5.2	-167'148	-2'547'378
Lump sum payments on death and disability		0	-163'312
Termination benefits		**-25'283'230**	**-29'520'019**
Departures of Vested benefits	5.2	-24'663'630	-28'597'131
Withdrawals for residential property and divorce	5.2	-619'600	-922'888
Expenses for benefits and withdrawals		**-71'536'664**	**-78'093'307**

	NOTES	CHF 2018	CHF 2017
Release / (-) creation of Pension liabilities, Actuarial provisions and ECR		**19'373'173**	**6'753'907**
Variation in Active employees' liabilities		20'285'010	32'670'188
Variation in Pensioners' liabilities		4'127'099	-23'351'311
Variation in Actuarial provisions		-1'724'122	1'019'700
Interest on vested benefits paid		-16'060	-21'414
Interest on retirement savings capital	5.2	-3'298'754	-3'563'256

Operating account (2nd part)

	NOTES	CHF 2018	CHF 2017
Income from insurance benefits		**1'614'209**	**1'858'533**
Insurance benefits		1'248'629	1'527'605
Share of insurance surpluses		365'580	330'928
Insurance expenses		**-1'548'097**	**-1'894'074**
Insurance premium	5.1	-1'458'485	-1'798'189
Contribution to Guarantee Fund		-89'612	-95'885
Net income from insurance activities	**5.10**	**-22'057'457**	**-38'194'285**
Net income from investments	**6.6**	**-28'281'892**	**66'359'735**
Income from Liquid funds		-93'741	-479'112
Income from Swiss bonds		349'345	-45'866
Income from Foreign bonds		-1'214'656	356'584
Income from Swiss equities		-4'691'340	10'084'709
Income from Foreign equities		-28'408'125	47'631'782
Income from Alternative investments		0	2'173'270
Income from Direct real estate		35'541	883'547
Income from Swiss real estate funds		3'722'012	13'955'827
Income from Foreign real estate funds		4'328'909	-135'873
Income from Derivatives		1'699'406	-3'158'135
Retrocessions received	6.9	35'437	6'816
Asset management expenses	6.7	-4'044'680	-4'913'814
Release / (-) creation of Non actuarial provisions		**0**	**914'564**
Other income		**3'455**	**4'962**
General administration expenses		**-582'025**	**-573'595**
Actuary activities		-47'090	-78'951
External Audit		-40'734	-41'706
Supervisory authority		-17'263	-21'817
Marketing and advertising		-1'770	-5'128
General administration		-475'168	-425'993
Income / (-) Expenses before creating / releasing of Fluctuation reserve	**5.10**	**-50'917'919**	**28'511'381**
Release / (-) creation of Fluctuation reserve	**6.2**	**36'620'000**	**-28'511'381**
Income surplus / (-) Expense surplus of the period		**-14'297'919**	**0**

Notes to the 2018 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 by BSI SA (hereinafter "BSI") on 4 November 1944. Under the *Asset Transfer Agreement* between BSI and EFG Bank SA (hereinafter "EFG") dated 5.4.2017, EFG acquired all rights and obligations of BSI in respect of the Foundation and took over the position of the Founder of "Fondazione di Previdenza BSI SA".

With the approval 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, 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)	1.4.2018	Approved by the Foundation Board on 11.4.2018
Pension fund regulation (Plan 2)	1.4.2018	Approved by the Foundation Board on 11.4.2018
Regulation on partial and full liquidation and merger	1.1.2018	Approved by the Supervisory Authority on 30.3.2018
Regulation of actuarial provisions	31.12.2017	Approved by the Foundation Board on 28.11.2017
Investment Regulation	13.11.2017	Approved by the Foundation Board on 13.11.2017

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

1.4. Governing bodies and signing authorities

1.4.1. Foundation Board

	Role	Mandate Duration	Representatives	Signing authorities
Antonini Massimo	Chairman	7/2018-6/2022	Employees	joint signature of two authorized signatories
Polloni Franco	Vice-Chairman	1/2019-12/2022	Employer	joint signature of two authorized signatories
Moranzoni Maurizio	Member	12/2018-12/2022	Employer	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Lüscher Daniel	Member	1/2019-12/2022	Employer	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Tognina Reto	Member	1/2016-12/2019	Employer	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Moser Christian	Member	7/2018-6/2022	Employees	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Calderari Tiziano	Member	7/2018-6/2022	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:
The Delegates' meeting on 7 May 2018 elected Members of the Foundation Board as representatives of the active employees for the four-year term 2018-2022 Massimo Antonini, Christian Moser, Tiziano Calderari and Omar Rossi. During the Foundation Board meeting on 30 July 2018, the new Board reconfirmed Massimo Antonini as Chairman. Thomas Müller is elected Vice-Chairman and Omar Rossi Secretary.

Following the departure of Thomas Müller and Pietro Soldini on 31 December 2018, EFG appointed Franco Polloni and Daniel Lüscher respectively as new employer representatives from 1 January 2019.
Franco Polloni was also elected Vice-Chairman during the Board Meeting on 30 January 2019.

In replacement of the resigning member Omar Rossi with date 31 December 2018, the Foundation Board has confirmed as representative of the actives employees his successor Giordano Battaini also appointing him Secretary.

1.4.2. Committees of Foundations Board

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

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

	Function	Representative of
Moser Christian*	Chairman	Employees
Tognina Reto	Member	Employer
Moranzoni Maurizio	Member	Employer
Battaini Giordano**	Member	Employees
Casartelli Michele	Secretary without voting rights	Foundation manager

* Moser Christian and Rossi Omar have been appointed Members of CIM during the Foundation Board meeting on 30.7.2018.
** Replaces Rossi Omar on 30.1.2019.

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

	Function	Representative of
Tognina Reto	Chairman	Employer
Antonini Massimo	Member	Employees
Calderari Tiziano*	Member	Employees
Lüscher Daniel**	Member	Employer
Casartelli Michele	Secretary without voting rights	Foundation manager

* Calderari Tiziano and Soldini Pietro have been appointed Members of CII during the Foundation Board meeting on 30.7.2018.
** Replaces Soldini Pietro on 30.1.2019.

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

Starting from 1 january 2019 the Delegates' Meeting is composed as follows:
- **Active employees:** Balmelli Roberto, Battaini Giordano, Bianchi Giacomo, Bizzozero Sergio, Butti Alessandro, Caggiano Massimo, Campana Marco, Cantieni Andrì, Cattaneo Lorenzo, Ciocco Gian Paolo, Dal Pozzo Daniela, Daldini Andrea, 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 Manager can delegate some of his/her tasks to reports or other external consultants. On 31.12.2018 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	Willis Towers Watson AG ("WTW"), Zürich: Zanella Peter	
Auditor	Ernst & Young SA, Lugano: Caccia Stefano	
Supervisory Authority	Vigilanza sulle fondazioni e LPP della Svizzera Orientale, Muralto: Cadloni Ivar	
Custodian banks/Asset manager/ Portfolio manager	EFG Bank SA, Lugano branch	The bank has delegated the Foundation's Portfolio Manager activities to its subsidiary with 100% participation Patrimony 1873 SA, Lugano.
	Client Relationship Manager: Boschung Martin	Head Portfolio Manager Laurent Andrea (Deputy: Campana Marco).
	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	PPCMetrics SA, Zürich: Fusetti Alfredo	
Asset & Liability Management studies (ALM)		

1.6. Affiliated employers

The amount of affiliated companies has developed as follows:

	EFG	Fondazione di previdenza EFG SA	Dreieck SA	Finnat SA	Patrimony 1873 SA	EFG AM	Total 2018	Total 2017
Situation at 1.1.	909	4	16	1	49	34	1'013	1'163
+ / - Transfers	-3	2	-	-	1	-	-	-
+ Entries [1]	26	-	3	-	3	1	33	29
- Departures [2] / Deaths	-101	-1	-2	-	-5	-1	-110	-138
- Retirements [3] / Disability	-23	-	-	-	-	-	-23	-41
Situation at 31.12. [4]	**808**	**5**	**17**	**1**	**48**	**34**	**913**	**1'013**

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 ar considered as units.

In 2018, the number of active employees fell by 100 in net terms (2017: -150). The number of voluntary departures is consistent within the two-year period.
In 2018 there were 2 new partial disabled persons and no deaths occurred.

2. Active employees and pensioners

2.1. Active employees

	*Plan 1**	*Plan 2**	**Total 31.12.2018**	**31.12.2017**
Men	*535*	*26*	**561**	625
Women	*333*	*19*	**352**	388
Total	***868***	***45***	**913**	**1'013**

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

The women to men ratio has remained virtually unchanged compared to 2017.

Structure by age range	**31.12.2018**	**31.12.2017**
Less then 24 years	8	10
24-32 years	83	95
33-42 years	217	257
43-54 years	417	477
From 55 years	188	174
Total	**913**	**1'013**
Avarage age	46.5	45.9

Although in the "43-54 years" of age range the highest number of departures was recorded in 2018 (60), this age range remains the most important in relative terms amounting to 45.67% of the total (2017: 47.09%). The latter figure, together with a slight increase in the average age of active employees, show a lack of generation turnover in the Foundation. The trend of the active employees amount in the year is included in note 1.6.

2.2. Pensioners

	Retirement pensions beneficiaries [1]	**Disability pensions beneficiaries [2]**	**Spouse pensions beneficiaries**	**Children pensions beneficiaries [3]**	**Total 2018**	**Total 2017**
Situation at 1.1.	768	42	144	69	**1'023**	977
+ Entries	22	2	9	10	**43**	61
+ / - Conversions	8	-8	-	-	**-**	-
- Deaths / Terminations	-13	-	-7	-9	**-29**	-15
Situation at 31.12.	**785**	**36**	**146**	**70**	**1'037**	**1'023**

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 14 units mainly due to ordinary and early retirements (2017: +46 units).
The 1'037 pensioners include 31 individuals for whom the Foundation is refunded of the paid benefits by the insurance company "Helvetia", since the Pension Fund has reinsured the disability and death risk (see note 5.1).

Structure by age range	Retirement pensions beneficiaries	Disability pensions beneficiaries	Spouse pensions beneficiaries	Children pensions beneficiaries	Total 2018	Total 2017
Less then 18 years	-	-	-	25	25	30
18-24 years	-	-	-	45	45	39
25-54 years	-	13	4	-	17	18
55-64 years	154	23	14	-	191	203
65-74 years	359	-	54	-	413	407
75-84 years	212	-	46	-	258	256
85-94 years	57	-	28	-	85	68
Above 94 years	3	-	-	-	3	2
Total	**785**	**36**	**146**	**70**	**1'037**	**1'023**
Average age					68.7	68.1

Net changes in 2018 with +14 units and the more general constant increase in life expectancy have determined a slight increase of the relative weight of individuals over 75 years of age, which represent 33.4% of the population (2017: 31.9%).

2.3. Ratio between active employees and pensioners

The ratio between active employees and pensioners has changed from 0.99 on 31.12.2017 to 0.88 on 31.12.2018.
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

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

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

For the persons **already insured** with the Foundation **as at 30.6.2017** the benefits indicated in Plan 1 apply, with a conversion rate at the ordinary retirement age in line with Plan 2, but with different benefits and forms of financing, which will be harmonized according to the guidelines that will be outlined in the process of merger of the two Pension Funds of the employer, with the aim to align all the benefits and forms of financing for the employees of the new bank.

The following table provides an overview of the two plans.

	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	Retirement savings capital multiplied by conversion rate
Conversion rates in %	Women and men 60 years: 4.71 61 years: 4.82 62 years: 4.94 63 years: 5.07 **64 years: 5.20** 65 years: 5.34 66 years: 5.50 67 years: 5.66 68 years: 5.84 69 years: 6.03 70 years: 6.24	Women / Men 60 years: 4.71 / 4.60 61 years: 4.82 / 4.71 62 years: 4.94 / 4.82 63 years: 5.07 / 4.94 **64 years:** **5.20** / 5.07 **65 years:** 5.34 / **5.20** 66 years: 5.50 / 5.34 67 years: 5.66 / 5.50 68 years: 5.84 / 5.66 69 years: 6.03 / 5.84 70 years: 6.24 / 6.03
Children's retirement benefits	10% of retirement pension	20% of retirement pension
SURVIVORS BENEFITS		
Spouse/civil partner's pension	Active employee: 49% of the insured salary (see definition in note 3.2) Disabled individual: 70% of the disability pension Pensioner: 60% of the retirement pension	Active employee: 50% of the insured salary (see definition in note 3.2) Disabled individual: 70% of the relevant income for the calculation of the current disability pension Pensioner: 60% of the retirement pension
Orphan's pension	Active employee: 15% of the insured salary Disabled individual: 15% of the insured salary Pensioner: 10% of the retirement pension	Active employee: 10% of the insured salary Disabled individual: 10% of the relevant income for the calculation of the current disability pension Pensioner: 20% of the retirement pension
Lump-sum death benefit	100% of the insured salary + purchases in maximum retirement benefits, as well as capital savings in the supplementary accounts "Early Retirement Redemption" and "AHV Bridging Pension Redemption" + the amount of retirement savings capital (after deducting the aforementioned purchases and supplementary accounts) at the time of the active employee's death and net of the cash value of future benefits for survivors	Purchases in maximum retirement benefits, as well as capital savings in the supplementary accounts "Early Retirement Redemption" and "AHV Bridging Pension Redemption" + the amount of retirement savings capital (after deducting the aforementioned purchases and supplementary accounts) at the time of the active employee's death and net of the cash value of future benefits for survivors
DISABILITY BENEFITS		
Disability pension	70% of the insured salary until ordinary retirement age	60% of the insured salary until ordinary retirement age
Children's disability pension	15% of the insured salary	10% of the insured salary
VESTED BENEFITS		
Vested benefits	Vested benefits are defined in compliance with paragraph 8 of the Pension Fund Regulation.	Vested benefits are defined in compliance with paragraph 8 of the Pension Fund Regulation.

3.2. Financing

The table provides an overview of the main benchmark values of the two pension plans. The Foundation shall bear all management costs.

	Plan 1	Plan 2
Insured salary	The insured salary in principle corresponds to 7/6th of the annual basic salary (fixed annual basic salary excluding bonuses) minus the coordination amount, but anyway at least 4/7th of the annual basic salary.	The insured salary is equal to the determining annual salary, which is equal to the fixed basic annual salary according to the contractual provisions with the employer, **without variable components**.
	The coordination amount corresponds to 5/3rd of the single maximum AHV pension (CHF 28'200 in 2018 and CHF 28'440 in 2019).	No coordination.
	The maximum insured salary corresponds to 4 times the simple maximum AHV pension (CHF 112'800 in 2018 and CHF 113'760 in 2019), in proportion to the level of employment.	The maximum insured salary is equal to 34/7 of the maximum value of the simple AHV pension (CHF 136'971 in 2018 and CHF 138'137 in 2019), in proportion to the level of employment.

Total contributions
Percentage of the insured salary

Plan 1

Standard Contribution Plan

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

Plus Contribution Plan (+3%)

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

Top Contribution Plan (+6%)

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

Plan 2

Standard Contribution Plan

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

Plus Contribution Plan (+2%)

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

Top Contribution Plan (+4%)

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

	Plan 1	Plan 2
Risk contributions Percentage of the insured salary	Employee: 2.0% Employer: 3.0%	Employee: 0.833% Employer: 1.667%

Retirement credits

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.

Plan 1

Standard Contribution Plan

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

Plus Contribution Plan (+3%)

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

Top Contribution Plan (+6%)

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

Plan 2

Standard Contribution Plan

Age	Employee	Employer	Total
18-19	0.0%	0.0%	0.0%
20-34	3.75%	7.5%	11.25%
35-44	4.75%	9.5%	14.25%
45-54	5.75%	11.5%	17.25%
55-64/65	6.75%	13.5%	20.25%

Plus Contribution Plan (+2%)

Age	Employee	Employer	Total
18-19	0.0%	0.0%	0.0%
20-34	5.75%	7.5%	13.25%
35-44	6.75%	9.5%	16.25%
45-54	7.75%	11.5%	19.25%
55-64/65	8.75%	13.5%	22.25%

Top Contribution Plan (+4%)

Age	Employee	Employer	Total
18-19	0.0%	0.0%	0.0%
20-34	7.75%	7.5%	15.25%
35-44	8.75%	9.5%	18.25%
45-54	9.75%	11.5%	21.25%
55-64/65	10.75%	13.5%	24.25%

3.3. Further information about pension plan activities

Note 5.7 details the technical bases applied by the actuary as at 31 December 2018, in line with those applied as at 31 December 2017 (technical rate 2.25% and LPP generational tables 2015).

As a result of the negative performance of the Pension Fund in 2018 (see note 6.6), and of the growing number of pensioners who are increasingly long-living against a decreasing number of active insured due to the many departures (see note 2.3), the Foundation found itself on 31 December 2018 in a situation of underfunding (see note 5.10).

In the event of insufficient coverage, it is the duty of Board to restore the financial stability of the Pension Fund in the *medium term*, in collaboration with the actuary (Art. 65d LPP and Chapter 5 of the Pension Fund Regulation, Plans 1 and 2).

During the meeting of 30 January 2019, the Board promptly set up a Working Group with the aim of outlining, together with the actuary, recapitalization measures and an implementation plan (see note 9.1).

4. Measurement and accounting standards, continuity

4.1. Statement of compliance with Swiss GAAP FER 26

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

4.2. Accounting and valuation policies

4.2.1. Bookkeeping and accounting policies

Valuation and bookkeeping policies are compliant with CO and OPP2 standards.
The Financial Statements close on 31 December.
Financial accounting is managed internally by the Management, management of a part of the assets is entrusted to EFG and subcontracted to Patrimony 1873 SA.

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 2018.

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 Jan. 2009 with expiry date at 31.12.2018. Beneficiaries of disability pensions starting before 1 January 2009 are borne by the Foundation.
In 2018 the premium risk rate amounted to 2.01% of the total insured salaries (2017: 2.01%). Until 31.12.2018 premium surcharges are applied on increased risks through separate calculation. The total amount of premiums paid during the year is shown in the operating account under the item "Insurance premium".
The reinsurance contract has already been renegotiated for the year 2019, with premium risk rate equal to 1.9% of the total insured salaries, without charge of premium surcharges but registration of a sickness reserve on the subjects with increased risk.

5.2. Development of Active employees' liabilities

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

	Plan 1	*Plan 2*	**CHF/000 Total 31.12.2018**	**CHF/000 31.12.2017**
Vested benefits	*249'349*	*5'653*	**255'002**	271'997
Supplementary account "Early retirement redemption"	*813*	-	**813**	732
Supplementary account "AHV Bridging pension redemption"	*329*	-	**329**	401
Total of Active employees' liabilities	***250'491***	***5'653***	**256'144**	**273'130**
Number of Active employees at 31.12.			**913**	1'013

In addition to the purchase of maximum benefits, at any moment an active employee can offset in full or in part with personal contributions the reduction of the benefits generated by early retirement. Contributions are accrued in the supplementary account "Early Retirement Redemption".
The participant can also finance a bridging pension or part thereof. Contributions are accrued in the supplementary account "AHV Bridging Pension Redemption".

The interest rate on the “Vested benefits” is established at the beginning of each year by the Board upon consideration of the Foundation’s financial situation. For 2018 and 2017 the rate was 1%, while for 2019 it will be 0% (as first recapitalization measure decided by the Board due to the underfunding of the Pension Fund at 31.12.2018, see also note 9.1).
Supplementary accounts “Early Retirement Redemption” and “AHV Bridging Pension Redemption” are also subject to interests. The interest rate is established on an annual basis by the Board. In the years 2017, 2018 and 2019 the interest rate is in line with the rate on “Vested benefits”.

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

	CHF/000 31.12.2018	CHF/000 31.12.2017
Liabilities at 1.1.	273’130	302’237
Employers and employees savings contributions	14’430	15’504
Earnings from Vested benefit transfers	4’086	3’102
One-time payments and purchase amounts	2’482	2’450
Buy-ins and Reimbursements from divorce	50	504
Repayment of withdrawals for residencial property	50	5
Withdrawals for residential property and divorce	-620	-923
Departures of Vested benefits	-24’664	-28’597
Retirement capital	-167	-2’547
Lump sum payments on death and disability not re-insured	-	-163
Transfers to Pensioners' liabilities	-15’932	-22’005
Interest on retirement savings capital	3’299	3’563
Liabilities at 31.12.	**256’144**	**273’130**
Number of active employees at 31.12.	913	1’013

The decrease in a year by CHF 16.986 mln in “Active employees’ liabilities” is mainly caused by the significant reduction in the number of insured persons in 2018, with the consequent payment of outgoing PLP or pension capital or reclassification of retirement savings in “Pensioners’ liabilities” for the conversion of capital into a pension.
The decreasing trend in the number of active employees over the last three years has also resulted in a constant and significant drop in annual savings contributions.

5.3. Total retirement savings capital in accordance with LPP

	CHF/000 31.12.2018	CHF/000 31.12.2017
Retirement savings capital in accordance with LPP (shadow calculation)	**102’225**	**107’844**
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 1.1.2019.

5.4. Development of Pensioners' liabilities

	CHF/000 31.12.2018	CHF/000 31.12.2017
Situation of Pensioners' liabilities at 1.1	637'667	614'316
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-4'078	6'557
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	-	16'794
Total of Pensioners' liabilities at 31.12	**633'589**	**637'667**
Number of pensioners' at 31.12.	1'037	1'023

The item "Update following changes in the Pension Fund Regulation and new calculations as of 31 December" amounts to CHF -4.078 mln and it includes the capital transfers from the "Active employees' liabilities" (2018: CHF 15.932 mln), the extraordinary contributions paid by the employer for the retirements of the year (2018: CHF 1.709 mln), as well as the pensions paid in the period net of insurance benefits (2018: CHF -41.319 mln), the "implicit" interests at the technical interest rate on the initial capital (2018: CHF 14.348 mln estimated), and the other evolutions of the year in the "passive" population (for instance terminations of the pensions for children, conversions of the retirement pensions into spouse pensions, redemptions for deaths, updating of longevity).
The item "Updating following changes in technical interest rate" indicated in 2017 the cost of decreasing the technical interest rate from 2.5% to 2.25%.

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" indicated in 2017 the cost of decreasing the technical interest rate from 2.5% to 2.25%.

5.5.1. Conversion rate provision (Active employees')

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

	CHF/000 31.12.2018	CHF/000 31.12.2017
Situation at 1.1	3'689	4'780
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	929	-3'520
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	-	2'429
Situation at 31.12	**4'618**	**3'689**

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

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

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

As the regulatory technical bases do not coincide with those applied in the financial statements, the conversion rate provision was updated in 2018.

The net increase of CHF 0.929 million is essentially due to the provisions for the new 55-year-olds in 2018, net of uses for retirements of the year or releases for voluntary departures.

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 31.12.2018	CHF/000 31.12.2017
Situation at 1.1	1'243	2'973
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-679	-1'750
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	-	20
Situation at 31.12	**564**	**1'243**

The contraction of CHF 0.679 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 31.12.2018	CHF/000 31.12.2017
Situation at 1.1	600	652
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-46	-52
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	-	-
Situation at 31.12	**554**	**600**

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 2018 compared to 31 December 2017.

5.5.4. Provision for the longevity risk (Pensioners')

The overall bank system in Switzerland shows a lower mortality rate in statistics than the average rate contained in the mortality tables used for the period 2018. Subsequently, we expect the pensioners of the Foundation to have a longer life expectancy, which results in the payment of benefits for a longer period. It is therefore necessary to strengthen the "Pensioners' liabilities" with an additional provision.

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

The ultimate target of this provision amounts to 1.7% of the total Pensioners' liabilities (without children). As of 31 December 2014, this provision amounted to 0.7% of the total pensioners' liabilities and it has been increased by 0.25% for every following year until the target will be reached. If the Foundation's coverage ratio on the calculation date exceeds 110%, this provision is immediately set up in full.
As of 31 December 2018, the value of this provision corresponds to the target value equal to 1.7% of the total Pensioners' liabilities (without children).

	CHF/000 31.12.2018	CHF/000 31.12.2017
Situation at 1.1	9'152	7'299
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	1'520	1'610
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	-	243
Situation at 31.12	**10'672**	**9'152**

The cost of CHF 1.520 mln however refers to the new retirements of the year.

5.5.5. Other actuarial provisions

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

As for 2018, the actuary did not deem necessary to set up any of these specific provisions (31.12.2017: 0)

5.5.6. Summary of Actuarial provisions

Evolution summary of actuarial provisions	CHF/000 31.12.2018	CHF/000 31.12.2017
Situation at 1.1	14'684	15'704
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	1'724	-3'712
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	-	2'692
Situation at 31.12	**16'408**	**14'684**

Composition summary of actuarial provisions	CHF/000 31.12.2018	CHF/000 31.12.2017
Conversion rate provision	4’618	3’689
Transitory measures provision	564	1’243
Additional remuneration provision	554	600
Provision for the longevity risk	10’672	9’152
Total of actuarial provisions	**16’408**	**14’684**

5.6. Conclusions of the last actuarial report

In March 2019, Willis Towers Watson released the Foundation’s technical annual report as of 31 December 2018. The document includes the following remarks:

- the coverage ratio of the pension fund in compliance with article 44, paragraph 1 OPP2 amounts to 98.4% as of 31 December 2018. The pension fund is in an underfunding position;
- the LPP 2015 generational tables correspond to the most recent technical bases and are sufficiently prudential;
- the existing actuarial provisions cover the regulatory promised benefits of the fund;
- the target of the Fluctuation reserve is adequate based on the asset strategy and the targeted security level;
- the share of the Pensioners’ liabilities on the total Pension liabilities is relatively high and thus the restructuring capacity of the pension fund is limited;
- The pension plan rules that determine pension benefits and their funding are compliant with legal requirements;
- The financing of the risk benefits through contributions is sufficient;
- The expert recommends to reduce the technical interest rate to 2.00% or lower as at the next balance sheet date to ensure that it is equal (or lower) than the expected return;
- The currently valid conversion rate (5.2% at ordinary retirement age) is above the actuarially neutral conversion rate based on the applied technical bases and the technical interest rate. A further reduction has to be examined in the process of the analysis of the underfunding;
- The pension fund has a coverage ratio of 98.4% and is thus in an underfunding position. The Foundation Board needs to assess all possible options and needs to decide on suitable measures to eliminate the underfunding within the legally required timeframe;
- As an immediate measure, the expert recommended an interest-crediting rate of 0% on “Active employees’ liabilities”. The Foundation Board has approved this recommendation for 2019.

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 2018, the actuarial calculations have been made according to the following assumptions:

- LPP 2015 generational actuarial bases of the year 2019 (31.12.2017: LPP 2015 generational bases of the year 2018). The technical bases provide a defined indication on the expected mortality rate, disability rate, marriage likelihood, age of the spouse, number of children and other elements relating to a pension fund’s population. Particularly they provide an indication on the average life expectancy of pensioners.
- Technical rate 2.25% (31.12.2017: 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 no changes are implemented in the technical bases used and in the regulatory conversion rates.

Evolution of pension liabilities and actuarial provisions	CHF/000 31.12.2018	CHF/000 31.12.2017
Situation at 1.1	925'481	932'257
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-19'340	-26'262
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	-	19'486
Situation at 31.12	**906'141**	**925'481**

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 2018.

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

	CHF/000 31.12.2018	CHF/000 31.12.2017
Pension liabilities and actuarial provisions (PL)	**906'141**	**925'481**
Total assets	896'173	966'194
./. Accounts payables	-3'051	-1'825
./. Accrued liabilities and deferred income	-1'226	-2'207
./. Employer contribution reserve	-53	-53
./. Non actuarial provisions	-	-8
Net pension assets (NPA)	**891'843**	**962'101**
Coverage ratio (NPA/PL)*100	**98.4%**	**104.0%**

The coverage ratio lost 5.6 percentage points, from a positive coverage in 2017 to an underfunding of 98.4% at the end of 2018. The 2018 financial year closed with a significant loss of CHF 50.918 mln before the complete dissolution of Fluctuation reserve for CHF 36.620 mln.

The "Net income from insurance activities", usually negative in the Foundation (2018: CHF -22.057 mln), was not covered with the performance of the portfolio. The "Net income from investments" decreased from a very positive result of 2017 of CHF +66.360 mln to a significant loss of CHF -28.282 mln in 2018.

In 2018 the "Net income from investments" gives a return of -3.04% on average investment (see note 6.6, 2017: +6.99%), against a remuneration of Active employees' liabilities of 1% and of Pensioners' liabilities for a theoretical 2.25%.

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 2018 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 fully **delegated** to the subsidiary "Patrimony 1873 SA" the "Misto Attivo" portfolio management of the Foundation.
The "Misto Attivo" mandate, implements the permitted investment limits and categories, in accordance with the weights defined in the Investment Regulation.
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 Foundation Board.

6.2. Target value and calculation method of the Fluctuation reserve

	CHF/000 31.12.2018	CHF/000 31.12.2017
Situation at 1.1 of fluctuation reserve	36'620	8'109
Release (-) / creation in operating account	-36'620	28'511
Fluctuation reserve at 31.12.	**-**	**36'620**
Target fluctuation reserve	**147'701**	**151'779**
Shortfall in fluctuation reserve	147'701	115'159

In order to offset the fluctuations of assets and guarantee the required interest rate on benefits, a Fluctuation reserve has been set up in the liabilities side of the balance sheet. The required size of this reserve is defined from the moment of closing on 31 December 2012 according to the so called financial method illustrated in the Investment Regulation.
The Fluctuation reserve is defined by a combination of the historical characteristics of risk (volatility, correlation) with the expected returns (risk free interest rate and risk premium) of the different asset classes; the entire process is based on the Foundation's investment strategy. Furthermore, the Fluctuation reserve guarantees with a sufficient degree of certainty a minimum interest rate on the pension tied up capital. The size of the Fluctuation reserve is expressed in a percentage of benefits.
In defining the bases for the calculation of the Fluctuation reserve, both the going-concern principle and the money market situation are to be considered.
The functionality of the reserve size is controlled on a yearly basis or, if extraordinary events require it, it is modified by the Foundation Board.

The formula to calculate the fluctuation reserve is as follows:

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

RM = Minimum Return
E(R) = Expected Return from Strategy
σ = Volatility (Risk) of Strategy
z = Z – Standard distribution score
(based on the chosen confidence level)
t = Time Horizon

The target of the Fluctuation reserve for the current year is 16.3% of the total pension liabilities and actuarial provisions (31.12.2017: 16.4%).

At 31 December 2018, the Fluctuation reserve existing as of 31 December 2017 for CHF 36.620 mln was completely dissolved.

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

	31.12.2018					
	Total assets		Global strategy limits from 13.11.2017			OPP2 Limits
	CHF/000	in %	Min	Neutral	Max	in %
Operative cash in CHF [1]	6'756	0.7%				
Cash under mandate in CHF [1]	35'623	4.0%				
Cash under mandate in foreign currencies [1]	13'057	1.5%				
Money market funds in CHF and USD [1]	34'547	3.8%				
Total of liquid funds	**89'983**	**10.0%**	**0.0%**	**2.0%**	**33.0%**	
Swiss bonds [1]	139'444	15.6%	14.0%	21.0%	28.0%	
Foreign bonds (hedged) [1]	151'208	16.9%	12.0%	17.5%	23.0%	
Emerging markets bonds [1]	0	0.0%	0.0%	0.0%	5.0%	
Total of bonds	**290'652**	**32.5%**	**26.0%**	**38.5%**	**56.0%**	
Swiss equities [2]	34'737	3.9%	0.0%	6.0%	9.0%	
Foreign equities [2]	195'536	21.8%	0.0%	23.0%	34.0%	
Emerging markets equities [2]	21'036	2.3%	0.0%	4.0%	6.0%	
Total of equities	**251'309**	**28.0%**	**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]	133'119	14.9%	8.0%	12.0%	16.0%	
Quoted swiss real estate funds [3]	81'391	9.1%	7.0%	10.0%	13.0%	
Total of swiss real estate funds	**214'510**	**24.0%**	**15.0%**	**22.0%**	**29.0%**	**30.0%**
Total of foreign real estate funds (hedged)	**45'763**	**5.1%**	**3.0%**	**4.5%**	**6.0%**	**10.0%**
c/a with Fondo Complementare di Previdenza EFG SA	0	0.0%		0.0%		
Other receivables	3'956	0.4%		0.0%		
Prepayments and accrued income [1]	0	0.0%		0.0%		
Total of other assets and prepayment and accrued income [1]	**3'956**	**0.4%**		**0.0%**		
Total assets (art. 49 OPP2)	**896'173**	**100.0%**		**100.0%**		
Foreign currencies unhedged [4]	**50'693**	**5.7%**	**0.0%**	**9.0%**	**18.0%**	**30.0%**
Cash under mandate with the employer	**48'680**	**5.4%**				**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 31.12.2018

As of 31 December 2018, all category limits pursuant to OPP2 (article 55) and the fluctuation margins on the total assets defined in the new Investment Regulation were respected.

From a tactical standpoint, at the end of 2018 the portfolio was characterized by a defensive approach towards bonds and securities with a clear underweighting and excess of liquid funds.
Investments in unlisted Swiss real estate funds (SAST) and in foreign real estate (UBS funds), both with very satisfactory performances in 2018, are slightly overweight (see note 6.6).

As of 31 December 2018, the Foundation's total cash amounts to 10% (2017: 10%) of total assets and it is composed by:
• Operating cash: CHF 6.756 mln (0.7% of total assets);
• Cash under "Misto Attivo" mandate (in CHF and foreign currency): CHF 48.680 mln (5.5% of total assets);
• Money market funds in CHF and USD: CHF 34.547 mln (3.8% of total assets).

As of 31 December 2018 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 (2017: CHF - 0.139 mln in "Accrued liabilities and deferred income").

6.4. Compliance with EFG asset management mandate limits

As of 31 December 2018, all limitations to steering provided by the "Misto Attivo" mandate have been respected:

	31.12.2018 "Misto Attivo" portfolio		Limits of "Misto Attivo" mandate from 1.12.2017		
	CHF/000	**in %**	**Min**	**Neutral**	**Max**
Cash under mandate in CHF	35'623	5.0%			
Cash under mandate in foreign currencies	13'057	1.8%			
Money market funds in CHF and USD	34'547	5.0%			
Total of liquid funds	**83'227**	**11.8%**	**0.0%**	**0.5%**	**35.0%**
Swiss bonds	139'444	19.7%	17.5%	25.5%	33.5%
Foreign bonds (hedged)	151'208	21.4%	15.0%	21.5%	28.0%
Emerging markets bonds	0	0.0%	0.0%	0.0%	6.0%
Total of bonds	**290'652**	**41.1%**	**32.5%**	**47.0%**	**67.5%**
Swiss equities	34'737	4.9%	0.0%	7.5%	10.5%
Foreign equities	195'536	27.7%	0.0%	28.0%	41.0%
Emerging markets equities	21'036	3.0%	0.0%	5.0%	7.0%
Total of equities	**251'309**	**35.6%**	**0.0%**	**40.5%**	**58.5%**
Quoted swiss real estate funds	81'391	11.5%	8.5%	12.0%	15.5%
Total of swiss real estate funds	**81'391**	**11.5%**	**8.5%**	**12.0%**	**15.5%**
Total of "Misto Attivo" portfolio	**706'579**	**100.0%**		**100.0%**	
Credit for withholding Tax in "Other receivables", managed by the Administration, referred to the "Misto Attivo" mandate	2'452				
Total "Assets" Misto Attivo mandate (used in note 6.6)	**709'031**				

6.5. Open financial derivatives instruments

As of 31 December 2018 there are no open derivatives instruments. As of 31 December 2017 there was an open term sale with a negative replacement value of CHF -139'430.

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 31.12.2018	896'173	709'031	133'120	45'763
Assets at 1.1.2018*	966'194	789'679	126'784	43'201
Average investment	**931'184**	**749'355**	**129'952**	**44'482**
Income from Liquid funds**	-94	-105		
Income from Swiss bonds	350	350		
Income from Foreign bonds	-1'215	-1'215		
Income from Swiss equities	-4'691	-4'691		
Income from Foreign equities	-28'408	-28'408		
Income from Swiss real estate funds	3'722	-3'266	6'988	
Income from Foreign real estate funds	4'329			4'329
Income from Direct real estate (contingent assets)**	36			
Income from Derivatives	1'699	1'699		
Retrocessions received	35	35		
Asset management expenses	-4'045	-2'751	-663	-631
Total of Net income from investments	**-28'282**	**-38'352**	**6'325**	**3'698**
Income in % of average investment at 31.12.2018	**-3.04%**	**-5.12%**	**4.87%**	**8.31%**
*Income in % of average investment at 31.12.2017****	*6.99%*	*7.34%*	*6.09%*	*-1.97%*

* Compared to the figure published on 31.12.2017, the assets as at 1.1.2018 of Misto Attivo mandate contain the credit for withholding tax referred to the asset management
** The result of the Total Assets which is not allocated to the 3 components of the investment pertains to operative cash
*** The 2017 income includes the item "Changes in Non Actuarial provisions"

The "Net income from investments" is CHF 94.642 mln lower than in 2017, resulting CHF -28.282 mln.

The equity sector impacted strongly to the negative result for the year, with a total swiss + foreign that went from CHF +57.716 mln in 2017 to CHF -33.099 mln in 2018.

Also the "Income from Swiss real estate funds" fell sharply, from CHF +13.956 mln in 2017 to CHF +3.722 mln in 2018. Within this category, in particular the quoted swiss real estate funds have a negative performance of CHF -3.266 mln (2017: CHF +6.551 mln), while the investment in not quoted swiss real estate fund SAST has a positive performance of CHF +6.988 mln (2017: CHF +7.405 mln).

The "Income from foreign real estate funds" refers entirely to the UBS Funds, which includes the 2017 dividend received in February 2018 for 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 2018, the total value of collective investment's expense ratios calculated with the TER ratio amounts to CHF 2.309 mln (31.12.2017: CHF 2.876 mln).

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

	CHF/000 31.12.2018	CHF/000 31.12.2017
Direct costs	1'736	1'967
Internal costs	-	71
Indirect cost (calculated based on the cost ratio TER)	2'309	2'876
Total of asset management expenses	**4'045**	**4'914**
Total of transparent investments	887'914	959'664
Asset management expenses as a % of transparent investments	**0.46%**	**0.51%**

In 2017, internal costs referred to the management of direct real estates no longer present.

In 2018, investments in SAST and UBS funds become fully operational; their TER are the most significant costs of " Asset management expenses" detailed in the table in note 6.6.

6.7.3. Cost transparency ratio

	CHF/000 31.12.2018	CHF/000 31.12.2017
Transparent investments	887'914	959'660
Investments in "Misto Attivo" mandate, in SAST and UBS real estate funds*	887'914	959'664
Cost transparency ratio	**100.00%**	**100.00%**

* The figure as of 31.12.2017 has been amended to include the Credit for withholding tax related to asset management

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 2018 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 31.12.2018	Currency	Market value in CHF at 31.12.2018
CH0011402895	Minicap Technology Investment AG	Registred shares Minicap Technology Investment AG	10’000	CHF	0

The residual value as at 31 December 2017 of the investment in “Pirelli” of CHF 3’641 was instead fully collected on 29 January 2018, followed by the final settlement of the position.

6.8. Explanation of investments and other receivables with the employers

Investments with the employers	31.12.2018	in %	OPP2 limits	Article
	CHF/000			
Operative cash in EFG SA	6’756	0.8%		UFAS Journal n. 84/486
Cash under mandate in EFG SA	48’680	5.4%	5.00%	57 par. 2
Prepayments and accrued income with employers	-	0.0%		
Total investments with the employers	**55’436**			
Total assets (art. 49 OPP2)	**896’173**	**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 2018, the collateral deposited amounts to CHF 51.932 mln with a 106.68% hedging of the invested capital with the employer.

6.9. Retrocessions

During 2018 the Foundation received CHF 35’437 by EFG SA as net “retrocessions” collected by the Bank from third parties for asset management in the period 2016-2017 (the collected amount in 2017 relating to the year 2016 was CHF 6’816).

7. Comments on other balance sheet and operating account positions

7.1. Other receivables

	CHF/000 31.12.2018	CHF/000 31.12.2017
Credits for withholding Tax	2'457	47
Credits towards reinsurer	1'499	2'226
Other credits miscellaneous	-	24
Other receivables	**3'956**	**2'297**

Credits for withholding tax as of 31 December 2017 were fully received in November 2018.
The Credits towards reinsurer as at 31 December 2018 include the advance payment of risk insurance premiums for 2019 for CHF 1.482 mln. The "Other credits miscellaneous" at 31 December 2017 included the Credits towards External trust companies for Real Estate management.

7.2. Prepayments and accrued income

As of 31 December 2018 and 31 December 2017 there are no "prepayments and accrued income".

7.3. Accrued liabilities and deferred income

	CHF/000 31.12.2018	CHF/000 31.12.2017
Deferred income from revenues pertaining to future periods	1'036	1'822
Negative replacement value for forward contracts open at end of year	-	139
Invoices to be received and other accrued liabilities	190	245
Accrued liabilities and deferred income	**1'226**	**2'206**

The reduction by CHF 0.980 mln in the item "Accrued liabilities and deferred income" is mainly due to the lower value of early retirement contributions already collected from the employer which, however, will generate a commitment for the Foundation starting from 1 January 2019 and included in the sub-item "Deferred income from revenues pertaining to future periods" (from CHF 1.5 mln in 2017 to CHF 0.8 mln in 2018). Early retirement contribution in the operating account are included in the "extraordinary contributions" and they amount to CHF 1.709 mln (2017: 3.752 mln).

8. Requirements of the Supervisory Authority

By decision of 30.3.2018, the Supervisory Authority *approved* the "Regulation on partial and full liquidation and merger", approved by the Board on 31.1.2018, with retroactive validity from 1.1.2018.

On 30.3.2018, the Supervisory Authority confirmed the *formal assessment* of the "Regulation of actuarial provisions", approved by the Board on 28.11.2017 and effective from 31.12.2017.

On 5.7.2018, 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 11.4.2018, with retroactive validity from 1.4.2018;
- "Pension fund regulation (Plan 2)", approved by the Board on 11 April 2018, with retroactive valididy from 1.4.2018.

By decision of 26.10.2018, the Supervisory Authority *acknowledged* the 2017 annual report.

9. Further information regarding the financial situation

During 2018 the Board has informed more than once active employees and pensioners on the situation of the Foundation and the Fondo (hereinafter the "Foundations").
Specifically:
- A communication note dated 5.2.2018 informed all active employees about the updating of the Statute and change of name of the Foundations "BSI" in "EFG", the publication of the new Pension Fund Regulation and the new benchmark amounts of occupational pensions: remuneration interests 2018, coverage ratio and performance 2017, pension certificates 2018, higher scale of contribution and buy-backs 2018.
- A communication note dated 8.2.2018, simultaneous to the receipt of the benefit certification, informed all beneficiaries about the updating of Statute and change of name of the Foundations "BSI" in "EFG", the publication of the new Pension Fund Regulation as well as about some other relevant information such as the coverage ratio and the performance 2017, the information and communication duty, and the Delegates' Meeting 2018.
- A communication note dated 19.4.2018 posted on the company's web portal, simultaneous to the receipt of the pension certificate 2018, informed all active employees about the updating to the relevant guidelines for readers.
- A communication note dated 8.5.2018 informed all active employees and beneficiaries about the election of new members representing the insured in the Boards of "Fondazione" and "Fondo" for the four-year period 07.2018-6.2022.
- On 8.5.2018 detailed information on the annual report 2017 was released and made available to all active employees and pensioners respectively by posting on the company's web portal and public website.
- On 12.7.2018 all active employees were informed about the updating of the Pension Fund Regulation with publication on the company's web portal.
- On 21.9.2018 all active employees were informed about end of the year deadlines.
- A communication note dated 10.1.2019, simultaneous to the receipt of the benefit certification, 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-backs 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.

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

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

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, the Foundation informed the active employees and beneficiaries on 1.2.2019 of the size and causes of this underfunding.

Taking into account the underfunding situation and the negative performance of the portfolio in 2018, the Board decided not to remunerate retirement savings capital in 2019 and to suspend additional interest for the lower salaries.

In the course of 2019, the Board will promptly inform all active employees and beneficiaries of the work in progress, with the aim to dispose of concrete recommendations on the recapitalization measures to be adopted by the end of 2019.

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 new “Regulation on partial and full liquidation and merger” came into force on 1.1.2018.
It 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%** *(old regulation 15%)*. 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%** *(old regulation 10%)*;
c) If an **affiliation agreement is terminated**. In this case, the number of insured persons must be **at least 5%** of all active insured 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 2017-2018 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 2017-2018 with **negative outcome**.

The assessment will be repeated on the two-year period 2018-2019.

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 2018 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 2018

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To the Foundation Board of

Fondazione di Previdenza EFG SA, Lugano

Lugano, 15 April 2019

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 2018.

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.

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2

Opinion
In our opinion, the financial statements for the year ended 31 December 2018 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.

The financial statements show a funding gap of CHF 14'297'919 and coverage of 98,4 %. The measures drawn up by the Foundation Board on its own responsibility with the support of the expert in occupational pensions to remedy the funding gap, on investments and on providing information to the beneficiaries are shown in the notes to the financial statements. According to article 35a paragraph 2 OPO 2, we are obliged to state in our report whether the investments are in line with the risk capacity of the pension fund having the funding gap.

In our opinion,
- the Foundation Board fulfills its management role in a clear and comprehensible manner in its choice of an investment strategy appropriate to the given risk capacity, as described in the notes to the financial statements under note 6;
- when investing funds, the Foundation Board complies with the legal requirements and in particular has determined the risk capacity having assessed all assets and liabilities in accordance with the actual financial situation, as well as the fund's structure and expected developments in the number of insured persons;
- the investments with employers are legally compliant;

3

- taking the above into consideration, the investment is in compliance with the provisions of article 49a and 50 OPO 2;
- the Foundation Board has assured us that it will monitor the effectiveness of the measures taken to remedy the funding gap and adapt the measures as required.

We note that the possibility of remedying the funding gap and the risk capacity regarding investments may also be subject to unpredictable events, e.g. developments in the investment markets and with employers.

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

Furthermore, we draw attention to the fact that although the Foundation Board of the Pension Fund has developed the measures required to remedy the funding gap, it has not yet passed a resolution on such measures or implemented them. We refer to the explanations in note 9.1 to the financial statements.

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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