

Fondo Complementare di Previdenza

Annual report 2018

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

Management report 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, and Omar Rossi. During the Board meeting on 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 on 30 January 2019.

To replace the resigning member Omar Rossi with date 31.12.2018, the Board confirmed Roberto Balmelli 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 Fondo's asset management by -3.84%. As a direct consequence of the negative financial results and the umpteenth worsening of the demographic structure of the Fondo with a negative trend that will last in the future, the **coverage ratio** has undergone a significant reduction, losing 6.1 percentage points and passing from 106.6% in 2017 to a just sufficient coverage of **100.5%** 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, but with a provision for a future decrease to 2%.

The annual report of the Fondo closes the year with an **income surplus of CHF 0.9 mln**, and a partial dissolution of the 2017 fluctuation reserve of CHF 10.5 mln. The goal set for this reserve corresponds as of 31.12.2018 to 16.7% of the pension liabilities, i.e. CHF 27.5 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 Fondo amounts to CHF 165.3 mln, while pension liabilities and actuarial provisions have recorded CHF 164.4 mln.

| Summary of the "key figures" | 31.12.2018 | 31.12.2016 |
|---|---------------|---------------|
| Coverage Ratio | 100.5% | 106.6% |
| Technical Rate (advice by Chamber of Pension Actuaries = 2.00%) | 2.25% | 2.25% |
| Net income from investments | -3.84% | 6.21% |
| Fluctuation reserve (target 31.12.2018 = CHF 27.5 mln) | CHF 0.9 mln | CHF 11.4 mln |
| Net pension assets | CHF 165.3 mln | CHF 184.4 mln |
| Pension liabilities and actuarial provisions | CHF 164.4 mln | CHF 173.0 mln |

Worsening of the coverage ratio - Work Group recapitalisation measures

During the meeting held on 30 January 2019, acknowledging the worsening of the coverage ratio, the Board set up a joint Work Group with the Board of Fondazione 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 active employees and pensioners.

The Work Group consists of the actuary Willis Towers Watson (WTW), three representatives of the Board (the Chairman Massimo Antonini, Christian Moser and Daniel Lüscher) and the Manager.

It will 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 Fondo it would lead to application of a 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 Fondo, 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 measure, the 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 Fondo.

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 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, taking 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 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 Fondo 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 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 Fondo, 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.

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

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Balance sheet

| ASSETS | NOTES | CHF 31.12.2018 | CHF 31.12.2017 |
|--|------------|--------------------|--------------------|
| Investments | | 171'853'032 | 186'944'158 |
| Liquid funds | 6.3 | 21'157'402 | 23'309'232 |
| Credits towards Helvetia SA | | 497'330 | 784'578 |
| Other credits | | 0 | 1'323 |
| Credits for withholding tax | | 879'015 | 615'113 |
| Swiss bonds | 6.3 | 33'537'280 | 32'887'780 |
| Foreign bonds | 6.3 | 34'037'186 | 33'056'856 |
| Swiss equities | 6.3 | 5'348'531 | 7'916'104 |
| Foreign equities | 6.3 | 43'829'845 | 56'036'474 |
| Swiss real estate funds | 6.3 | 20'895'113 | 21'318'709 |
| Foreign real estate funds | 6.3 | 11'671'330 | 11'017'989 |
| Prepayments and accrued income | 7.1 | 0 | 0 |
| Total assets | | 171'853'032 | 186'944'158 |
| LIABILITIES | | | |
| Accounts payables | | 4'329'002 | 278'618 |
| Vested benefits to be paid | | 2'098'976 | 14'420 |
| Retirement capital to be paid | | 2'230'026 | 0 |
| Current account with Fondazione di previdenza EFG SA | | 0 | 264'198 |
| Accrued liabilities and deferred income | 7.2 | 99'965 | 141'697 |
| Employer contribution reserve (ECR) without waiver of use | 5.9 | 2'150'503 | 2'150'503 |
| Pension liabilities and actuarial provisions | | 164'374'652 | 172'954'620 |
| Active employees' liabilities | 5.2 | 69'504'200 | 77'311'522 |
| Pensioners' liabilities | 5.4 | 89'097'788 | 90'247'503 |
| Actuarial provisions | 5.5 | 5'772'664 | 5'395'595 |
| Fluctuation reserve | 6.2 | 898'910 | 11'418'720 |
| Dotation capital and free funds / underfunding | | 0 | 0 |
| Dotation capital | | 100'000 | 100'000 |
| <i>Free funds / underfunding</i> | | | |
| Balance at the beginning of the period | | -100'000 | -100'000 |
| Income surplus / (-) Expense surplus of the period | | 0 | 0 |
| Balance at the end of the period | | -100'000 | -100'000 |
| Total liabilities | | 171'853'032 | 186'944'158 |

Operating account

| | NOTES | CHF 2018 | CHF 2017 |
|--|-------|--------------------|--------------------|
| Ordinary and other contributions, buy-ins | | 7'058'828 | 8'553'483 |
| <i>Employer contributions</i> | | | |
| Ordinary contributions | | 3'540'939 | 4'111'905 |
| <i>Employee contributions</i> | | | |
| Ordinary contributions | | 1'636'889 | 1'816'078 |
| One-time payments and purchase amounts | 5.2 | 1'881'000 | 2'625'500 |
| Entry lump sum transfers | | 304'189 | 0 |
| Earnings from Vested benefit transfers | 5.2 | 154'189 | 0 |
| Repayment of withdrawals for residential property | 5.2 | 150'000 | 0 |
| Income from contributions and entry payments | | 7'363'017 | 8'553'483 |
| Regulatory benefits | | -10'145'727 | -10'444'435 |
| Retirement pensions | | -5'101'375 | -5'036'622 |
| Disability pensions | | 0 | -4'350 |
| Spouse pensions | | -495'261 | -480'893 |
| Orphan and children pensions | | -129'362 | -122'931 |
| Retirement capital | 5.2 | -4'419'729 | -4'799'639 |
| Termination benefits | | -8'850'085 | -18'074'843 |
| Departures of Vested benefits | 5.2 | -8'850'085 | -15'829'408 |
| Withdrawals for residential property and divorce | 5.2 | 0 | -2'245'435 |
| Expenses for benefits and withdrawals | | -18'995'812 | -28'519'278 |
| Release / (-) creation of Pension liabilities, Actuarial provisions and ECR | | 8'573'125 | 15'726'357 |
| Variation in Active employees' liabilities | | 8'536'980 | 18'596'667 |
| Variation in Pensioners' liabilities | | 1'149'715 | -2'257'062 |
| Variation in Actuarial provisions | | -377'069 | 236'719 |
| Interest on vested benefits paid | | -6'843 | -30'584 |
| Interest on retirement savings capital | 5.2 | -729'658 | -819'383 |
| Income from insurance benefits | | 181'542 | 144'926 |
| Insurance benefits | | 38'986 | 21'020 |
| Share of insurance surpluses | | 142'556 | 123'906 |

Operating account (2nd part)

| | NOTES | CHF 2018 | CHF 2017 |
|---|-------------|--------------------|-------------------|
| Insurance expenses | | -447'673 | -673'651 |
| Insurance premium | 5.1 | -441'065 | -666'704 |
| Contribution to Guarantee Fund | | -6'608 | -6'947 |
| Net income from insurance activities | | -3'325'801 | -4'768'163 |
| Net income from investments | 6.6 | -6'889'618 | 12'129'353 |
| Income from Liquid funds | | 55'142 | -108'070 |
| Income from Swiss bonds | | 104'234 | -19'515 |
| Income from Foreign bonds | | -271'706 | 64'488 |
| Income from Swiss equities | | -735'143 | 1'800'541 |
| Income from Foreign equities | | -5'835'487 | 9'983'480 |
| Income from Alternative investments | | 0 | 471'836 |
| Income from Swiss real estate funds | | -876'668 | 1'668'986 |
| Income from Foreign real estate funds | | 1'104'011 | -40'934 |
| Income from Derivatives | | 364'890 | -735'252 |
| Retrocessions received | 6.9 | 7'985 | 2'669 |
| Asset management expenses | 6.7 | -806'876 | -958'876 |
| Other income | | 1'730 | 3'019 |
| General administration expenses | | -306'121 | -325'500 |
| Actuary activities | | -15'935 | -37'401 |
| External Audit | | -20'361 | -21'265 |
| Supervisory authority | | -5'119 | -11'162 |
| Marketing and advertising | | -1'242 | -4'715 |
| General administration | | -263'464 | -250'957 |
| Income / (-) Expenses before creating / releasing of Fluctuation reserve | 5.10 | -10'519'810 | 7'038'709 |
| Release / (-) creation of Fluctuation reserve | 6.2 | 10'519'810 | -7'038'709 |
| Income surplus / (-) Expense surplus of the period | | 0 | 0 |

Notes to the 2018 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 by BSI SA (hereinafter “BSI”) on 16.4.1984. 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 Fondo and took over the position of the Founder of “Fondo Complementare 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 “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, at via Magatti 2, Lugano.

1.3. Information about Statute and Regulations

| | In force from | Notes |
|--|---------------|--|
| Statute | 4.9.2017 | Approved by the Foundation Board on 4.9.2017 Approved by the Supervisory Authority on 15.9.2017 |
| Organization Regulation | 26.7.2017 | Approved by the Foundation Board on 26.7.2017 |
| Electoral Regulation for the nomination of the delegates meeting and the representatives of the active employees in the Board of Foundation | 26.7.2017 | Approved by the Foundation Board on 26.7.2017 |
| Pension fund regulation for employees and pensioners who were insured with "Fondo Complementare 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 for complementary plan (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 27.2.2018 |
| 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 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 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 |
| Lüscher Daniel | Member | 1/2019-12/2022 | 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 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 and Omar Rossi. During the Foundation Board meeting on 30 July 2018, the new Board elected 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 Roberto Balmelli also appointing him Secretary.

1.4.2. Delegates' Meeting

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

Starting from 1 January 2019 the Delegates' Meeting is composed as follows:

- **Active employees:** Balmelli Roberto, Bizzozero Sergio, Butti Alessandro, Cattaneo Lorenzo, 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 | 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: Fianza Paco | |
| 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). |
| | 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:

| | Fondazione di previdenza | | | | Patrimony 1873 SA | EFG AM | Total 2018 | Total 2017 |
|---|--------------------------|----------|------------|-----------|-------------------|-----------|------------|------------|
| | EFG | EFG SA | Dreieck SA | Finnat SA | | | | |
| Situation at 1.1. | 238 | 1 | 2 | - | 28 | 13 | 282 | 329 |
| + / - Transfers | 1 | - | - | - | - | -1 | - | - |
| + Entries ¹ | 19 | - | - | - | 1 | 2 | 22 | 21 |
| - Departures ² / Deaths | -44 | - | - | - | -2 | - | -46 | -54 |
| - Retirements ³ / Disability | -9 | - | - | - | - | - | -9 | -14 |
| Situation at 31.12. ⁴ | 205 | 1 | 2 | - | 27 | 14 | 249 | 282 |

Remarks:

¹ It includes also entries and departures within the year.

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

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

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

In 2018, the number of active employees fell by 33 in net terms (2017: -47). The number of voluntary departures is consistent within the two-year period.

In 2018 there were no new disabled persons and no death occurred.

2. Active employees and pensioners

2.1. Active employees

| | Plan 1* | Plan 2* | Total 31.12.2018 | 31.12.2017 |
|--------------|------------|----------|------------------|------------|
| Men | 196 | 6 | 202 | 232 |
| Women | 46 | 1 | 47 | 50 |
| Total | 242 | 7 | 249 | 282 |

* 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, with an increase of importance of women from 17.73% to 18.88%.

| Structure by age range | 31.12.2018 | 31.12.2017 |
|------------------------|------------|------------|
| 24-32 years | 2 | 3 |
| 33-42 years | 26 | 35 |
| 43-54 years | 149 | 180 |
| From 55 years | 72 | 64 |
| Total | 249 | 282 |
| Average age | 51 | 50.4 |

Although in the "43-54 years" of age range the highest number of departures was recorded in 2018 (31), this age range remains the most important in relative terms amounting to 59.8% of the total (2017: 63.8%).

The light increase in Average age shows that in Fondo there is no generational turnover.

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 2018 | Total 2017 |
|----------------------------|--|--|---------------------------------|--|------------|------------|
| Situation at 1.1. | 122 | 2 | 21 | 14 | 159 | 158 |
| + Entries | 5 | - | 1 | 5 | 11 | 8 |
| + / - Conversions | - | - | - | - | - | - |
| - Deaths / Terminations | -1 | - | -1 | -1 | -3 | -7 |
| Situation at 31.12. | 126 | 2 | 21 | 18 | 167 | 159 |

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.

In line with what occurred in the Fondazione, also in the Fondo there is an increased number of retirement (+9). The net amount of the pensioners' increases only by 5 units because to some people was paid the lump sum retirement capital. The 167 pensioners include 3 individuals for whom the Fondo is refunded of the paid benefits by the insurance company "Helvetia" (2017: 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 2018 | Total 2017 |
|------------------------|-------------------------------------|-------------------------------------|---------------------------------|-----------------------------------|------------|------------|
| Less than 18 years | - | - | - | 5 | 5 | 5 |
| 18-24 years | - | - | - | 13 | 13 | 9 |
| 25-54 years | - | - | - | - | - | - |
| 55-64 years | 31 | 2 | 5 | - | 38 | 38 |
| 65-74 years | 54 | - | 7 | - | 61 | 60 |
| 75-84 years | 31 | - | 3 | - | 34 | 37 |
| 85-94 years | 9 | - | 6 | - | 15 | 10 |
| Above 94 years | 1 | - | - | - | 1 | - |
| Total | 126 | 2 | 21 | 18 | 167 | 159 |
| Average age | | | | | 66.3 | 66.7 |

None of the 2 invalids in the table receives a disability pension. The retirement credits 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 1.77 on 31.12.2017 to 1.49 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 Pension Funds of the employer (the Fondo 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 Fondo (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 Fondo **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 “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 | Retirement savings capital multiplied by conversion rate | |
| Conversion rates in % | Women and men | Women | Men |
| | 60 years: 4.71 | 60 years: 4.71 | 4.60 |
| | 61 years: 4.82 | 61 years: 4.82 | 4.71 |
| | 62 years: 4.94 | 62 years: 4.94 | 4.82 |
| | 63 years: 5.07 | 63 years: 5.07 | 4.94 |
| | 64 years: 5.20 | 64 years: 5.20 | 5.07 |
| | 65 years: 5.34 | 65 years: 5.34 | 5.20 |
| | 66 years: 5.50 | 66 years: 5.50 | 5.34 |
| | 67 years: 5.66 | 67 years: 5.66 | 5.50 |
| | 68 years: 5.84 | 68 years: 5.84 | 5.66 |
| | 69 years: 6.03 | 69 years: 6.03 | 5.84 |
| | 70 years: 6.24 | 70 years: 6.24 | 6.03 |
| Children's retirement benefits | 10% of retirement pension | 20% of retirement pension | |

Pension fund regulation 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: 70% of the disability pension Disabled individual: 70% of the disability pension Pensioner: 60% of the retirement pension | Active employee: 50% of the insured salary (see definition in note 3.2) Disabled individual: 50% of the relevant income for the calculation of the current disability pension Pensioner: 60% of the retirement pension |
| Orphan's pension | Active employee: 15% of the insured salary (see definition in note 3.2) Disabled individual: 15% of the insured salary Pensioner: 10% of the retirement pension | Active employee: 10% of the insured salary Disabled individual: 10% of the relevant income for the calculation of the current disability pension Pensioner: 20% of the retirement pension |
| Lump-sum death benefit | 100% of the insured salary + purchases in maximum retirement benefits, as well as capital savings in the supplementary 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 | 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 |

DISABILITY BENEFITS

| | | |
|-------------------------------|---|---|
| Disability pension | 70% of the insured salary until ordinary retirement age; depending on the working position, this % will be higher: Officials 80% Vice President 80% First Vice President 90% Senior Vice President 90% Senior Executive Vice President 90% | 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 Fondo shall bear all management costs.

| | Plan 1 | Plan 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|----------------------------|---|---|----------|----------|-------|-------|------|------|------|-------|------|-------|-------|-------|------|-------|-------|-------|------|-------|-------|-------|------|-------|-------|-----|----------|----------|-------|-------|------|------|------|-------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----|----------|----------|-------|-------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--|-----|----------|----------|-------|-------|--------|--------|------|-------|--------|--------|--------|-------|--------|---------|--------|-------|--------|---------|--------|----------|--------|---------|--------|-----|----------|----------|-------|-------|--------|--------|------|-------|--------|--------|--------|-------|--------|---------|--------|-------|--------|---------|--------|----------|--------|---------|--------|-----|----------|----------|-------|-------|--------|--------|------|-------|--------|--------|--------|-------|--------|---------|--------|-------|---------|---------|--------|----------|---------|---------|--------|
| Insured salary | <p>The insured salary in principle corresponds to 7/6th of the annual basic salary (fixed annual basic salary excluding bonuses) minus the coordination amount that corresponds to 5/3rd of the single maximum AHV pension (CHF 28'200 in 2018 and CHF 28'440 in 2019) and minus 4 times the simple maximum AHV pension (CHF 112'800 in 2018 and CHF 113'760 in 2019).</p> <p>The maximum insured salary corresponds to CHF 500'000 minus 34/7th of the simple maximum AHV pension (CHF 136'971 in 2018 and CHF 138'137 in 2019), in proportion to the level of employment.</p> | <p>The insured salary is equal to the determining annual salary, which is equal to the fixed basic annual salary according to the contractual provisions with the employer until a maximum of CHF 500'000, without variable components, minus the coordination amount.</p> <p>The coordination amount is equal to 34/7th 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.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total contributions | <p>Standard contribution plan</p> <table border="1"> <thead> <tr> <th>Age</th> <th>Employee</th> <th>Employer</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>18-23</td> <td>2.0%</td> <td>3.0%</td> <td>5.0%</td> </tr> <tr> <td>24-32</td> <td>6.0%</td> <td>17.5%</td> <td>23.5%</td> </tr> <tr> <td>33-42</td> <td>7.0%</td> <td>19.5%</td> <td>26.5%</td> </tr> <tr> <td>43-52</td> <td>8.0%</td> <td>21.5%</td> <td>29.5%</td> </tr> <tr> <td>53-64</td> <td>9.0%</td> <td>24.5%</td> <td>33.5%</td> </tr> </tbody> </table> <p>Plus contribution plan (+3%)</p> <table border="1"> <thead> <tr> <th>Age</th> <th>Employee</th> <th>Employer</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>18-23</td> <td>2.0%</td> <td>3.0%</td> <td>5.0%</td> </tr> <tr> <td>24-32</td> <td>9.0%</td> <td>17.5%</td> <td>26.5%</td> </tr> <tr> <td>33-42</td> <td>10.0%</td> <td>19.5%</td> <td>29.5%</td> </tr> <tr> <td>43-52</td> <td>11.0%</td> <td>21.5%</td> <td>32.5%</td> </tr> <tr> <td>53-64</td> <td>12.0%</td> <td>24.5%</td> <td>36.5%</td> </tr> </tbody> </table> <p>Top contribution plan (+6%)</p> <table border="1"> <thead> <tr> <th>Age</th> <th>Employee</th> <th>Employer</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>18-23</td> <td>2.0%</td> <td>3.0%</td> <td>5.0%</td> </tr> <tr> <td>24-32</td> <td>12.0%</td> <td>17.5%</td> <td>29.5%</td> </tr> <tr> <td>33-42</td> <td>13.0%</td> <td>19.5%</td> <td>32.5%</td> </tr> <tr> <td>43-52</td> <td>14.0%</td> <td>21.5%</td> <td>35.5%</td> </tr> <tr> <td>53-64</td> <td>15.0%</td> <td>24.5%</td> <td>39.5%</td> </tr> </tbody> </table> | 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% | 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% | 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% | <p>Standard contribution plan</p> <table border="1"> <thead> <tr> <th>Age</th> <th>Employee</th> <th>Employer</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>18-19</td> <td>0.833%</td> <td>1.667%</td> <td>2.5%</td> </tr> <tr> <td>20-34</td> <td>4.583%</td> <td>9.167%</td> <td>13.75%</td> </tr> <tr> <td>35-44</td> <td>5.583%</td> <td>11.167%</td> <td>16.75%</td> </tr> <tr> <td>45-54</td> <td>6.583%</td> <td>13.167%</td> <td>19.75%</td> </tr> <tr> <td>55-64/65</td> <td>7.583%</td> <td>15.167%</td> <td>22.75%</td> </tr> </tbody> </table> <p>Plus contribution plan (+2%)</p> <table border="1"> <thead> <tr> <th>Age</th> <th>Employee</th> <th>Employer</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>18-19</td> <td>0.833%</td> <td>1.667%</td> <td>2.5%</td> </tr> <tr> <td>20-34</td> <td>6.583%</td> <td>9.167%</td> <td>15.75%</td> </tr> <tr> <td>35-44</td> <td>7.583%</td> <td>11.167%</td> <td>18.75%</td> </tr> <tr> <td>45-54</td> <td>8.583%</td> <td>13.167%</td> <td>21.75%</td> </tr> <tr> <td>55-64/65</td> <td>9.583%</td> <td>15.167%</td> <td>24.75%</td> </tr> </tbody> </table> <p>Top contribution plan (+4%)</p> <table border="1"> <thead> <tr> <th>Age</th> <th>Employee</th> <th>Employer</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>18-19</td> <td>0.833%</td> <td>1.667%</td> <td>2.5%</td> </tr> <tr> <td>20-34</td> <td>8.583%</td> <td>9.167%</td> <td>17.75%</td> </tr> <tr> <td>35-44</td> <td>9.583%</td> <td>11.167%</td> <td>20.75%</td> </tr> <tr> <td>45-54</td> <td>10.583%</td> <td>13.167%</td> <td>23.75%</td> </tr> <tr> <td>55-64/65</td> <td>11.583%</td> <td>15.167%</td> <td>26.75%</td> </tr> </tbody> </table> | Age | Employee | Employer | Total | 18-19 | 0.833% | 1.667% | 2.5% | 20-34 | 4.583% | 9.167% | 13.75% | 35-44 | 5.583% | 11.167% | 16.75% | 45-54 | 6.583% | 13.167% | 19.75% | 55-64/65 | 7.583% | 15.167% | 22.75% | 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% | 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% |
| 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% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 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% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 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% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 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% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 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% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 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% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Risk contributions | <p>Employee: 2.0%</p> <p>Employer: 3.0%</p> | <p>Employee: 0.833%</p> <p>Employer: 1.667%</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| | 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

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 “Fondo” remains as of 31 December 2018 with a sufficient coverage but with a forecast of underfunding in the immediate future (see note 5.10).

As the Fondazione di previdenza closes on 31.12.2018 in undercoverage, 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 together with the actuary (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 Fondo’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 of the Fondazione, management of a part of the assets is entrusted to EFG and subcontracted to Patrimonio 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 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 Jan. 2009 with expiry date at 31.12.2018.

In 2018 the premium risk rate amounted to 2.78% of the total insured salaries (2017: 2.78%). 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 2.78% 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:

| | <i>Piano 1</i> | <i>Piano 2</i> | CHF/000 Totale 31.12.2018 | CHF/000 31.12.2017 |
|---|----------------|----------------|------------------------------|-----------------------|
| Vested benefits | 67'943 | 305 | 68'248 | 76'207 |
| Supplementary account "Early retirement redemption" | 1'256 | - | 1'256 | 1'105 |
| Total of Active employees' liabilities | 69'199 | 305 | 69'504 | 77'312 |
| Number of Active employees at 31.12. | | | 249 | 282 |

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. For 2018 and 2017 the rate was 1%, while for 2019 it will be 0% (Board's decision on 30.1.2019 compliant with Art. 33 paragraph 6 of the Pension Fund Regulation, considering the underfunding of Fondazione and the negative short-time trend of Fondo's coverage rate. See also note 9.1).

Supplementary account "Early Retirement Redemption" is 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. | 77'312 | 95'089 |
| Employers and employees savings contributions | 4'394 | 5'015 |
| Earnings from Vested benefit transfers | 154 | - |
| One-time payments and purchase amounts | 1'881 | 2'625 |
| Repayment of withdrawals for residential property | 150 | - |
| Withdrawals for residential property and divorce | - | -2'245 |
| Departures of Vested benefits | -8'850 | -15'829 |
| Retirement capital | -4'420 | -4'800 |
| Transfers to Pensioners' liabilities | -1'847 | -3'362 |
| Interest on retirement savings capital | 730 | 819 |
| Liabilities at 31.12. | 69'504 | 77'312 |
| Number of active employees at 31.12. | 249 | 282 |

The decrease in a year by CHF 7.808 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

The insured benefits are above the LPP minimum of law.

5.4. Development of Pensioners’ liabilities

| | CHF/000 31.12.2018 | CHF/000 31.12.2017 |
|--|-----------------------|-----------------------|
| Situation of Pensioners’ liabilities at 1.1 | 90'248 | 87'991 |
| Updating following changes in Pension Fund Regulation and new calculations as of 31.12 | -1'150 | -178 |
| Updating following changes in technical bases | - | - |
| Updating following changes in technical interest rate | - | 2'435 |
| Total of Pensioners’ liabilities at 31.12 | 89'098 | 90'248 |
| Number of pensioners’ at 31.12. | 167 | 159 |

The item “Update following changes in the Pension Fund Regulation and new calculations as of 31 December” amounts to CHF -1.150 mln and it includes the capital transfers from the “Active employees’ liabilities” (2018: CHF 1.847 mln), as well as the pensions paid in the period net of insurance benefits (2018: CHF -5.687 mln), the “implicit” interests at the technical interest rate on the initial capital (2018: CHF +2.031 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 and updating of longevity).

The item “Updating following changes in technical interest rate” indicated in 2017 the cost of moving from 2.50% to 2.25% in technical interest rate.

5.5. Composition, development and explanation of Actuarial provisions

In order to adequately cover all benefits under regulation and to prevent potential deviations from the actuarial bases, the following actuarial provisions have been implemented.

In all tables of the following paragraphs, the item “Update following changes in technical interest rate” indicated in 2017 the cost of moving from 2.5% to 2.25% in technical interest rate.

5.5.1. Conversion rate provision (Active employees’)

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

| | CHF/000 31.12.2018 | CHF/000 31.12.2017 |
|--|-----------------------|-----------------------|
| Situation at 1.1 | 925 | 1'349 |
| Updating following changes in Pension Fund Regulation and new calculations as of 31.12 | 161 | -977 |
| Updating following changes in technical bases | - | - |
| Updating following changes in technical interest rate | - | 553 |
| Situation at 31.12 | 1'086 | 925 |

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: 2.60% (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 Fondo (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 on 31 December 2018.

The net increase of CHF 0.161 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. 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 Fondo 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 Fondo'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 | 1'300 | 1'049 |
| Updating following changes in Pension Fund Regulation and new calculations as of 31.12 | 206 | 216 |
| Updating following changes in technical bases | - | - |
| Updating following changes in technical interest rate | - | 35 |
| Situation at 31.12 | 1'506 | 1'300 |

The cost of CHF 0.260 mln however refers to the new retirements of the year.

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 31.12.2018 | CHF/000 31.12.2017 |
|--|-----------------------|-----------------------|
| Situation at 1.1 | 3'170 | 3'234 |
| Updating following changes in Pension Fund Regulation and new calculations as of 31.12 | 11 | - |
| Updating following changes in technical bases | - | - |
| Updating following changes in technical interest rate | - | -64 |
| Situation at 31.12 | 3'181 | 3'170 |

Since the benchmark technical interest rate for 30.9.2018 defined by the Swiss Chamber of Pension Actuaries is 2.0% with downward trend in future years, the pension actuary considers worthwhile to update the Provision for technical interest rate in 2018 to finance future decreases of it from 2.25% to 2.0% (that will be applied at the same time of Fondazione).

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

5.5.5. Summary of Actuarial provisions

| Evolution summary of actuarial provisions | CHF/000 31.12.2018 | CHF/000 31.12.2017 |
|--|-------------------------------|-------------------------------|
| Situation at 1.1 | 5'395 | 5'632 |
| Updating following changes in Pension Fund Regulation and new calculations as of 31.12 | 378 | -761 |
| Updating following changes in technical bases | - | - |
| Updating following changes in technical interest rate | - | 524 |
| Situation at 31.12 | 5'773 | 5'395 |

| Composition summary of actuarial provisions | CHF/000 31.12.2018 | CHF/000 31.12.2017 |
|--|-------------------------------|-------------------------------|
| Conversion rate provision | 1'086 | 925 |
| Provision for the longevity risk | 1'506 | 1'300 |
| Provision for technical interest rate | 3'181 | 3'170 |
| Total of actuarial provisions | 5'773 | 5'395 |

5.6. Conclusions of the last actuarial report

In March 2019, Willis Towers Watson released the Fondo'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 100.5% as of 31 December 2018;
- 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 higher than the share of the actives and thus the restructuring capacity of the fund can be assessed as challenging;
- 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 fund does already consider this materially by building a technical provision "technical interest rate" which is based on a technical interest rate of 2.0%;
- 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 with the aim of increasing the fluctuation reserve to the target amount.

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 | 172'955 | 188'712 |
| Updating following changes in Pension Fund Regulation and new calculations as of 31.12 | -8'580 | -18'716 |
| Updating following changes in technical bases | - | - |
| Updating following changes in technical interest rate | - | 2'959 |
| Situation at 31.12 | 164'375 | 172'955 |

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

EFG did not waive the future use of the residual ECR of CHF 2'150'503 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) | 164'375 | 172'955 |
| Total assets | 171'853 | 186'944 |
| ./ Accounts payables | -4'329 | -279 |
| ./ Accrued liabilities and deferred income | -99 | -141 |
| ./ Employer contribution reserve | -2'151 | -2'151 |
| Net pension assets (NPA) | 165'274 | 184'373 |
| Coverage ratio (NPA/PL)*100 | 100.5% | 106.6% |

In 2018 the coverage ratio lost 6.1 percentage points compared to 2017.

The 2018 financial year closed with a significant loss of CHF 10.520 mln before the partial dissolution of Fluctuation reserve for the same amount.

The "Net income from insurance activities", usually negative in the Fondo (2018: CHF -3.326 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 12.129 mln to a loss of CHF -6.890 mln in 2018.

In 2018 the "Net income from investments" gives a return of -3.84% on average investment (see note 6.6, 2017: +6.21%), 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 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 2018 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 fully **delegated** to the subsidiary "Patrimony 1873 SA" the "Misto Attivo" portfolio management of the Fondo.

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 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 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 | 11'419 | 4'380 |
| Release (-) / creation in operating account | -10'520 | 7'039 |
| Fluctuation reserve at 31.12. | 899 | 11'419 |
| Target fluctuation reserve | 27'451 | 29'056 |
| Shortfall in fluctuation reserve | 26'552 | 17'637 |

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 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 16.7% of the total Pension liabilities and actuarial provisions (31.12.2017: 16.8%).

As of 31 December 2018, the Fluctuation reserve was partially dissolved to cover the loss of the year of CHF 10.520 mln.

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

| | 31.12.2018 | | Global strategy limits from 13.11.2017 | | | OPP2 Limits |
|--|----------------|---------------|--|---------------|--------------|--------------|
| | Total assets | | Min | Neutro | Max | in % |
| | CHF/000 | in % | | | | |
| Operative cash in CHF ¹ | 3'268 | 1.9% | | | | |
| Cash under mandate in CHF ¹ | 10'768 | 6.3% | | | | |
| Cash under mandate in foreign currencies ¹ | 377 | 0.2% | | | | |
| Money market funds in CHF and USD ¹ | 6'744 | 3.9% | | | | |
| Total of liquid funds | 21'157 | 12.3% | 0.0% | 1.0% | 35.0% | |
| Swiss bonds ¹ | 33'538 | 19.5% | 17.0% | 25.5% | 34.0% | |
| Foreign bonds (hedged) ¹ | 34'037 | 19.8% | 13.5% | 20.5% | 27.5% | |
| Emerging markets bonds ¹ | 0 | 0.0% | 0.0% | 0.0% | 5.0% | |
| Total of bonds | 67'575 | 39.3% | 30.5% | 46.0% | 66.5% | |
| Swiss equities ² | 5'349 | 3.1% | 0.0% | 5.5% | 8.5% | |
| Foreign equities ² | 39'242 | 22.8% | 0.0% | 24.0% | 33.0% | |
| Emerging markets equities ² | 4'588 | 2.7% | 0.0% | 4.5% | 6.5% | |
| Total of equities | 49'179 | 28.6% | 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 | 20'895 | 12.2% | 9.0% | 13.0% | 17.0% | |
| Total of swiss real estate funds | 20'895 | 12.2% | 9.0% | 13.0% | 22.0% | 30.0% |
| Total of foreign real estate funds (hedged) | 11'671 | 6.8% | 4.0% | 6.0% | 8.0% | 10.0% |
| Other receivables | 1'376 | 0.8% | | 0.0% | | |
| Prepayments and accrued income | 0 | 0.0% | | 0.0% | | |
| Total of other assets and prepayment and accrued income¹ | 1'376 | 0.8% | | 0.0% | | |
| Total assets (art. 49 OPP2) | 171'853 | 100.0% | | 100.0% | | |
| Foreign currencies unhedged⁴ | 7'631 | 4.4% | 0.0% | 8.5% | 17.0% | 30.0% |
| Cash under mandate with the Employer | 11'145 | 6.5% | | | | 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 31.12.2018

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 Swiss real estate are slightly underweight, the opposite is valid for investments in foreign real estate (UBS funds), with very satisfactory performances in 2018 (see note 6.6).

As of 31 December 2018, the Fondo's total cash amounts to 12.3% (2017: 12.5%) of total assets and it is composed by:

- Operating cash: CHF 3.268 mln (1.9% of total assets);
- Cash under "Misto Attivo" mandate (in CHF and foreign currency): CHF 11.145 mln (6.5% of total assets);
- Money market funds in CHF and USD: CHF 6.744 mln (3.9% 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 - 0.034 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 | | Limits of "Misto Attivo" mandate from 1.12.2017 | | |
|---|----------------|---------------|---|---------------|--------------|
| | CHF/000 | in % | Min | Neutro | Max |
| Cash under mandate in CHF | 10'768 | 6.9% | | | |
| Cash under mandate in foreign currencies | 377 | 0.3% | | | |
| Money market funds in CHF and USD | 6'744 | 4.3% | | | |
| Total of liquid funds | 17'889 | 11.5% | 0.0% | 0.0% | 30.0% |
| Swiss bonds | 33'538 | 21.6% | 19.0% | 27.5% | 36.0% |
| Foreign bonds (hedged) | 34'037 | 21.9% | 15.0% | 22.0% | 29.0% |
| Emerging markets bonds | 0 | 0.0% | 0.0% | 0.0% | 5.0% |
| Total of bonds | 67'575 | 43.5% | 34.0% | 49.5% | 70.0% |
| Swiss equities | 5'349 | 3.4% | 0.0% | 6.0% | 8.5% |
| Foreign equities | 39'242 | 25.2% | 0.0% | 25.5% | 34.5% |
| Emerging markets equities | 4'588 | 3.0% | 0.0% | 5.0% | 6.5% |
| Total of equities | 49'179 | 31.6% | 0.0% | 36.5% | 49.5% |
| Quoted swiss real estate funds | 20'895 | 13.4% | 10.0% | 14.0% | 18.0% |
| Total of swiss real estate funds | 20'895 | 13.4% | 10.0% | 14.0% | 18.0% |
| Total of "Misto Attivo" portfolio | 155'538 | 100.0% | | 100.0% | |
| Credit for withholding Tax managed by the Administration referred to the "Misto Attivo" mandate | 876 | | | | |
| Total "Assets" Misto Attivo mandate (used in note 6.6) | 156'414 | | | | |

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 -34'216.

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 31.12.2018 | 171'853 | 156'414 | 11'671 |
| Assets at 1.1.2018* | 186'944 | 172'288 | 11'018 |
| Average investment | 179'399 | 164'351 | 11'345 |
| Income from Liquid funds** | 55 | 50 | |
| Income from Swiss bonds | 104 | 104 | |
| Income from Foreign bonds | -272 | -272 | |
| Income from Swiss equities | -735 | -735 | |
| Income from Foreign equities | -5'835 | -5'835 | |
| Income from Swiss real estate funds | -877 | -877 | |
| Income from Foreign real estate funds | 1'104 | | 1'104 |
| Income from Derivatives | 365 | 365 | |
| Retrocessions received | 8 | 8 | |
| Asset management expenses | -807 | -643 | -163 |
| Total of Net income from investments | -6'890 | -7'835 | 941 |
| Income in % of average investment at 31.12.2018 | -3.84% | -4.77% | 8.29% |
| <i>Income in % of average investment at 31.12.2017</i> | <i>6.21%</i> | <i>6.77%</i> | <i>-2.07%</i> |

* 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 2 components of the investment pertains to operative cash

The “Net income from investments” is CHF 19.019 mln lower than in 2017, resulting CHF -6.890 mln.

The equities sector impacted strongly to the negative result for the year, with a total swiss + foreign that went from CHF +11.784 mln in 2017 to CHF -6.571 mln in 2018.

Also the “Income from Swiss real estate funds” fell sharply, from CHF +1.669 mln in 2017 to CHF -0.877 mln in 2018.

The “Income from foreign real estate funds” refers entirely to the UBS Funds, which includes the 2017 dividend received in February 2018 for CHF +0.340 mln.

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 December 2018, the total value of collective investment's expense ratios calculated with the TER ratio amounts to CHF 0.396 mln (31.12.2017: CHF 0.506 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 | 411 | 453 |
| Indirect cost (calculated based on the cost ratio TER) | 396 | 506 |
| Total of asset management expenses | 807 | 959 |
| Total of transparent investments | 168'085 | 183'306 |
| Asset management expenses as a % of transparent investments | 0.48% | 0.52% |

In 2018, investments in 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 | 168'085 | 183'306 |
| Investments in "Misto Attivo" mandate and UBS real estate funds* | 168'085 | 183'306 |
| Cost transparency ratio | 100.0% | 100.0% |

* 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)

Persuant to art. 48a, paragraph 3 OPP2, on 31 December 2018 there are no investment without details about asset management expenses (31.12.2017: none).

6.8. Explanation of investments and other receivables with the employer

| Investments with the employer | 31.12.2018 | in % | OPP2 Limits | Article |
|---|----------------|-------------|-------------|------------------------|
| | CHF/000 | | | |
| Operative cash EFG SA | 3'268 | 1.90% | | UFAS Journal n. 84/486 |
| Cash under mandate in EFG SA | 11'145 | 6.49% | 5.00% | 57 par. 2 |
| Prepayments and accrued income with employer | 0 | 0.00% | | |
| Total investments with the employer EFG SA | 14'413 | | | |
| Total assets (art. 49 OPP2) | 171'853 | 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 December 2018, the collateral deposited amounts to CHF 11.921 mln with a 106.96% hedging of the invested capital with the employer.

6.9. Retrocessions

During 2018 the Fondo received CHF 7'985 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 2'669).

7. Comments on other balance sheet and operating account positions

7.1. Prepayments and accrued income

As of 31 December 2018 and 31 December 2017 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

On 23.1.2018, 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.

By decision of 27.02.2018, 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.

By decision of 29.05.2018, the Supervisory Authority *acknowledged* the 2017 annual report.

On 5.7.2018, the Supervisory Authority confirmed the *formal assessment* of the following Fondo's regulations:

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

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)

In 2018 the Fondo's coverage ratio lost 6.1 percentage points compared to 2017, standing at 100.5%, with a forecast of underfunding in the immediate future.

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 Fondazione and Fondo informed the active employees and beneficiaries on 1.2.2019 of the size and causes of the overall situation.

Taking into account the negative performance of the portfolio in 2018 and the overall unfavorable pension framework, the Board decided not to remunerate retirement savings capital in 2019.

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

EFG did not waive to the contribution reserve amounting to CHF 2'150'503.

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 Fondo 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 Fondo 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

During 2017 an insured initiated a civil suit with the Cantonal Court for Insurances against the Fondo for an alleged wrongful reduction of a pension due to a mistaken application of the Pension Fund Regulation and for a violation of the information duties of the Fondo. The Cantonal Court for Insurances issued a sentence on 12 September 2018 judging completely in favor of the Fondo. The insured appealed to the Federal Court in Lucerne. The Federal Court, with sentence issued on 11 February 2019, rejected entirely the appeal thus confirming the Cantonal Court judgment.

In 2018 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 2018



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To the Foundation Board of

Fondo Complementare 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 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 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 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 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.

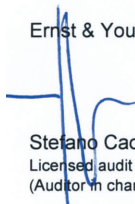
We have assessed whether

- ▶ 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
- ▶ 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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