Fondo Complementare di Previdenza

Annual report 2019

Management report 2019

Renewal of the Board Members

For 2020 EFG Bank SA ("EFG") has appointed 2 new Board members as representatives of the employer: Yves Bersier and Michael Rodel.
During the meeting of 7.2.2020, the Foundation Board, in compliance with the principle of an alternate presidency between representatives of the employees and the employer, elected Yves Bersier as succeeding President to Massimo Antonini, whilst Massimo Antonini was elected Vice-President and Roberto Balmelli confirmed as Secretary.

Coverage ratio and other key figures

2019 was an excellent year for financial markets, generating a net performance in the asset management of the Fondo Complementare di Previdenza EFG SA ("Fondo") of 11.10%. As a direct consequence of the very positive financial results, **the coverage ratio** remains in positive territory **reaching 112% as of 31.12.2019**, despite the important reduction of the technical interest rate from 2.25% to 1.75% and the annual update of the technical bases (Generational tables LPP2015G of the year 2020).

The annual accounts of Fondo therefore closed the year with **a gain of CHF 16.9 mln**, which led to an **increase of the Fluctuation reserve which reaches CHF 17.8 mln**. The target set for this reserve corresponds to 16.3% of the Pension liabilities and actuarial provisions at 31.12.2019, therefore CHF 24.3 mln. A pension fund that can count on the full constitution of the fluctuation reserve has a greater risk capacity and financial strength to face the future with confidence.
The Net pension assets of Fondo are CHF 167.1 mln, whilst Pension liabilities and actuarial provisions are CHF 149.3 mln.

Summary of the "key figures"	31.12.2019	31.12.2018
Coverage ratio	112%	100.5%
Technical interest rate	1.75%	2.25%
Net investment performance	+11.10%	-3.84%
Fluctuation reserve (target 31.12.2019 = CHF 24.3 mln)	CHF 17.8 mln	CHF 0.9 mln
Net pension assets	CHF 167.1 mln	CHF 165.3 mln
Pension liabilities and actuarial provisions	CHF 149.3 mln	CHF 164.4 mln

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

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

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

- Remuneration of 0% on Vested benefits and supplementary accounts of employees for the year 2019;
- Reduction of the regulatory conversion rate at ordinary retirement age from 5.20% to 5.00%;
- Limitation of the maximum annual retirement pension to a total of CHF 99’540 between Fondazione and Fondo; surplus capital being paid out as a lump sum;
- Reduction of the pension for spouses / life partners of a pensioner from 60% to 50% of the retirement pension;
- Restriction of new disability pension in Plan 1 of Fondo to 70% of the insured salary, in line with the benefits provided by Plan 1 of Fondazione, eliminating the increasing benefits in the Fondo based on the rank as per previous regulation;
- Reduction of the pension for children and orphans of a pensioner from the 10% (Plan 1) and 20% (Plan 2) of the retirement pension to the LPP Minimum benefit. Since the benefits of Fondo are already above the mandatory amounts foreseen by the LPP, the measure actually means the total elimination of this benefit.

Following the definition and implementation of the recapitalization measures, the employer set up the “Steering Committee Pension Funds EFG” in autumn 2019. This committee, led by Yves Bersier, new President of the Fondo, resumes the activities previously followed by the Working Group in charge of the harmonization of the EFG (ex-BSI) and EFG / Trianon Pension Funds. The activities that concern the definition of the future organizational structure and the pension solutions to be adopted for all employees of EFG are manifold. The Steering Committee is working on finding solutions for the following priority topics:

- The demographic structure of Fondo and Fondazione, with an increasingly problematic relationship between the number of employees and pensioners, which worsened also in 2019;
- The aim for EFG to set up an optimal and attractive pension solution valid for all its employees.

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

Solidarity and demographic challenges - a future to be built

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

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

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

Anticipating demographic changes is not an easy task. The current three pillars system dates back to the years 1970-1980. The general framework was different, life expectancy was shorter and the number of pensioners much lower. The risk of negative interest rates was not even conceivable, and the structure of the pension funds system was very well suited to the situation of the time, meeting the objectives set.
But times have changed, and our three-pillar pension funds system is experiencing likely new structural adaptations. It has therefore become important to find solutions in particular in pension funds with a high proportion of pensioners. As mentioned in the previous chapter, this will be one of the main challenges with which the newly established "Steering Committee Pension Funds EFG" will be confronted.

Asset management mandate delegation from Patrimony to EFGAM

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

Retrospective and outlook of the financial markets

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

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

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

Conclusions

We have experienced an excellent year for the results of asset management, the implementation of forward-looking and targeted recapitalization measures in collaboration with the employer EFG, the establishment by the employer of a new committee with the task to coordinate all the activities concerning EFG's Pension Funds. These results constitute the necessary basis for facing the future challenges.
These are known: the demographic structure, the continuous increase in life expectancy, the new method for defining the reference technical interest rate, as well as the expected returns on assets increasingly difficult to predict with continued low interest rate conditions.

However, we are sure that all the members of the Board, together with the Administration and in collaboration with the employer, will be able to face the challenges that will arise with the utmost determination and professionalism.
We wish to thank all colleagues, including outgoing Board members, who have worked with commitment and motivation in the interest of all beneficiaries.
Finally, a heartfelt thanks to Massimo Antonini, who chaired the Fondo with energy, tenacity, professionalism, sensitivity and attachment for the past four years and at the same time best wishes to the incoming President, Yves Bersier, who took over the presidency with great enthusiasm.

Massimo Antonini
Outgoing President of the Board

Yves Bersier
Incoming President of the Board

Michele Casartelli
Foundation Manager

Contents

Balance sheet

ASSETS	NOTES	CHF 31.12.2019	CHF 31.12.2018
Investments		**170’718’598**	**171’853’032**
Liquid funds	6.3	6’149’967	21’157’402
Credits towards Helvetia SA		351’448	497’330
Credits for withholding tax		664’766	879’015
Swiss bonds	6.3	32’909’200	33’537’280
Foreign bonds	6.3	37’897’302	34’037’186
Swiss equities	6.3	9’553’093	5’348’531
Foreign equities	6.3	49’593’763	43’829’845
Swiss real estate funds	6.3	22’051’166	20’895’113
Foreign real estate funds	6.3	11’547’893	11’671’330
Prepayments and accrued income	**7.1**	**0**	**0**
Total assets		**170’718’598**	**171’853’032**

LIABILITIES			
Accounts payables		**3’512’265**	**4’329’002**
Vested benefits to be paid		2’653’398	2’098’976
Retirement capital to be paid		858’867	2’230’026
Accrued liabilities and deferred income	**7.2**	**93’939**	**99’965**
Employer contribution reserve (ECR) without waiver of use	**5.9**	**0**	**2’150’503**
Pension liabilities and actuarial provisions		**149’269’969**	**164’374’652**
Active employees’ liabilities	5.2	55’709’559	69’504’200
Pensioners’ liabilities	5.4	90’705’861	89’097’788
Actuarial provisions	5.5	2’854’549	5’772’664
Fluctuation reserve	**6.2**	**17’842’425**	**898’910**
Dotation capital and free funds / underfunding		**0**	**0**
Dotation capital		100’000	100’000
Free funds / underfunding			
Balance at the beginning of the period		-100’000	-100’000
Income surplus / (-) Expense surplus of the period			0
Balance at the end of the period		-100’000	-100’000
Total liabilities		**170’718’598**	**171’853’032**

Operating account

	NOTES	CHF 2019	CHF 2018
Ordinary and other contributions, buy-ins		**3'499'296**	**7'058'828**
Employer contributions			
Ordinary contributions		2'855'730	3'540'939
Extraordinary contributions		150'000	0
Use of Employer contribution reserve	5.9	-2'150'503	0
Employee contributions			
Ordinary contributions		1'352'069	1'636'889
One-time payments and purchase amounts	5.2	1'292'000	1'881'000
Entry lump sum transfers		**83'342**	**304'189**
Earnings from Vested benefit transfers	5.2	63'342	154'189
Buy-ins and reimbursements from divorce	5.2	20'000	0
Repayment of withdrawals for residential property	5.2	0	150'000
Income from contributions and entry payments		**3'582'638**	**7'363'017**
Regulatory benefits		**-7'917'695**	**-10'145'727**
Retirement pensions		-5'223'902	-5'101'375
Spouse pensions		-498'282	-495'261
Orphan and children pensions		-107'345	-129'362
Retirement capital	5.2	-2'088'166	-4'419'729
Termination benefits		**-14'408'413**	**-8'850'085**
Departures of Vested benefits	5.2	-14'070'413	-8'850'085
Withdrawals for residential property and divorce	5.2	-338'000	0
Expenses for benefits and withdrawals		**-22'326'108**	**-18'995'812**
Release / (-) creation of Pension liabilities, Actuarial provisions and ECR		**17'253'862,00**	**8'573'125**
Variation in Active employees' liabilities		13'794'641	8'536'980
Variation in Pensioners' liabilities		-1'608'073	1'149'715
Variation in Actuarial provisions		2'918'115	-377'069
Interest on vested benefits paid		-1'324	-6'843
Interest on retirement savings capital	5.2	0	-729'658
Release / (-) creation of Employer contribution reserve	5.9	2'150'503	0
Income from insurance benefits		**91'469**	**181'542**
Insurance benefits		19'220	38'986
Share of insurance surplus		72'249	142'556

Operating account (2nd part)

	NOTES	CHF 2019	CHF 2018
Insurance expenses		**-376'087**	**-447'673**
Insurance premium	5.1	-370'244	-441'065
Contribution to Guarantee Fund		-5'843	-6'608
Net income from insurance activities		**-1'774'226**	**-3'325'801**
Net income from investments	**6.6**	**19'009'632**	**-6'889'618**
Income from Liquid funds		-25'524	55'142
Income from Swiss bonds		1'141'688	104'234
Income from Foreign bonds		1'859'019	-271'706
Income from Swiss equities		1'909'722	-735'143
Income from Foreign equities		10'005'317	-5'835'487
Income from Swiss real estate funds		4'436'338	-876'668
Income from Foreign real estate funds		668'125	1'104'011
Income from Derivatives		-151'956	364'890
Retrocessions received	6.9	22'357	7'985
Asset management expenses	6.7	-855'454	-806'876
Other income		**2'519**	**1'730**
General administration expenses		**-294'410**	**-306'121**
Actuary activities		-17'017	-15'935
External Audit		-20'610	-20'361
Supervisory authority		-6'698	-5'119
Marketing and advertising		-1'537	-1'242
General administration		-248'548	-263'464
Income / (-) Expenses before creating / releasing of Fluctuation reserve	**5.10**	**16'943'515**	**-10'519'810**
Release / (-) creation of Fluctuation reserve	**6.2**	**-16'943'515**	**10'519'810**
Income surplus / (-) Expense surplus of the period		**0**	**0**

Notes to the 2019 Financial Statements

1. General information and organization

1.1. Legal form and objective

“Fondo Complementare di Previdenza EFG SA” (hereinafter the “Fondo”) 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).

The Fondo was founded on 16.4.1984.

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 “Fondo Complementare di Previdenza BSI SA” to “Fondo Complementare di Previdenza EFG SA”.

The Fondo’s objective is to provide occupational retirement coverage above the mandatory amounts foreseen by the LPP, against the economic consequences of old age, death and disability in favor of the employees of the Founder already insured with the Fondo by 30 June 2017 and all persons employed from 1.7.2017 in Ticino by EFG and by the entities affiliated with the Fondo, insofar as they have entered into an affiliation agreement, as well as the employees of the Fondazione di Previdenza EFG SA (hereinafter the “Fondazione”), their relatives and survivors.
Inclusion of an affiliated entity is made through a special written agreement, subject to the Supervisory Authority.

The objective of the Fondo is pursued through the management of an integrative insurance plan, issued according to the defined contribution plan, denominated “Piano Complementare”, created after the merger of three former plans (please refer to the financial statements 2009).
The insurance objectives of the complementary plan are the following:
- The insurance of the portion of fixed salary not insured by Fondazione;
- The savings on surplus coming from purchases or distribution of free assets.

For more details on the structure of the insurance plans, please refer to section 3.

1.2. LPP and Guarantee Fund registrations

The Fondo offers occupational retirement coverage above the mandatory amounts foreseen by the LPP following the Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (LPP).
The Fondo is not included in the registry of occupational retirement of the Canton Ticino but is subject to the Federal Law on Vesting in Occupational Retirement, Survivors’ and Disability Pension Plans (LFLP).
The Fondo pays contributions to the LPP Guarantee Fund.
The Fondo is located at the offices of the Lugano branch of the Founder, “EFG Bank SA” (EFG), at via Magatti 2, Lugano.

1.3. Information about Statute and Regulations

	In force from	Notes
Statute	4.9.2017	Approved by the Foundation Board on 4.9.2017 Approved by the Supervisory Authority on 15.9.2017
Organization regulation	26.7.2017	Approved by the Foundation Board on 26.7.2017
Electoral regulation rules for the nomination of the delegates meeting and the representatives of the active employees in the Board	26.7.2017	Approved by the Foundation Board on 26.7.2017
Pension fund regulation for complementary plan for employees and pensioners who were insured with "Fondo Complementare di Previdenza EFG SA" as at 30.6.2017 (Plan 1)	1.1.2020	Approved by the Foundation Board on 23.9.2019
Pension fund regulation for complementary plan (Plan 2)	1.1.2020	Approved by the Foundation Board on 23.9.2019
Regulation on partial and full liquidation and merger	1.1.2018	Approved by the Supervisory Authority on 27.2.2018
Regulation of actuarial provisions	31.12.2019	Approved by the Foundation Board on 27.4.2020
Investment regulation	13.11.2017	Approved by the Foundation Board on 13.11.2017

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

1.4. Governing bodies and signing authorities

1.4.1. Foundation Board

	Role	Mandate duration	Representatives	Signing authorities
Bersier Yves	Chairman	1/2020-12/2024	Employer	joint signature of two authorized signatories
Antonini Massimo	Vice-Chairman	7/2018-6/2022	Employees	joint signature of two authorized signatories
Michael Rodel	Member	1/2020-12/2024	Employer	joint signature of two authorized signatories (with Chairman, Vice Chairman or Manager)
Balmelli Roberto	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 Board:
From 2020 EFG has appointed Rodel Michael and Bersier Yves as new representatives of the employer in replacement of Polloni Franco and Lüscher Daniel.

During the meeting of 7.2.2020, the new Board appointed Bersier Yves as Chairman and Antonini Massimo as Vice-Chairman, confirming Balmelli Roberto as Secretary.

1.4.2. Delegates' Meeting

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

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

- **Active employees:** Balmelli Roberto, Bizzozero Sergio, Butti Alessandro, Moser Christian, Palmisano Antonio, Spaggiari Antonella
- **Pension beneficiaries:** Castelli Giuliano, Etter Walter, Fioroni Giampiero, Gajo Ermanno

1.4.3. Management

Starting from 1.1.2012, an independent administrative department has been created within the Fondazione by the employer in order to carry out administrative management, technical, accounting and business activities of the Fondazione and similar pension funds. Tasks and responsibilities are defined by the Board. The Manager can delegate some of his/her tasks to reports or other external consultants. Administrative, technical-accounting, business and financial-accounting management is performed by the Fondazione also with regards to the "Fondo".

1.5. Experts, auditors, advisors, Supervisory Authority

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

1.6. Affiliated employers

The amount of affiliated companies has developed as follows:

	EFG	Fondazione di previdenza EFG SA	Dreieck SA	Finnat SA	Patrimony	EFGAM	Total 2019	Total 2018
Situation at 1.1.	205	1	2	-	27	14	249	282
+ / - Transfers	-1	-	-	-	2	-1	-	-
+ Entries [1]	19	-	-	-	1	1	21	22
- Departures [2] / Deaths	-41	-	-1	-	-9	-2	-53	-46
- Retirements [3] / Disability	-7	-	-	-	-1	-	-8	-9
Situation at 31.12. [4]	**175**	**1**	**1**	**-**	**20**	**12**	**209**	**249**

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 2019, the number of active employees fell by -40 units in net terms (2018: -33). The number of voluntary departures is still high in the year (see note 9.3).
In 2019 there were no new disabled persons and no death occurred.

2. Active employees and pensioners

2.1. Active employees

	*Plan 1**	*Plan 2**	Total 31.12.2019	31.12.2018
Men	*159*	*11*	170	202
Women	*38*	*1*	39	47
Total	***197***	***12***	**209**	**249**

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

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

Structure by age range	31.12.2019	31.12.2018
24-32 years	1	2
33-42 years	17	26
43-54 years	127	149
From 55 years	64	72
Total	**209**	**249**
Average age	51.3	51.1

Although in the “43-54 years” of age range the highest number of departures was recorded in 2019 (-22), this age range remains the most important in relative terms amounting to 60.8% of the total (2018: 59.8%).
The slight increase in the average age of active employees shows a lack of generational turnover in the employers.
The trend of the active employees amount in the year is included in note 1.6.

2.2. Pensioners

	Retirement pensioners beneficiaries [1]	Disability pensioners beneficiaries [2]	Spouse pensioners beneficiaries	Children pensioners beneficiaries [3]	Total 2019	Total 2018
Situation at 1.1.	126	2	21	18	**167**	159
+ Entries	5	-	2	3	**10**	11
+ / - Conversions	-	-	-	-	**-**	-
- Deaths / Terminations	-2	-	-1	-4	**-7**	-3
Situation at 31.12.	**129**	**2**	**22**	**17**	**170**	**167**

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 +3 units compared to last year (variation 2017/2018: +8 units).
Only 5 people of the 8 pre-retirements of 2019 increase the number of the "pensions beneficiaries" because to some people was paid the lump sum retirement capital.

The 170 pensioners include 3 individuals for whom the Fondo is refunded of the paid benefits by the insurance company "Helvetia" (2018: 3), since the Pension Fund has reinsured the disability and death risk (see note 5.1).

Structure by age range	Retirement pensioners beneficiaries	Disability pensioners beneficiaries	Spouse pensioners beneficiaries	Children pensioners beneficiaries	Total 2019	Total 2018
Less then 18 years	-	-	-	6	**6**	5
18-24 years	-	-	-	10	**10**	13
25-54 years	-	-	-	1	**1**	-
55-64 years	28	2	5	-	**35**	38
65-74 years	56	-	8	-	**64**	61
75-84 years	33	-	4	-	**37**	34
85-94 years	11	-	4	-	**15**	15
Above 94 years	1	-	1	-	**2**	1
Total	**129**	**2**	**22**	**17**	**170**	**167**
Average age					**67.0**	66.3

None of the 2 invalids in the table receives a disability pension. The Retirement savings capital will be accrued until the retirement age, when a lump sum capital or a retirement pension will be paid.

2.3. Ratio between active employees and pensioners

The ratio between active employees and pensioners has changed from 1.49 on 31.12.2018 to 1.23 on 31.12.2019.
The net reduction of active employees and the net increase of pensioners led to a further worsening of the demographic ratio. In a scenario with a higher life expectancy of pensioners and lower hiring of active employees, lacking extraordinary events, the negative trend on the demographic ratio is deemed to last over time.

3. Structure of the pension plans

3.1. Explanation of the pension plans

Since the acquisition of BSI in 2017 by EFG, the Fondo has had two *"defined contribution"* pension plans:

- "PLAN 1" for employees already insured by Fondo as of 30.6.2017,
- "PLAN 2" for all employees employed in Ticino by EFG and by affiliated employers, from 1.7.2017.

Due to the continuous demographic worsening of the Fondazione and Fondo (note 2.3), the Board adopted in 2019 recapitalization measures (note 9.1), part of which with regulatory impact and implemented in the new pension fund regulations valid from 1.1.2020.

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

	Pension fund regulation for complementary plan for employees and pensioners who were insured with "Fondo Complementare di Previdenza EFG SA" as at 30.6.2017 (Plan 1)	Pension fund regulation for complementary plan (Plan 2)		
RETIREMENT AGE				
Ordinary retirement age	64 for women and men	64 years for women 65 years for men		
Minimum retirement age	60 for women and men	60 years for women and men		
Maximum retirement age	70 for women and men	70 years for women and men		
RETIREMENT BENEFITS				
Type of benefit	Pension or capital (up to 100% of the employees' liabilities)	Pension or capital (up to 100% of the employees' liabilities)		
Retirement pension	Retirement savings capital multiplied by conversion rate. From 1.1.2020 maximum retirement pension limited to CHF 99'540 in total between Fondazione and Fondo	Retirement savings capital multiplied by conversion rate. From 1.1.2020 maximum retirement pension limited to CHF 99'540 in total between Fondazione and Fondo		
Conversion rates in %	Women and men		Women	Men
	60 years: 4.51 (2019: 4.71)	60 years:	4.51 (2019: 4.71)	4.40 (2019: 4.60)
	61 years: 4.62 (2019: 4.82)	61 years:	4.62 (2019: 4.82)	4.51 (2019: 4.71)
	62 years: 4.74 (2019: 4.94)	62 years:	4.74 (2019: 4.94)	4.62 (2019: 4.82)
	63 years: 4.87 (2019: 5.07)	63 years:	4.87 (2019: 5.07)	4.74 (2019: 5.94)
	64 years: 5.00 (2019: 5.20)	**64 years:**	**5.00 (2019: 5.20)**	4.87 (2019: 5.07)
	65 years: 5.14 (2019: 5.34)	**65 years:**	5.14 (2019: 5.34)	**5.00 (2019: 5.20)**
	66 years: 5.30 (2019: 5.50)	66 years:	5.30 (2019: 5.50)	5.14 (2019: 5.34)
	67 years: 5.46 (2019: 5.66)	67 years:	5.46 (2019: 5.66)	5.30 (2019: 5.50)
	68 years: 5.64 (2019: 5.84)	68 years:	5.64 (2019: 5.84)	5.46 (2019: 5.66)
	69 years: 5.83 (2019: 6.03)	69 years:	5.83 (2019: 6.03)	5.64 (2019: 5.84)
	70 years: 6.04 (2019: 6.24)	70 years:	6.04 (2019: 6.24)	5.83 (2019: 6.03)
Children's retirement benefits	No benefit (2019: 10% of retirement pension)	No benefit (2019: 20% of retirement pension)		

	Pension fund regulation for complementary plan for employees and pensioners who were insured with "Fondo Complementare di Previdenza EFG SA" as at 30.6.2017 (Plan 1)	Pension fund regulation for complementary plan (Plan 2)
SURVIVORS BENEFITS		
Spouse/civil partner's pension	Active employee: 49% of the insured salary (see definition in note 3.2)	Active employee: 50% of the insured salary (see definition in note 3.2)
	Disabled individual: 70% of the disability pension	Disabled individual: 50% of the relevant income for the calculation of the current disability pension
	Pensioner: 50% of the retirement pension (2019: 60%)	Pensioner: 50% of the retirement pension (2019: 60%)
Orphan's pension	Active employee: 15% of the insured salary	Active employee: 10% of the insured salary
	Disabled individual: 15% of the insured salary	Disabled individual: 10% of the relevant income for the calculation of the current disability pension
	Pensioner: No benefit (2019: 10% of retirement pension)	Pensioner: No benefit (2019: 20% of retirement pension)
Lump-sum death benefit	100% of the insured salary	
	+ purchases in maximum retirement benefits, as well as capital savings in the supplementary account "Early retirement redemption"	Purchases in maximum retirement benefits, as well as capital savings in the supplementary account "Early retirement 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	+ 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 (2019: increasing % depending on the working position)	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 recapitalization measures implemented in 2019 have no impact on the financing structure of the Fondo. The table provides an overview of the main benchmark values of the two pension plans. The Fondo 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 that corresponds to 5/3rd of the single maximum AHV pension (CHF 28'440 since 2019) and minus 4 times the simple maximum AHV pension (CHF 113'760 since 2019). The maximum insured salary corresponds to CHF 500'000 minus 34/7th of the simple maximum AHV pension (CHF 138'137 since 2019), in proportion to the level of employment.	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 until a maximum of CHF 500'000, **without variable components**, minus the coordination amount. The coordination amount is equal to 34/7th of the maximum value of the simple AHV pension (CHF 138'137 since 2019), in proportion to the level of employment.
Total contributions Percentage of the insured salary	see tables below	see tables below
Risk contributions Percentage of the insured salary	Employee: 2.0% Employer: 3.0%	Employee: 0.833% Employer: 1.667%

Total contributions – Percentage of the insured salary

Plan 1 – Standard contribution plan

Age	Employee	Employer	Total
18-23	2.0%	3.0%	5.0%
24-32	6.0%	17.5%	23.5%
33-42	7.0%	19.5%	26.5%
43-52	8.0%	21.5%	29.5%
53-64	9.0%	24.5%	33.5%

Plan 1 – Plus contribution plan (+3%)

Age	Employee	Employer	Total
18-23	2.0%	3.0%	5.0%
24-32	9.0%	17.5%	26.5%
33-42	10.0%	19.5%	29.5%
43-52	11.0%	21.5%	32.5%
53-64	12.0%	24.5%	36.5%

Plan 1 – Top contribution plan (+6%)

Age	Employee	Employer	Total
18-23	2.0%	3.0%	5.0%
24-32	12.0%	17.5%	29.5%
33-42	13.0%	19.5%	32.5%
43-52	14.0%	21.5%	35.5%
53-64	15.0%	24.5%	39.5%

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%

Plan 2 – 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%

Plan 2 – Top contribution plan (+4%)

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

	Plan 1				Plan 2			
Retirement credits	**Standard contribution plan**				**Piano contributivo Standard**			
The Savings contributions of the employee and the employer in percentage of the insured salary which are accrued on an annual basis as Retirement savings capital.	Age	Employee	Employer	Total	Age	Employee	Employer	Total
	18-23	0.0%	0.0%	0.0%	18-19	0.0%	0.0%	0.0%
	24-32	4.0%	14.5%	18.5%	20-34	3.75%	7.50%	11.25%
	33-42	5.0%	16.5%	21.5%	35-44	4.75%	9.50%	14.25%
	43-52	6.0%	18.5%	24.5%	45-54	5.75%	11.5%	17.25%
	53-64	7.0%	21.5%	28.5%	55-64/65	6.75%	13.5%	20.25%
	Plus contribution plan (+3%)				**Plus contribution plan (+2%)**			
	Age	Employee	Employer	Total	Age	Employee	Employer	Total
	18-23	0.0%	0.0%	0.0%	18-19	0.0%	0.0%	0.0%
	24-32	7.0%	14.5%	21.5%	20-34	5.75%	7.5%	13.25%
	33-42	8.0%	16.5%	24.5%	35-44	6.75%	9.5%	16.25%
	43-52	9.0%	18.5%	27.5%	45-54	7.75%	11.5%	19.25%
	53-64	10.0%	21.5%	31.5%	55-64/65	8.75%	13.5%	22.25%
	Top contribution plan (+6%)				**Top contribution plan (+4%)**			
	Age	Employee	Employer	Total	Age	Employee	Employer	Total
	18-23	0.0%	0.0%	0.0%	18-19	0.0%	0.0%	0.0%
	24-32	10.0%	14.5%	24.5%	20-34	7.75%	7.5%	15.25%
	33-42	11.0%	16.5%	27.5%	35-44	8.75%	9.5%	18.25%
	43-52	12.0%	18.5%	30.5%	45-54	9.75%	11.5%	21.25%
	53-64	13.0%	21.5%	34.5%	55-64/65	10.75%	13.5%	24.25%

3.3. Further information about pension plan activities

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

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

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

4. Measurement and accounting standards, continuity

4.1. Statement of compliance with Swiss GAAP FER 26

Pursuant to article 47 of OPP2, the Fondo's accounts are submitted in compliance with the recommendations on the presentations of accounts Swiss GAAP FER 26 (1.1.2014).

4.2. Accounting and valuation policies

4.2.1. Bookkeeping and accounting policies

Valuation and bookkeeping policies are compliant with CO and OPP2 standards.
The Financial Statements close on 31 December.
Financial accounting is managed internally by the Administration of the Fondazione, management of a part of the assets is entrusted to EFG and subcontracted to Patrimony until 31.12.2019 and to EFGAM from 1.1.2020.

4.2.2. Valuation policies

Securities:	end of the period value
Current accounts:	nominal value adjusted to end of the period exchange rate
Derivatives:	end of the period replacement value
Liabilities:	nominal value

4.3. Changes in accounting, valuation and presentation policies

No modification in the accounting principles, valuation policies and presentation of the accounts have been made during 2019.

5. Actuarial risks, risk coverage and coverage ratio

5.1. Type of risk coverage and re-insurance

The Fondo is a semi-independent pension fund. The risk of *longevity* and the risk connected to the *investment* of assets are fully borne by the Fondo. The risk of *disability* and *death* before the retirement age are covered by a collective reinsurance agreement with the insurance company "Helvetia", which is in force since 1.1.2009.
In 2019 the premium risk rate is equal to 2.78% of the total insured salaries (2018: 2.78%), without application of premium surcharge but registration of a health reserve on subjects with increased risk.

The reinsurance contract was renegotiated in 2019 for the three-year period 2020-2022, with the possibility of early cancellation communicated to the counterpart by June 30 of each year. The risk premium rate will be 2.53% of the total insured salaries.

The total amount of premiums paid during the year is shown in the operating account under the item "Insurance premium".

5.2. Development of Active employees' liabilities

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

	Piano 1	*Piano 2*	**CHF/000 Totale 31.12.2019**	**CHF/000 31.12.2018**
Vested benefits	*54'933*	*379*	**55'312**	68'248
Supplementary account "Early retirement redemption"	*398*	*-*	**398**	1'256
Total of Active employees' liabilities	***55'331***	***379***	55'710	**69'504**
Number of Active employees at 31.12.			**209**	249

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 interest rate on the "Vested benefits" is established at the beginning of each year by the Board upon consideration of the Fondo's financial situation.
Given the underfunding of Fondazione at 31.12.2018 and the negative short-time trend of Fondo's coverage ratio, on 30.1.2019 the Board resolved not to remunerate the Vested benefits in 2019.
Following the exceptional performance achieved in 2019, in the meeting of 7.2.2020 the Board set the interest rate on Vested benefits for 2020 at 2%.

Supplementary account “Early retirement redemption” is also subject to interests. The interest rate is established on an annual basis by the Board. From 2017, the interest rate is in line with the rate on “Vested benefits”.

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

	CHF/000 31.12.2019	CHF/000 31.12.2018
Liabilities at 1.1.	69’504	77’312
Employers and employees savings contributions	3’583	4’394
Earnings from Vested benefit transfers	63	154
One-time payments and purchase amounts	1’292	1’881
Buy-ins and reimbursements from divorce	20	-
Repayment of withdrawals for residential property	-	150
Withdrawals for residential property and divorce	-338	-
Departures of Vested benefits	-14’070	-8’850
Retirement capital	-2’088	-4’420
Transfers to Pensioners’ liabilities	-2’256	-1’847
Interest on retirement savings capital	-	730
Liabilities at 31.12.	**55’710**	**69’504**
Number of active employees at 31.12.	209	249

The decrease in a year by CHF 13.794 mln in “Active employees’ liabilities” is mainly caused by the significant reduction in the number of insured persons in 2019, with the consequent payment of “Departures of Vested benefits” or “Retirement capital” or reclassification of retirement savings in “Pensioners’ liabilities” for the conversion of capital into a pension. The decreasing trend in the number of active employees over the last three years has also resulted in a constant and significant drop in annual savings contributions.

5.3. Total retirement savings capital in accordance with LPP

The insured benefits are above the LPP minimum of law.

5.4. Development of Pensioners’ liabilities

	CHF/000 31.12.2019	CHF/000 31.12.2018
Situation of Pensioners’ liabilities at 1.1	89’098	90’248
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-3’096	-1’150
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	4’704	-
Total of Pensioners’ liabilities at 31.12	**90’706**	**89’098**
Number of pensioners’ at 31.12.	170	167

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

The item “Update following changes in the Pension fund regulation and new calculations as of 31 December” includes in 2019:

- The savings from the changes in the Pension fund regulation from 1.1.2020, in particular relating to the reduction of the expectancy spouse and child pensions for CHF -2.253 mln.
- For the pensioners of the year that have opted for an old age pension, the capital transfers from the “Active employees’ liabilities” for CHF +2.256 mln.
- The pensions, net of insurance benefits, paid in the period for CHF -5.810 mln.
- The “implicit” interests at the technical interest rate of last year on the initial capital for estimated CHF +2.005 mln.
- Other evolutions of the year in the “passive” population for CHF +0.706 mln (for instance redemptions for deaths, terminations of the pensions for children, conversions of the retirement pensions into spouse pensions, updating of longevity).

5.5. Composition, development and explanation of Actuarial provisions

In order to adequately cover all benefits under regulation and to prevent potential deviations from the actuarial bases, the following actuarial provisions have been implemented.
In all tables in the following paragraphs, the item “Update following changes in the technical rate” at 31.12.2019 indicated the cost of decreasing the technical interest rate from 2.25% to 1.75%.

5.5.1. Conversion rate provision (Active employees’)

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

	CHF/000 31.12.2019	CHF/000 31.12.2018
Situation at 1.1	1’086	925
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-1’023	161
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	1’255	-
Situation at 31.12	**1’318**	**1’086**

From 1.1.2020 the regulatory conversion rates are based on the following technical bases:

a) Active employees already insured with the Fondo as at 30.6.2017 (Plan 1)
   - technical rate: 2.25% on average (until 31.12.2019 2.60% on average)
   - mortality tables: LPP 2015 generational of the year 2020 (until 31.12.2019 LPP 2015 generational of the year 2018).

b) Active employees hired in Ticino since 1.7.2017 by EFG Bank AG and by entities affiliated to the Fondo (Plan 2)
   - technical rate: 2.05-2.15% (until 31.12.2019 2.40-2.50%)
   - mortality tables: LPP 2015 generational of the year 2020 (until 31.12.2019 LPP 2015 generational of the year 2018).

The lowering of the regulatory conversion rates from 1.1.2020 (from 5.20% to 5% at 64 years of age, for more details see note 3.1) have led to narrowing the gap to the closing technical bases as at 31.12.2018, therefore to a release of the value of the opening reserve of CHF 1.013 mln included in the item “Update following changes in Pension Fund Regulation and new calculations as of 31.12.”.

However, bringing the technical interest rate at 31.12.2019 to 1.75%, the gap with the technical bases reflected in the regulations once again grows, giving rise to a reserve of CHF 1.255 mln.

5.5.2. Provision for the longevity risk (Pensioners')

The overall bank system in Switzerland shows a statistical lower mortality rate (average age of death) than the generate average rate contained in the generational mortality tables used for the period 2019, which discount the average expected future rise in longevity during the retirement period. Subsequently, we expect the pensioners of the Fondo to have a longer average life expectancy, which results in the payment of annuities for a longer period. It is therefore necessary to strengthen the "Pensioners' liabilities" with an additional provision.

The Provision for the longevity risk is calculated assuming that beneficiaries of retirement pensions, spouses and civil partners and recipients of life disability pensions will need an annuity paid on average half a year longer than the average duration of retirement annuities according to the generational mortality tables LLP 2015.

The ultimate target of this provision amounts to 1.7% of the total Pensioners' liabilities (without children). As of 31.12.2014, 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 Fondo's coverage ratio on the calculation date exceeds 110%, this provision is immediately set up in full.
As of 31.12.2019, the value of this provision corresponds to the target value equal to 1.7% of the total Pensioners' liabilities (without children).

	CHF/000 31.12.2019	CHF/000 31.12.2018
Situation at 1.1	1'506	1'300
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-49	206
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	79	-
Situation at 31.12	**1'536**	**1'506**

The savings deriving from the update of the Pension fund regulation in force from 1.1.2020 are included in the item "Update following changes in Pension Fund Regulation and new calculations as of 31.12." and amount to CHF -0.038 mln.

5.5.3. Provision for technical interest rate

A reduction of the technical interest rate increases the value of Pension liabilities and actuarial provisions. If the Fondo foresees to decrease again the technical interest rate in future, a specific provision could be made.
The value of the provision corresponds to the difference between the Pension liabilities and actuarial provisions evaluated with the foreseen decreased technical interest rate and the Pension liabilities and actuarial provisions calculated with the technical bases in the note 5.7. The constitution of the provision could also be made with a gradual approach depending on the time and the amount of the foreseen decrease. The provision will be released when the new technical interest rate is applied.

	CHF/000 31.12.2019	CHF/000 31.12.2018
Situation at 1.1	3'181	3'170
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-253	11
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	-2'928	-
Situation at 31.12	**-**	**3'181**

Due to the total utilization of this reserve created last year to finance the reduction of the Technical interest rate from 2.25% to 2%, in the operating account of 2019 there is only the cost of the reduction from 2% to 1.75% amounting CHF 3.110 mln (note 5.8).

5.5.4. 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 "Other Actuarial Provisions" for non-regulated cases, which are deemed necessary to suitably finance the pension scheme.

As for 2019, the actuary did not deem necessary to set up any of these specific provisions (31.12.2018: 0).

5.5.5. Summary of Actuarial provisions

Evolution summary of actuarial provisions	CHF/000 31.12.2019	CHF/000 31.12.2018
Situation at 1.1	5'773	5'395
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-1'325	378
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	-1'594	-
Situation at 31.12	**2'854**	**5'773**

Composition summary of actuarial provisions	CHF/000 31.12.2019	CHF/000 31.12.2018
Conversion rate provision	1'318	1'086
Provision for the longevity risk	1'536	1'506
Provision for technical interest rate	-	3'181
Total of actuarial provisions	**2'854**	**5'773**

5.6. Conclusions of the last actuarial report

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

- the coverage ratio of the Pension fund in compliance with article 44, paragraph 1 OPP2 amounts to 112% as of 31.12.2019;
- the technical bases applied (BVG 2015 GT, 2020) correspond to the latest available bases and are currently sufficiently prudential;
- the actuarial provisions cover the promised benefits which are not or not sufficiently covered by contributions or which are subject to fluctuations as well as known or foreseeable obligations;
- the target value of the Fluctuation reserve is sufficient in our assessment based on the investment strategy and the selected security level;
- due to the continuous reduction in active membership the recapitalization capacity of the Pension fund has further deteriorated and continues to be challenging;
- the pension plan rules with regards to actuarial regulations on pension benefits and their funding are compliant with legal requirements;
- the financing of the risk benefits and administrative costs through contributions is barely sufficient, and has consequently to be monitored;
- based on the expert recommendation, the Board reduced the technical interest rate to 1.75% as of 31.12.2019. The ongoing financing situation has thus improved, as the expected return is above the target return;
- the currently valid regulatory conversion rate (5.0% at ordinary retirement age, 64 in Plan 1 and 65/64 in Plan 2) is above the actuarially neutral conversion rate based on the applied technical bases and the technical interest rate. The Conversion rate provision covers the expected retirement losses for active employees aged 55 and over. However, the regulatory conversion rate must be reviewed regularly.

5.7. Technical bases and other significant actuarial assumptions

The relevant actuarial bases and the technical rate for the calculation of the mathematical provisions are defined by the Board on an annual basis upon proposal of the pension actuary.

As of 31.12.2019, the actuarial calculations have been made according to the following assumptions:

- **LPP 2015 generational actuarial bases of the year 2020** (31.12.2018: LPP 2015 generational bases of the year 2019). The technical bases provide a defined indication on the expected mortality rate, disability rate, marriage likelihood, age of the spouse, number of children and other elements relating to a pension fund's population. Particularly they provide an indication on the average life expectancy of pensioners.
- **Technical rate 1.75%** (31.12.2018: 2.25%). This parameter allows to attach a current value to future pensioners' benefits which can also be seen as the expected long-term return on assets.

5.8. Changes in technical bases and actuarial assumptions

In the current year the Pension fund regulation have been changed (in particular with the lowering of the expected spouse pensions and of the regulatory conversion rate) and also the technical interest rate (lowered from 2.25% to 1.75%). The following table summarises the impact of the changes:

	CHF/000	**CHF/000**	**CHF/000**	**CHF/000**
Date	**31.12.19**	**31.12.19**	**31.12.19**	**31.12.18**
Base	**LPP 2015-G20**	**LPP 2015-G20**	**LPP 2015-G20**	**LPP 2015-G19**
Rate	**1.75%**	**2.25%**	**2.25%**	**2.25%**
Pension plans in force from	**01.01.20**	**01.01.20**	**01.04.18**	**01.04.18**
Active employees liabilities	55'710	55'710	55'710	69'504
Pensioners liabilities	90'706	86'002	88'255	89'098
Conversion rate provision	1'318	63	1'076	1'086
Provision for the longevity risk	1'536	1'457	1'495	1'506
Provision for technical interest rate	-	2'928	3'094	3'181
Total of Pension lialibilites and actuarial provisions	**149'270**	**146'160**	**149'630**	**164'375**
Variation	*3'110*	*-3'470*	*-14'745*	

In 2019 the departures of active employees, the terminations of pensions or conversions in spouse pensions determined a total reduction of CHF 14.745 mln in the actuarial liabilities.
The changes in the Pension fund regulation generated a saving of CHF 3.470 mln, while the reduction of the technical interest rate caused a cost of CHF 3.110 mln.

Evolution of pension liabilities and actuarial provisions	**CHF/000 31.12.2019**	**CHF/000 31.12.2018**
Situation at 1.1	164'375	172'955
Updating following changes in Pension Fund Regulation and new calculations as of 31.12	-18'215	-8'580
Updating following changes in technical bases	-	-
Updating following changes in technical interest rate	3'110	-
Situation at 31.12	**149'270**	**164'375**

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

With letter dated 17.12.2019, EFG communicated to the Fondo the intention to partially finance its ordinary contribution of the year 2019 with the complete utilization of ECR at 31.12.2018 of CHF 2'150'503 (see in Operating account the item "Use of Employer contribution reserve").

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

	CHF/000 31.12.2019	CHF/000 31.12.2018
Pension liabilities and actuarial provisions (PL)	**149’270**	**164’375**
Total assets	170’718	171’853
./. Accounts payables	-3’512	-4’329
./. Accrued liabilities and deferred income	-94	-99
./. Employer contribution reserve	-	-2’151
Net pension assets (NPA)	**167’112**	**165’274**
Coverage ratio (NPA/PL)*100	**112.0%**	**100.5%**

In 2019 the coverage ratio gained 11.5 percentage points compared to 2018.

The improvement of the coverage ratio is due to:
- The increase of the Net assets of CHF 1.838 mln, thanks to the exceptional performance of the year (details in note 6.6) which has more than compensated the big outputs for payments of Vested Benefits and retirement capital for a total of CHF -16.158 mln.
- To a reduction of CHF -15.105 mln of the Pension liabilities and actuarial provisions, mainly for the releases for the turnover of the year of CHF -14.745 mln (see note 5.8).

The 2019 financial year closed with a gain before the destination to the Fluctuation reserve of CHF 16.944 mln (2018: loss of CHF -10.520 mln covered with a partial utilization of the Fluctuation reserve).
Such gain is due to the “Net income from investments” of CHF 19.010 mln, which has totally absorbed the negative “Net income from insurance activities” of CHF -1.774 mln.
In 2019 the “Net income from investments” gives a return of 11.1% on average investments (see note 6.6, 2018: - 3.84%), against a remuneration of Active employees’ liabilities in 2019 of 0% and of Pensioners’ liabilities for a theoretical 1.75%.

6. Explanatory notes on Investments and Net income from investments

6.1. Organization of investing activity, investment regulation

In compliance with the Organization regulation, the Board 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 general principles state that the Fondo’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 Board has entrusted PPCMetrics with the activities of an independent **Investment Controller**.
During 2019 the Fondo has invested securities exclusively in collective funds (without any possibility to bindingly exercise the right of vote) and subsequently the Pension Fund has never been called upon to exercise its right of vote pursuant to article 22 of OReSA.

The **asset management**, excluding UBS Funds (see note 1.5), is entrusted to EFG, Lugano branch (employer). The bank then fully **delegated** to the subsidiary Patrimony the "Misto Attivo" portfolio management mandate of the Foundation until 31.12.2019 and to the subsidiary EFGAM from 1.1.2020.
The new mandate signed with the Bank on 9.1.2020, in paragraph 14, only changes the asset manager. In the absence of changes in 2019 in the Investment regulations, the new mandate incorporates the limits and categories of investment defined in the previous mandate.

The Portfolio Managers:

- are in charge of asset management related to the different asset classes according to the precise and specific instructions included in the mandate;
- they complete asset transactions based on the guidelines and directives precisely agreed in writing;
- they provide the Fondo 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 and/or directly to the Board.

6.2. Target value and calculation method of the Fluctuation reserve

	CHF/000 31.12.2019	CHF/000 31.12.2018
Situation at 1.1 of Fluctuation reserve	899	11'419
Release (-) / creation in operating account	16'943	-10'520
Fluctuation reserve at 31.12.	**17'842**	**899**
Target Fluctuation reserve	**24'331**	**27'451**
Shortfall in Fluctuation reserve	6'489	26'552

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

The formula to calculate the Fluctuation reserve is as follows:

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

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

The target of the Fluctuation reserve for the current year is 16.3% of the total Pension liabilities and actuarial provisions (31.12.2018: 16.7%).

In 2019 the Fluctuation reserve was increased of CHF 16.943 mln (31.12.2018: CHF 10.520 mln used).

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

	31.12.2019					
	Total assets		Global strategy limits from 13.11.2017			OPP2 Limits
	CHF/000	in %	Min	Neutro	Max	in %
Operative cash in CHF [1]	2'888	1.7%				
Cash under mandate in CHF [1]	1'474	0.9%				
Cash under mandate in foreign currencies [1]	378	0.2%				
Money market funds in CHF and USD [1]	1'410	0.8%				
Total of liquid funds	**6'150**	**3.6%**	**0.0%**	**1.0%**	**35.0%**	
Swiss bonds [1]	32'909	19.3%	17.0%	25.5%	34.0%	
Foreign bonds (hedged) [1]	33'915	19.9%	13.5%	20.5%	27.5%	
Emerging markets bonds [1]	3'983	2.3%	0.0%	0.0%	5.0%	
Total of bonds	**70'807**	**41.5%**	**30.5%**	**46.0%**	**66.5%**	
Swiss equities [2]	9'553	5.6%	0.0%	5.5%	8.5%	
Foreign equities [2]	43'073	25.2%	0.0%	24.0%	33.0%	
Emerging markets equities [2]	6'521	3.8%	0.0%	4.5%	6.5%	
Total of equities	**59'147**	**34.6%**	**0.0%**	**34.0%**	**48.0%**	**50.0%**
Total of alternative investments	**0**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**15.0%**
Not quoted swiss real estate funds [3]	0	0.0%	0.0%	0.0%	5.0%	
Quoted swiss real estate funds [3]	22'051	12.2%	9.0%	13.0%	17.0%	
Foreign real estate funds (hedged)	11'548	6.8%	4.0%	6.0%	8.0%	10.0%
Total of real estate	**33'599**	**19.7%**	**13.0%**	**19.0%**	**30.0%**	**30.0%**
Other receivables	1'015	0.6%		0.0%		
Prepayments and accrued income	0	0.0%		0.0%		
Total of other assets and prepayment and accrued income [1]	**1'015**	**0.6%**		**0.0%**		
Total assets (art. 49 OPP2)	**170'718**	**100.0%**		**100.0%**		
Foreign currencies unhedged [4]	**9'684**	**5.7%**	**0.0%**	**8.5%**	**17.0%**	**30.0%**
Cash under mandate with the Employer	**1'852**	**1.1%**				**5.0%**

[1] Individual investment limit per debtor in force since 1.1.2011: 10%
[2] Limit per participation: 5%
[3] Limit for each single real estate property: 5%
[4] Split of items without hedging for currency risk as contained in the Investment Controlling Report as of 31.12.2019

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

During the last years, at a tactical level, Patrimony has always maintained the portfolio of the "Misto Attivo" mandate of the Fondo defensively positioned on bonds, with a clear overweight in liquidity.
In order to ensure a tactically neutral change to EFGAM on 1.1.2020, market operations were carried out in December in order to approach the neutral limits of the strategy, albeit still with a slight underweight on the bond.

Investments in foreign real estate (UBS funds), with very satisfactory performances in 2019, are slightly overweight (see note 6.6).

As of 31.12.2019, the Fondo's total cash amounts to 3.6% of total assets (2018: 12.3%) and it is composed by:
- Operating cash: CHF 2.888 mln (1.7% of total assets);
- Cash under "Misto Attivo" mandate (in CHF and foreign currency): CHF 1.852 mln (1.1% of total assets);
- Money market funds in CHF and USD: CHF 1.410 mln (0.8% of total assets).

As of 31.12.2019 there are no replacement values registered in the "Prepayments and accrued income" and "Accrued liabilities and deferred income" items, because there are no open financial derivatives instruments at the end of the year (2018: 0).

6.4. Compliance with EFG asset management mandate limits

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

	31.12.2019 "Misto Attivo" Portfolio		Limits of "Misto Attivo" mandate from 1.12.2017		
	CHF/000	in %	Min	Neutro	Max
Cash under mandate in CHF	1'474	1.0%			
Cash under mandate in foreign currencies	378	0.2%			
Money market funds in CHF and USD	1'410	0.9%			
Total of liquid funds	**3'262**	**2.1%**	**0.0%**	**0.0%**	**30.0%**
Swiss bonds	32'909	21.2%	19.0%	27.5%	36.0%
Foreign bonds (hedged)	33'915	21.8%	15.0%	22.0%	29.0%
Emerging markets bonds	3'983	2.6%	0.0%	0.0%	5.0%
Total of bonds	**70'807**	**45.6%**	**34.0%**	**49.5%**	**70.0%**
Swiss equities	9'553	6.2%	0.0%	6.0%	8.5%
Foreign equities	43'073	27.7%	0.0%	25.5%	34.5%
Emerging markets equities	6'521	4.2%	0.0%	5.0%	6.5%
Total of equities	**59'147**	**38.1%**	**0.0%**	**36.5%**	**49.5%**
Quoted Swiss real estate funds	22'051	14.2%	10.0%	14.0%	18.0%
Total of Swiss real estate	**22'051**	**14.2%**	**10.0%**	**14.0%**	**18.0%**
Total of "Misto Attivo" portfolio	**155'267**	**100.0%**		**100.0%**	
Credit for withholding Tax managed by the Administration referred to the "Misto Attivo" mandate	663				
Total "Assets" Misto Attivo mandate (used in note 6.6)	**155'930**				

6.5. Open financial derivatives instruments

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

6.6. Comments on Net income from investments

For a better understanding of the “Net income from investments”, please refer to the balance sheet and operating account items relating to the total assets of the Fondo or its components, as shown in the following table:

	Total Assets	Misto Attivo mandate	UBS Funds
	CHF/000	CHF/000	CHF/000
Assets at 31.12.2019	170’718	155’930	11’548
Assets at 1.1.2019	171’853	156’414	11’671
Average investment	**171’286**	**156’172**	**11’610**
Income from Liquid funds*	-25	-29	
Income from Swiss bonds	1’142	1’142	
Income from Foreign bonds	1’859	1’859	
Income from Swiss equities	1’910	1’910	
Income from Foreign equities	10’005	10’005	
Income from Swiss real estate funds	4’436	4’436	
Income from Foreign real estate funds	668		668
Income from Derivatives	-152	-152	
Retrocessions received	22	22	
Asset management expenses	-855	-681	-174
Total of Net income from investments	**19’010**	**18’512**	**494**
Income in % of average investment at 31.12.2019	**11.10%**	**11.85%**	**4.26%**
Income in % of average investment at 31.12.2018	*-3.84%*	*-4.77%*	*8.29%*

* The result of the Total Assets which is not allocated to the 2 components of the investment pertains to operative cash

The “Net income from investments” went from the loss of 2018 of CHF -6.890 mln to the gain of CHF 19.010 mln.
The equity sector impacted strongly to the positive result of the year, with a total Swiss + foreign that went from CHF -6.571 mln in 2018 to CHF +11.915 mln in 2019.
Also the “Income from Swiss real estate funds” recovered strongly, from CHF -0.877 mln in 2018 to +4.436 mln in 2019.
The “Income from Foreign real estate funds” refers entirely to the UBS Funds, which includes the dividend received for CHF +0.671 mln (2018: CHF +0.340 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 Fondo 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 31.12.2019, the total value of collective investment's expense ratios calculated with the TER ratio amounts to CHF 0.443 mln (31.12.2018: CHF 0.396 mln).

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

	CHF/000 31.12.2019	CHF/000 31.12.2018
Direct costs	412	411
Indirect cost (calculated based on the cost ratio TER)	443	396
Total of asset management expenses	**855**	**807**
Total of transparent investments	167’478	168’085
Asset management expenses as a % of transparent investments	**0.51%**	**0.48%**

In spite of the extraordinary performance in 2019 (note 6.6), at the end of the year the total Investments are lower then 31.12.2018. In order to pay the Vested benefits in exit and the Retirement capital for a total of CHF -16.158 mln, in 2019 the investments under “Misto attivo mandate” were decreased (note 5.2).
This fact caused an increase of the “Asset management expenses as a % of transparent investments”, without a real increase in 2019 of the % of the flat fees.

6.7.3. Cost transparency ratio

	CHF/000 31.12.2019	CHF/000 31.12.2018
Transparent investments	167’478	168’085
Investments in “Misto Attivo” mandate and UBS real estate funds	167’478	168’085
Cost transparency ratio	**100.0%**	**100.0%**

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

Persuant to art. 48a, paragraph 3 OPP2, on 31.12.2019 there are no investment without details about asset management expenses (31.12.2018: 0).

6.8. Explanation of investments and other receivables with the employer

Investments with the employer	31.12.2019	in %	OPP2 Limits	Article
	CHF/000			
Operative cash EFG SA	2’888	1.69%		UFAS journal n. 84/486
Cash under mandate in EFG SA	1’852	1.08%	5.00%	57 par.2
Prepayments and accrued income with employer	0	0.00%		
Total investments with the employer EFG SA	**4’740**			
Total assets (art. 49 OPP2)	**170’718**	**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 Fondo and EFG there is collateral contract, which commits the employer to guarantee the cash of the Fondo deposited on the asset management current accounts (“Misto Attivo” mandate) by setting up a collateral deposit. As of 31.12.2019, the collateral deposited amounts to CHF 2.520 mln with a 136.03% hedging of the invested capital with the employer.

6.9. Retrocessions

The Fondo receives retrocessions only from EFG.
From 2019 the Bank has changed its calculation method, paying the retrocessions monthly for the competence period, while in the past it paid during the first quarter of the following year those of competence of the closed year.
As a consequence in the year 2019 the Fondo has received CHF 6’721 for competence of the year 2018 and CHF 15’636 for competence of 2019 (2018: CHF 7’985 for competence of 2017).

7. Comments on other balance sheet and operating account positions

7.1. Prepayments and accrued income

As of 31.12.2019 and 31.12.2018 there are no “prepayments and accrued income”.

7.2. Accrued liabilities and deferred income

The item “Accrued liabilities and deferred income” includes liabilities against LPP Guarantee Fund, invoices to be received from third parties for expenses with competence in the period and deferred income from revenues pertaining to future periods.

8. Requirements of the Supervisory Authority

By decision of 4.6.2019, the Supervisory Authority *acknowledged* the 2018 annual report.

On 11.12.2019, the Supervisory Authority confirmed the *formal assessment* of the following Fondo’s regulations:

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

9. Further information regarding the financial situation

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

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

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

As the Fondazione closes on 31.12.2018 in underfunding, during the meeting of 30.1.2019 the Board of the Fondo promptly created a joint working group with the Board of the Fondazione with the aim of defining a new overall pension structure and introducing adequate recapitalization measures.

Pursuant to article 65c paragraph 2 LPP, the Boards of EFG Lugano Foundations informed the active employees and beneficiaries on 1.2.2019 of the size and causes of the overall situation.

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

Following the detail of the measures implemented:

a) **Remuneration of 0% on Vested benefits and supplementary accounts** of the active employees of Fondazione and Fondo (note 5.2).
b) **Reduction of the regulatory conversion rates from 1.1.2020**. The conversion rate at the ordinary retirement age reduces from the 5.20% **to 5.00%** (note 3.1).
c) **Limitation of the maximum annual retirement pension to a total of CHF 99'540 between Fondazione and Fondo. The surplus capital will be paid out as a lump sum**. The measure applies to new retirements **from 2020** (note 3.1).
d) **Reduction of the pension for spouses / life partner of a pensioner** from 60% **to 50%** of the retirement pension beginning **from 1.1.2020**. The new percentage applies to all new widows / widowers of Fondazione and Fondo from 1.1.2020 (note 3.1).
e) **Reduction of the pension for children and orphans of a retirement pension beneficiary** from the current 10% (Plan 1) and 20% (Plan 2) of the retirement pension to the **LPP Minimum benefit**. The measure applies from 1.1.2020 to all children of new pensioners of Fondazione and Fondo, and to all children born from January 2020 by individuals which are already pensioners in Fondazione and in Fondo. Since the benefits of Fondo are already above the mandatory amounts foreseen by the LPP, the measure actually means the total elimination of this benefit (nota 3.1).
f) **Restriction from 1.1.2020 of new disability pension in Plan 1 of Fondo to 70% of the insured salary, in line with the benefits provided by Plan 1 of the Fondazione**, eliminating the increasing benefits in the Fondo based on the rank as per previous regulation (nota 3.1).

Savings resulting from recapitalization measures with regulatory impact are detailed in note 5.8 and amount to CHF 3.470 mln, plus a lower cost in 2019 for interest on savings capital estimated at CHF 0.6 million.

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

9.2. Waiver of use by the employer of the ECR

In 2019 EFG has fully used its contribution reserve (note 5.9). At 31.12.2019 this reserve is equal to 0.

9.3. Partial liquidations

The "Regulation on partial and full liquidation and merger" establishes that the conditions for a partial liquidation are fulfilled:

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

In the two-year period 2018-2019 individual business activities were not exited by the employer and affiliation contracts have not been terminated, thus requirements b) and c) are not met.

However, given the significant amount of active employees' terminations for reasons other than retirement, the Board with the assistance of the pension actuary assessed whether the requirements at point a) of the Regulation were met for the period 2018-2019 with **negative outcome**.

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

9.4. Separate accounts
Not applicable.

9.5. Pledge of assets
Not applicable.

9.6. Joint liabilities and guarantees
Not applicable.

9.7. Pending legal proceedings
In 2019 no legal proceedings were brought against the Fondo.

9.8. Special business and asset transactions
Not applicable.

10. Events after the balance sheet date
Not applicable.

11. Report of the statutory auditor on the Financial Statements 2019

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To the Foundation Board of

Fondo Complementare di Previdenza EFG SA, Lugano

Lugano, 27 April 2020

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Fondo Complementare di Previdenza EFG SA, which comprise the balance sheet, operating account and notes (pages 7 to 36), for the year ended 31 December 2019.

Foundation Board's responsibility
The Foundation Board is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and with the foundation's deed of formation and the regulations. This responsibility includes designing, implementing and maintaining an internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Foundation Board is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Responsibility of the expert in occupational benefits
In addition to the auditor, the Foundation Board appoints an expert in occupational benefits to conduct the audit. The expert regularly checks whether the occupational benefit scheme can provide assurance that it can fulfil its obligations and that all statutory insurance-related provisions regarding benefits and funding comply with the legal requirements. The reserves necessary for underwriting insurance-related risks should be based on the latest report provided by the expert in occupational benefits in accordance with article 52e paragraph 1 of the Occupational Pensions Act (OPA) and article 48 of the Occupational Pensions Ordinance 2 (OPO 2).

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2019 comply with Swiss law and with the foundation's deed of formation and the regulations.

Report on additional legal and other requirements

We confirm that we meet the legal requirements on licensing (article 52b OPA) and independence (article 34 OPO 2) and that there are no circumstances incompatible with our independence.

Furthermore, we have carried out the audits required by article 52c paragraph 1 OPA and article 35 OPO 2. The Foundation Board is responsible for ensuring that the legal requirements are met and that the statutory and regulatory provisions on organization, management and investments are applied.

We have assessed whether:
- organization and management comply with the legal and regulatory requirements and whether an internal control exists that is appropriate to the size and complexity of the foundation
- funds are invested in accordance with legal and regulatory requirements
- measures have been taken to ensure loyalty in fund management and whether the Governing Body has ensured to a sufficient degree that fund managers fulfill their duties of loyalty and disclosure of interests
- the available funds or discretionary dividends from insurance contracts have been used in compliance with the legal and regulatory provisions
- the legally required information and reports have been given to the supervisory authority
- the pension fund's interests are safeguarded in disclosed transactions with related entities

We confirm that the applicable legal and statutory requirements have been met.

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

Ernst & Young Ltd

Stefano Caccia
Licensed audit expert
(Auditor in charge)

Michele Balestra
Licensed audit expert

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

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