For all your daily financial needs
Annual Report 2017

PostFinance

Company profile

About us

PostFinance is one of Switzerland's leading retail financial institutions and, as the market leader in payment transactions, ensures a seamless daily flow of liquidity. With simple, straightforward services, we are the ideal partner for anyone who manages their own finances, anytime and anywhere. Thanks to our strong brand, we are seen as an attractive provider of financial services, and this also benefits our customers, because a strong brand inspires confidence and provides focus and security.

Our customers

Whether private individuals, small and medium-sized enterprises, large companies, public-sector entities or associations – we always meet our customers on their level. They appreciate the straightforward relationship with us, our numerous points of contact, our user-friendly services and our fair conditions.

Our services

In the retail sector, we offer our customers simple digital solutions designed to make it as easy as possible for them to manage their financial affairs. Our Corporates unit serves our major business customers, offering individual solutions for the bulk processing of payment transactions, as well as solutions and consultation in the areas of procurement, logistics and sales aimed at optimizing processes and managing liquidity.

Our performance

PostFinance Ltd | Key figures

2017 with previous year for comparison		2016	2107
Balance sheet			
Total assets as per IFRS	CHF million	119,435	120,837
Capital ratio as per guidelines for systemically important banks	%	17.1	17.1
ARB leverage ratio	%	4.5	4.7
Income statement (as per Group IFRS guidelines)			
Operating profit (EBIT)	CHF million	575	543
Company profits (EBT)	CHF million	542	463
Return on equity [1]	%	9.7	8.3
Cost-income ratio	%	65.6	68.0
Customer assets			
Development of customer deposits	CHF million	4,479	–611
Customer assets	CHF million monthly avg.	119,436	119,797
Market and employee key figures			
Customers	In thousands	2,952	2,890
E-finance users	In thousands	1,743	1,756
Accounts	In thousands	4,845	4,809
Customer satisfaction – private customers	Index	80	80
Customer satisfaction – business customers	Index	78	76
Average headcount	Full-time equivalents	3,599	3,474
Employee satisfaction	Index	79	78
Transactions			
Transactions	In millions	1,044	1,072

1 Return on equity = company profits (EBT) as per Group IFRS guidelines/average eligible equity capital as per ARB.

Our conviction

Whatever our customers' concerns or their financial situation, we always support them fairly and in partnership. We speak their language and understand their needs. We keep our promises, and we act fast and authoritatively.

Our legal status and management

PostFinance is a private limited company under private law and, as a subsidiary, is wholly owned by Swiss Post Ltd. PostFinance Ltd is subject to regulation by FINMA and has been granted a licence in accordance with the Banking Act and the Stock Exchange Act. The Board of Directors is the highest official body within PostFinance Ltd. Operational management is the responsibility of the Executive Board.

Our accounting

PostFinance issues financial statements in accordance with Group IFRS guidelines and the Accounting rules for banks (ARB). The statutory financial statements follow the guidelines of the Accounting rules for banks, while the other parts of the report are based on the figures in accordance with IFRS. The management report includes a reconciliation between the two accounting standards in the balance sheet and income statement.

Our organization

Chairman of the Board of Directors Rolf Watter

Internal Auditing Robert Thommen

Chief Executive Officer Hansruedi Köng*

CEO Support Andrea Bezzola

Communication Ursula Käser Aebi

Retail Sylvie Meyer*	**Corporates** Patrick Graf*	**Investment Solutions** Daniel Mewes*	**Delivery Factory IT & Operations** Markus Fuhrer*
Risk, Legal & Compliance Felicia Kölliker*	**Finance** Kurt Fuchs*	**Working Environment** Gabriela Länger*	**Business Development** Beat Jaccottet*

* Member of Executive Board.

PostFinance at a glance

With 2.9 million customers and customer assets of almost 120 billion francs, PostFinance is one of Switzerland's leading retail financial institutions. In its role as market leader and with more than a billion payment transactions a year, it ensures a seamless flow of liquidity on a daily basis.

Around 1.8 million customers handle all their finances though digital channels, making PostFinance the ideal partner for everyone who wants to manage their own finances as easily as possible.

463 million
francs in company profits (EBT). That is 79 million francs less than in the previous year.

2.9 million
customers place their trust in PostFinance to meet their daily financial needs.

1.8 million
users manage their money with e-finance.

1.2 million
downloads of the PostFinance App.

1.1 billion
transactions were processed by PostFinance at home and abroad in 2017.

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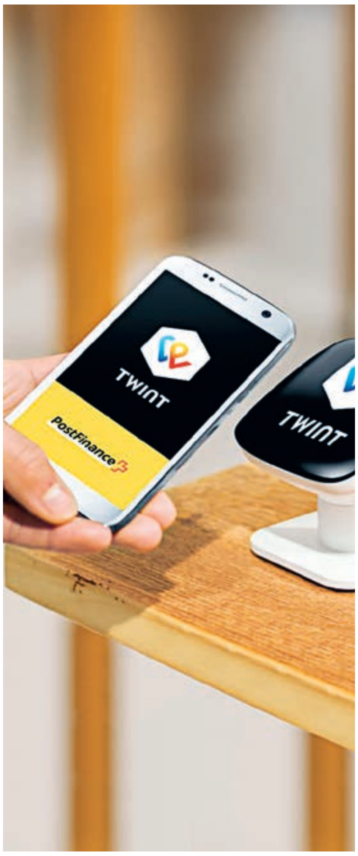


PostFinance is becoming a digital powerhouse

Foreword

Rolf Watter
Chairman of the Board of Directors

Hansruedi Köng
Chief Executive Officer

Dear Reader

In the financial year 2017, PostFinance generated company profits (EBT) as per Group IFRS guidelines of 463 million francs. This represents a decline of 79 million francs or 14.6 percent year-on-year. One-off depreciation, impairments on participations and the first Group compensatory payment for the letter of comfort agreed as part of the too-big-to-fail stabilization plan for systemically important banks had a negative impact on earnings. On the income side, we benefited from reversals of impairment on financial investments after value adjustments were recognized the previous year. Capital gains from the sale of two equity portfolios also had a positive impact on the result.

In trading activities and net service and commission income, the improvement in earnings was encouraging. By contrast, the result from the interest differential business, our most important source of revenue, was down 16 million francs over the previous year. This negative trend continues. To ensure that PostFinance remains profitable in the long term, we are tapping into new sources of revenue. In addition, our strategic focus is concentrated even more closely on digitization.

Digital powerhouse
Digitization as a social trend has long since reached the banking sector. It has also fundamentally changed our customers' requirements and habits. We want to actively shape the future of PostFinance and transform ourselves from a traditional financial service provider into a digital powerhouse. We are therefore systematically digitizing our products, services and processes with the aim of serving our customers more quickly, easily and effectively.

At the same time, we are not forgetting our roots: we are a profit-oriented company, but we are owned by the state and therefore ultimately by the citizens of this country. This gives us a special social responsibility – particularly towards customers who wish to continue using traditional physical banking services. This balancing act between our entrepreneurial spirit and the demands of our customers, of policymakers and of the public is a challenge.

Changes in the Executive Board
To lay the best possible groundwork for the transformation into a digital powerhouse, we have transitioned PostFinance to a new organizational structure.

On 1 July 2017, Sylvie Meyer took over leadership of the Retail unit, while Patrick Graf assumed the role of Head of the Corporates unit. On the same date, the IT and Operations units were combined to form Delivery Factory IT & Operations, headed by Markus Fuhrer. The previous Head of Operations, Peter Lacher, left the Executive Board at the end of June 2017 and now heads Operations Services. The Board of Directors would like to sincerely thank Peter Lacher for his commitment and looks forward to continuing to count on his profound expertise.

Daniel Mewes (Investment Solutions), Felicia Kölliker (Risk, Legal & Compliance) and Beat Jaccottet (Business Development) were also appointed as new members of the Executive Board on 1 July 2017. Kurt Fuchs remains as Head of Finance and Deputy CEO.

On 1 November 2017, Gabriela Länger took over as head of the Working Environment unit. She succeeds Valérie Schelker, who left PostFinance in March 2017 following her appointment as Head of Human Resources at Swiss Post. From March to the end of October, Daniel Marti led Working Environment on an interim basis.

Outlook
Over Easter weekend in 2018, we are introducing our new core banking system. By switching to the banking software BaNCS, we are, figuratively speaking, pouring the foundation for the digital powerhouse. This fundamental modernization of our core components involves technical and process-related modifications for our customers. We are doing all we can to ensure that the effort required on their part is kept to a minimum.

During the transition, there will be some intermittent interruptions, and there may subsequently also be occasional inconvenience to operations, particularly during the introductory phase. We are making every effort to nevertheless provide our usual levels of service.

Thank you
A big thank you goes to our employees, who have produced outstanding work in a demanding environment. The transformation into a digital powerhouse is a major challenge for all of us and cannot be achieved without painful changes and cuts. There will be job losses in the coming years, and some employees will move to another place of work and/or to another Group subsidiary in the future. As an employer, we have a special social responsibility, particularly in times of change. We take that seriously. We support our employees closely and maintain close contact with our social partners.

Finally, we would also like to thank all our customers for their loyalty and trust in us. The banking sector is set to undergo radical change, and this will involve significant additional effort for our business customers and corporates in particular. Digitization will fundamentally change the way we manage our finances in the future. We are always at your side, helping you to manage your financial affairs easily with our simple, digital solutions.

Rolf Watter
Chairman of the
Board of Directors

Hansruedi Köng
Chief Executive
Officer

We want to become Switzerland's leading digital bank

Interview

with **Hansruedi Köng**
Chief Executive Officer

Hansruedi Köng, what are your views on the result from the past financial year?

In the financial year 2017, we generated company profits (EBT) of 463 million francs. That is 79 million francs less than in the previous year. One-off depreciation, impairments on participations and the first Group compensatory payment for the letter of comfort agreed as part of the too-big-to-fail stabilization plan for systemically important banks had a negative impact on earnings. On the income side, we benefited from reversals of impairment on financial investments after value adjustments were recognized the previous year. This is purely an accounting effect, with no money actually flowing into our cash holdings. Capital gains from the sale of two equity portfolios also had a positive impact on the result. We will not be able to sell these shares again in the coming year.

A result with more cloud than sunshine, then?

You could put it like that. In net service and commission income and trading activities, where the improvement in earnings was encouraging, we made good money. This was important, because the result from the interest differential business, our most important source of revenue, was down 16 million francs year-on-year. That hurts, and it makes it clear that in the current negative interest rate environment in particular, it is a serious disadvantage for us not to be able to issue our own loans and mortgages. There is a need for action in this area, because our interest margin remains under pressure.

The solution could be partial privatization of PostFinance.

Partial privatization alone is not the solution to the problem. However, if this step does away with the lending prohibition, it is something we should do from an entrepreneurial point of view. But this decision is not in our hands, it is a matter for policymakers.

Why is there so much resistance to lifting the prohibition on lending?

First, the other banks have little interest in PostFinance gaining access to the credit market. Secondly, there are false claims going around – for example, that the lending prohibition makes PostFinance safer. That is simply wrong. In the whole discussion, one thing should not be forgotten: the lending prohibition destroys national wealth. Lifting the prohibition on lending and partially privatizing PostFinance would bring a nice return for our owner – the Confederation and, ultimately, the Swiss public. If, however, the lending prohibition stays in place and interest rates remain low, PostFinance will be worth less in five years than it is today.

What are you doing to counteract the threat of this decline in value?

We are diversifying our income structure and tapping into new sources of income. Today, more than half of our income is generated from the interest differential business. We want to reduce this dependence in the future by taking steps such as strengthening our investment business. We are also taking account of the changes in customer behaviour resulting from digitization and transforming ourselves from a traditional financial service provider into a digital powerhouse.

All of the banks have committed to digitization. What sets you apart from the competition?

Digitization is a megatrend, like globalization, that does not stop at the banking sector. So the question is not whether we are on board with digitization, but rather how we help shape it and how quickly we adapt our products, services and processes to changing customer requirements. This is exactly where our focus is: for many people, digitization is a major challenge, because it turns old habits inside out – in some cases, these are lifelong habits. We want to help and support our customers in this transition from traditional to digital banking. Or, to put it another way: our goal is digital banking which is easy, and for everyone. Apart from us, hardly any other bank in Switzerland can do that with this level of consistency.

How far has the construction work on the digital powerhouse progressed?

For the past 18 months or so, we have drawn up the blueprints, so to speak. The first milestone was our conversion of PostFinance to a new organization in the summer of 2017.

> If partial privatization does away with the lending prohibition, it is a step we should take.
>
> **Hansruedi Köng**

What are the hallmarks of the new organization?

There is an even closer focus on customers and their requirements and habits. We have created the new Retail and Corporates units. In the retail sector, we offer our customers simple digital solutions for standard transactions designed to make it as easy as possible for them to manage their financial affairs. Our Corporates unit serves our major business customers, offering individual solutions for the bulk processing of payment transactions, as well as solutions and consultation in the areas of procurement, logistics and sales aimed at optimizing processes and managing liquidity. And we are strengthening our investment business.

What are the next stages of construction?

For a house to be able to weather stormy times undamaged, it needs a strong foundation. The foundation of the digital powerhouse is the new core banking system, which we will introduce at Easter 2018. Having poured the foundation, we can start with the actual house construction. Our goal is ambitious: we want to become Switzerland's leading digital bank by the end of 2020.

Why is the new core banking system so important for the future strategy?

Our starting point was a very heterogeneous IT landscape that had grown over many years, with a cumbersome policy of two releases per year. But the market today is playing in a different league. To pick up speed, we need first and foremost to optimize our IT architecture and modernize our core banking system. Only then will we be technically ready for digitization and the digital powerhouse. The new core banking system also lays the groundwork that will help us remain market leader in payment transactions in Switzerland in the future.

Payment transactions in Switzerland are currently being harmonized. Where is PostFinance in terms of switching to ISO 20022?

We take the harmonization of payment transactions very seriously and adopted an active approach to the move to the ISO 20022 standard at an early stage. One of the reasons for this is that our new core banking system is based on ISO formats and no longer supports the old world of payment transactions. Our customers therefore had to convert their systems by the end of 2017. We are very grateful that they showed a great deal of understanding in this.

Have all customers managed the transition on time?
Yes, the conversion is completely finished! To achieve this goal, we provided individual support for customers, in some cases from as early as 2015, and kept them informed of the final deadline at all times. This effort paid off: we are the first financial institution in Switzerland to be fully based on ISO 20022.

You mentioned that PostFinance wants to strengthen its investment business. What specifically are you planning in this area?
Although we have had a whole range of attractive investment products for many years, PostFinance today is rarely seen as an investment bank. We want to change that. In their savings and payment accounts, our customers entrust us with cash assets of around 100 billion francs. In the current interest rate environment, neither our customers nor we achieve an acceptable return on these funds. We therefore want to step up our drive to develop customers with high liquidity into investment customers in the future. The past few months have shown that this strategy works.

What does that mean in numbers?
In the autumn, we launched a broad-based marketing campaign for our funds that was met with a very encouraging response. In the fourth quarter of 2017 alone, several hundred million francs went into our funds. We will continue to pursue this avenue and launch additional sales offensives this year. And in addition to the products, we are also emphasizing our competence in the investment business. Because there is one thing that will not change, even in the digital age: in banking in general, and in financial investment in particular, the crucial thing is trust.

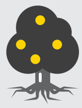
With the new core banking system, we are pouring the foundation for the digital powerhouse.

Hansruedi Köng

Business performance

In 2017, PostFinance generated company profits (EBT) of 463 million francs. But the bank's traditional business model is under threat. PostFinance therefore wants to evolve from a traditional financial institution into a digital powerhouse and become Switzerland's leading digital bank. To make that happen, PostFinance has modernized its core banking system and pushed ahead with the harmonization of payment transactions at an early stage.

121 billion
francs in total assets as per IFRS.



5.7 billion
francs in eligible equity capital as per guidelines for systemically important banks exceeds the requirements of Basel III.

17.1%
capital ratio as per guidelines for systemically important banks with a comfortable safety margin.

8.3%
return on equity shows that PostFinance is a good investment for its owner.

68.0%
cost-income ratio, maintained at an appropriate level.

PostFinance is changing

Society – and with it the banking sector – is rapidly becoming more and more digital. This is a development that PostFinance cannot and does not wish to ignore. As a digital innovation leader in the Swiss banking world, it wants to take advantage of its strong starting position and evolve from a traditional financial service provider into a digital powerhouse. In a persistently difficult market environment, PostFinance is also focusing increasingly on non-interest income such as the investment business and corporate venturing.

Key figures

543 million
francs in operating profit (EBIT).

463 million
francs in company profits (EBT).

68.0%
cost-income ratio.

120 billion
francs in customer assets.

Result

Decline in profit in difficult market environment

The lending prohibition hits PostFinance particularly hard in the current negative interest rate environment. The sharp decline in interest income was not offset.

In the financial year 2017, PostFinance generated company profits (EBT) as per Group IFRS guidelines of 463 million francs. This represents a decline of 79 million francs or 14.6 percent. Depreciation in connection with strategic projects for the modernization of the core banking systems and real estate, as well as impairments on participations had a negative impact on earnings before tax. For the first time, there was also a Group compensatory payment for the letter of comfort agreed as part of the too-big-to-fail stabilization plan for systemically important banks.

PostFinance is legally prohibited from accessing the credit and mortgage markets. Due to a lack of investment opportunities in the current negative interest rate environment, continued investment in long-term fixed-interest financial investments in Switzerland and abroad at historically low interest rates is required. This means that interest income again declined significantly. Interest-related operations were positively impacted by reversals of impairment on financial investments, following impairments in the previous year. In the coming years, however, the value adjustments are likely to be lower.

Operating income benefited from one-off capital gains from the sale of two equity portfolios in January 2017 as part of the revision of the investment strategy. Non-interest related revenue in net service and commission income and trading activities, which in recent years has been encouraging, also had a positive effect on operating income.

To maintain long-term profitability, PostFinance is transforming itself into a digital powerhouse, diversifying its income structure and tapping into new sources of income that do not depend on interest rate levels.

Equity base

Strict equity requirements

As a systemically important financial institution, PostFinance has to meet stringent requirements with respect to capital resources. On 28 June 2017, the Federal Council published the evaluation report on gone concern equity requirements for systemically important domestic banks. This contributes to the stability of the entire Swiss financial center and to a robust Swiss economy. With a total capital ratio of 17.1 percent and a leverage ratio of 4.7 percent at the end of 2017, PostFinance is already very well capitalized and will meet the new requirements within the specified period.

We will meet the gone concern equity requirements for systemically important domestic banks within the specified period.

Kurt Fuchs
Head of Finance

Interview

Our traditional business model is under threat

Kurt Fuchs, Head of Finance and Deputy CEO of PostFinance, explains why PostFinance in particular is suffering from the negative interest rate environment and what the financial institution is doing about it.

Kurt Fuchs, the interest differential business has always been the most important source of revenue for PostFinance. Is that still the case?
Yes, we still currently generate more than half of our income from the interest differential business. However, persistently low interest rates are weighing increasingly heavily on net interest income and gradually eroding interest margins.

Why is the negative interest environment more worrying for PostFinance than for other financial institutions?
While PostFinance has had a banking licence since 2013, the lending prohibition set out in the Postal Organization Act means that we are not allowed to issue our own loans and mortgages. In the current market environment with low and even negative interest rates, this is a major competitive disadvantage. We have to invest our customer deposits at historically low interest rates on the capital markets in Switzerland and abroad, where they yield virtually no returns.

Nevertheless, PostFinance still generates profits in the interest business. How is that happening?
In 2017, we generated net interest income before impairment of 887 million francs. That is 77 million francs less than in the previous year. By way of comparison, in 2013, we achieved a surplus of 1,019 million francs in the interest business. In other words, net interest income has shrunk by 132 million francs or 13 percent within five years. And there is no reversal of this trend in sight.

Can PostFinance still find profitable investments for its customer deposits?
Yes, but it is becoming increasingly difficult to find safe and reasonably profitable investment options. We have therefore parked a share of our customer deposits at the Swiss National Bank, allowing us to respond quickly to any changes in the market.

Since the financial crisis, customer deposits at PostFinance have increased significantly. What impact does that have on PostFinance's interest margins?
During the financial crisis, customer deposits nearly doubled and have also continued to increase subsequently. Today, we manage 110 billion francs in customer deposits. As a comparison, in 2007, it was 44 billion francs. Since then, the interest margin has almost halved, from 1.54 percent to the current rate of 0.81 percent.

35 billion francs
of customer deposits cannot currently be invested profitably by PostFinance.

13%
fall in interest income since 2012.

73 basis points
is the fall in the interest margin since 2007 – effectively halved.

In the current interest rate environment, the lending prohibition is a significant competitive disadvantage.

Kurt Fuchs
Head of Finance

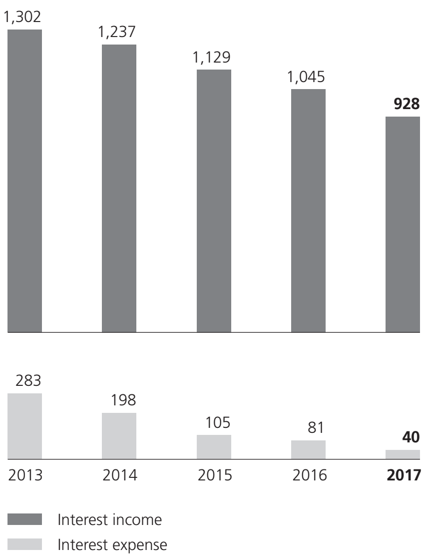
Due to a lack of profitable investment opportunities, PostFinance has parked customer deposits at the SNB.

Kurt Fuchs
Head of Finance

How has PostFinance managed to absorb the decline in interest income in the past?
In the past few years, we have reduced interest expense in line with declining interest income. This allowed us to at least cushion the negative trend, but this leeway has now been exhausted because we currently pay our customers hardly any interest on their account balance. Interest income, meanwhile, will continue to be eroded, because bonds with a relatively high rate of interest in our investment portfolio that are coming to the end of their term are having to be replaced by securities with a significantly lower rate of return. In the current market environment, this means that our interest income is declining by around 100 million francs annually. That worries me, because we cannot offset this decline in the short term.

What is PostFinance doing about this situation?
Our traditional business model is under threat. We are therefore diversifying our income structure by tapping into new sources of income that do not depend on interest rate levels. We see immediate potential in investment business, where we were able to achieve very encouraging growth in the past financial year. In the long term, we also want to tap into new sources of income from innovative digital business models.

Interest business is under heavy pressure
in CHF million



Strategy

Digital banking – easy and for everyone

PostFinance wants to become Switzerland's leading digital bank. It is therefore evolving from a traditional financial service provider into a digital powerhouse. By creating the ideal combination of the digital and the physical worlds, it offers its customers a consistently positive customer experience.

Our work on digitization will make it even easier for our customers to manage their money.

Beat Jaccottet
Head of Business Development

Digitization is a social trend that does not stop at the world of banking. PostFinance customers increasingly want to manage their finances independently, whenever and wherever it suits them. This calls for simple, user-friendly digital products and services. PostFinance adopted an active approach to the development of digital products years ago, and thanks to its e-finance solution and app, is now market and innovation leader in mobile banking in Switzerland.

Transforming into a digital powerhouse

The increasing digitization of banking services has resulted in more and more global technology companies and fintech start-ups forcing their way onto the market. Given this trend, and the difficult market environment with persistently low interest rates and declining revenues in its core business, PostFinance intends to make better use of the array of opportunities offered by digitization and to actively drive and help shape the process. PostFinance is taking advantage of its strong starting position, focusing its strategy even more closely on the digital world and evolving into a digital powerhouse.

Focusing on the retail and corporates segments

Among retail customers, PostFinance wants to keep its leading position in payment transactions and establish itself as the preferred partner in digital investments. We provide our customers with simple, modular standard products.

In the corporates sector, PostFinance strives to position itself as a supplier of tailor-made, comprehensive and integrated solutions, with a focus on financial and finance-related services in the fields of payments and working capital management (WCM). PostFinance helps corporate customers to optimize their value chain by offering a personal service and extensive consultation with professional know-how.

Systematically promoting and using innovation

On the road to becoming a digital powerhouse, Innovation Management plays a key role. It enables promising products, technologies and business models to be recognized early and used accordingly. At the same time, PostFinance is intensifying its corporate venturing activities and investing selectively in young, innovative or highly specialized growth companies whose operations are relevant to its core business. In the future, an increasing proportion of innovation will be in collaboration with partners.

Providing the best customer experience

Digitization cannot be stopped. For PostFinance as a bank, however, digitization cannot be an end in itself. It must instead be used with the aim of meeting customers' changing expectations and providing the best customer experience. PostFinance wants to make it as easy as possible for customers to manage their money and their financial affairs in general. If this can be done, PostFinance will continue to be one of the leading Swiss financial institutions in the future.

Digital wallet

More than 600,000 people use TWINT

At the end of 2017, the payment app TWINT broke the 600,000 user mark. These users transfer or receive money in real time, making payments in online shops or at store checkouts. And they benefit from loyalty programmes and discounts.

More than 60 banks
cooperate with TWINT.

1,000 online shops
enable their customers to pay easily via TWINT.

50,000 checkouts
are set up for TWINT.

Every eleventh takeaway coffee is free. This early in the morning, it's not something Maurice is thinking about. But the digital loyalty card on his TWINT App is counting – and reminds the vocational student about it when he holds his smartphone up to the payment station. Every day, Maurice has the money for his coffee automatically debited from his PostFinance account via Bluetooth and the TWINT App. Like half a million other users, Maurice has saved his account in the app.

According to market research institute GfK, the TWINT payment app is Switzerland's best-known mobile payment solution. In an unprompted survey, it was named by 37 percent of respondents, rising to some 43 percent among the employed.

TWINT is also widely used at Maurice's vocational school: on this particular morning, a classmate tells Maurice that she received a discount voucher for the newly opened shoe shop near the school via TWINT – before proudly showing him her new boots. And Maurice himself has owed a friend 50 francs since they went out at the weekend. During the morning break, he transfers the money to him from smartphone to smartphone.

At home in the evening, Maurice browses through various online shops on his tablet and buys a popular new video game. He pays for the purchase quickly and easily with TWINT.

Working capital management

Individually tailored WCM solutions

For companies to survive, a healthy level of liquidity is essential. With PostFinance's Supply Chain Finance services, companies can ensure that they have sufficient liquidity for their running costs and enough money to invest in their core business.

WCM measures must be individually tailored to the company.

Adrian Brönnimann
Head of Key Accounts Sales & Management

The order books are full. The business is growing rapidly, to the delight of investors and management. But success also creates problems. The company has more and more open customer invoices – because most customers make the most of their payment deadline. "A long period of outstanding receivables and tardy payments can endanger companies' liquidity," says Adrian Brönnimann, Head of Key Accounts Sales & Management at PostFinance.

At the same time, a growing business will itself accumulate more and more receivables from suppliers, which it will of course pay on time, because the company wants to maintain its creditworthiness and good relations with its suppliers.

The risk grows

A gap opens up between outgoing payments to suppliers and the receipt of payments from customers. During this period, liquidity for the business is tied up in inventories or money due from customers. The risk of liquidity bottlenecks grows. To pay its own supplier invoices, the company can draw on debt and equity capital. But that accrues interest and reduces free cash flow, leaving less money for new investments or generation of higher returns.

Optimizing payment deadlines

PostFinance's Supply Chain Finance solutions can help businesses remedy this problem: "We help companies to optimize their payment deadlines," says Adrian Brönnimann. Through its factoring solution, PostFinance purchases a company's customer receivables and pays them within a few days. "This gives the business immediate liquidity – and can also reduce finance charges." In reverse factoring, PostFinance purchases the company's supplier liabilities for deliveries and services and pays them on time. The company can repay the purchased liabilities to PostFinance at a later date of its choice.

Thanks to these WCM solutions from PostFinance, the business improves the predictability of its cash flows. It reduces the risk of payment defaults and creates confidence among suppliers. Faster availability of customer payments provides access to more liquidity. This money is then available for expanding the company's core business.

Outsourcing the warehouse

But it's not only financial flows that offer potential for optimization. Warehouse management also makes challenging requirements on a company in terms of availability, service quality and storage cost rate. With off-balance logistics, the business hands over its inventories to PostFinance – both physically as well as in the balance sheet, where the reduction of inventories increases liquidity.

Suppliers now deliver their goods directly to PostFinance, which together with PostLogistics operates the warehouse and delivers the goods to the customer on demand. In this way, the company reduces its logistics assets to a minimum and meets new logistics demands without additional investment.

Optimizing liquidity or strengthening self-financing capacity: WCM enables company cash flows to be carefully directed.

What is working capital management?

Working capital is about as important to companies' survival as oxygen is to people. To generate earnings, a company must spend a share of its cash on inventory. It must be able to build up accounts receivable on the balance sheet and requires liquidity to settle its current liabilities in day-to-day business. These assets are capital that is tied up and cannot be used for either interest-bearing investments or the expansion of business activities.

Well-run companies understand the value of actively managing their net current assets; the technical term used is working capital management. The focus is on issues such as optimized warehousing with shorter stock turnover times or efficiency improvement in receivables management.

Harmonization of payment transactions

Prepared for the future of payment transactions

The Swiss financial center is harmonizing payments and introducing the ISO 20022 standard. As the market leader in Swiss payment transactions, PostFinance adopted an active approach to the changeover very early on and is now the first financial institution in Switzerland to be fully based on the new standard.

Cross-border trade and cash flow, as well as the associated processes and an increasing level of automation, require standardized payment transactions. The Swiss financial center has therefore decided to harmonize payment transactions with the ISO 20022 standard.

By creating a new standard and a uniform format for the exchange of information, we can eliminate potential sources of error. Time- and cost-intensive reformatting will be done away with, and searches will be significantly simplified. At the same time, the Swiss financial center is strengthening its competitive edge and laying the foundations for digitization. This means that all companies in Switzerland will have to adapt their financial software.

PostFinance is ISO-ready

As of 1 January 2018, payment transactions via PostFinance run exclusively in accordance with the ISO 20022 standard. To ensure smooth operation from the New Year on, more than 50,000 companies had to adapt their financial software by the end of 2017 at the latest. To achieve this ambitious goal, PostFinance worked closely with software partners, began regularly informing its customers of the final deadline as early as 2015 and was fully committed to supporting them during the changeover. This effort paid off: PostFinance is the first Swiss bank to be ISO-ready.

ISO 20022
is the international standard for electronic data exchange in the financial industry. It defines a uniform data format.

The advantages

– Additional status messages for credit transfers
– New options for notifications
– Universal payment references
– Uniform direct debiting procedures

QR bill

Replacement of current inpayment slips

One of the key benefits of the changeover to ISO 20022 is that it significantly simplifies today's document world. All previous inpayment slips will be replaced by a QR bill with payment part and Swiss QR code. One precondition for the introduction of the QR bill is for all bank customers concerned to have completed the plans for the harmonization of Swiss payment transactions. This is not yet the case at present. As the owner of the QR bill, SIX Interbank Clearing Ltd has therefore decided to carry out a re-assessment in mid-2018, and, in order to give customers, software partners and banks sufficient time for technical preparation for the QR bill, it will not be introduced before mid-2019.

Thanks to the great effort made by our customers and employees, we successfully completed the switch to ISO 20022 at the end of 2017.

Alfred Meyenberg
Harmonization of Payment Transactions at PostFinance Programme Leader

People and the environment

The culture at PostFinance fosters straightforward working relationships on an equal footing, with transparent hierarchies and uncomplicated co-operation across all levels and departments. PostFinance's employees are taking the company into the future and shaping the digitization of the financial sector. As a financial institution operating throughout Switzerland, PostFinance is also committed to a range of sponsorships and partnerships relating to sport, economy and education.

3,950
employees strive to achieve PostFinance's objectives each day.

46
different nationalities ensure a diverse corporate culture at PostFinance.

42%
is the increase in CO_2 efficiency compared to the base year 2010.

100%
of the electricity consumed by PostFinance comes from "naturemade basic"-certified renewable energies from Switzerland.

5.5 million
francs were added by the Top Scorers to the fund for young ice hockey players in the last 16 years.

Assuming responsibility

PostFinance assumes responsibility for people, the environment and society. The financial service provider promotes the diversity of its employees and creates the framework conditions to ensure that management positions are also open to staff with a reduced employment level. When investing customer deposits, PostFinance considers it extremely important to adhere to ethical and sustainable principles. And with its support of the younger generation, PostFinance also sets priorities outside the financial business.

Key figures

2,009 women
and 1,941 men are employed by PostFinance in total.

12%
of employees are over 55 years old.

33%
of members of the PostFinance Executive Board are women.

Diversity

Woman power in a male domain

Almost 30 percent of PostFinance employees in management positions are women. The financial institution has focused on mixed teams for many years and promotes a corporate culture with equal opportunities for both genders.

Does PostFinance do enough to further women's careers? At PostFinance, promoting equal opportunities for women is not an isolated programme – it forms part of a higher-level strategy aimed at achieving diversity. This is because an appropriate proportion of women at the top of a company makes a significant contribution to the success of the enterprise. Mixed teams are more innovative and better able to meet customers' requirements – not only has this been shown in renowned studies, but many managers have now also had positive experiences of such teams.

Equal opportunities for men and women

For many years, PostFinance has promoted a corporate culture in which women and men have equal opportunities and an equal chance. With respect to career opportunities and achieving a good work-life balance in particular, PostFinance does not differentiate between the sexes. All management positions are consistently advertised with an employment level of 80 to 100 percent. This leads to more women submitting their application for job vacancies. PostFinance also helps employees achieve a good work-life balance thanks to measures such as flexible working models.

Nevertheless, it is important for PostFinance to respond to gender-specific concerns and to actively contribute to the further development of role understanding. PostFinance is therefore committed to both equal pay and opportunities for women and to providing men with options for achieving a good work-life balance.

Top marks from "Fachstelle UND" external specialists

PostFinance was awarded the "Family AND Profession" label in June 2016. The label is awarded for a healthy balance between work, family and leisure and underscores PostFinance's commitment to positioning itself as a family-friendly employer. The external specialists placed particular emphasis on the high level of acceptance of flexible working time models, the promotion of time- and location-independent work practices and the week's holiday during the summer holidays. It will be recertified in 2019, and PostFinance is endeavouring to push ahead with further improvements, including offers of alternative forms of work such as top-sharing, which are designed to enable an even better work-life balance at senior management levels.

At PostFinance, a healthy work-life balance can be achieved – by both women and men.

Helene Müller
Head of HR
Development & Marketing

Management role

28%
women

72%
men

Working hours

40%
part-time

60%
full-time

Interview

PostFinance has a great social responsibility

Gabriela Länger has been Head of Working Environment at PostFinance since 1 November 2017. In this role, the qualified psychologist and business economist is responsible for the Human Resources and Logistics units, which comprise more than 100 employees.

Gabriela Länger, you came to PostFinance at an eventful time.
Yes, I did. Digitization as a social trend has long since reached the financial sector. That is why we are transforming PostFinance into a digital powerhouse. This has an impact on our organization and our processes, but above all on each individual employee.

In which specific areas does PostFinance feel the impact of digitization?
To name a few examples: more and more of our customers are handling their finances independently via digital channels. This means that they visit our branches less frequently and the volume of paper used for payment transactions is reduced. In addition, we can use robotics to make many internal processes more efficient and automate them end-to-end. And last but not least, the way our employees go about their work has also changed. Mobile working and working from home have led to a significant overcapacity of office space today.

How is PostFinance responding to these trends?
We are implementing a range of different measures this year. First, we are continuously automating and digitizing our processes. This will lead to a reduction of around 45 full-time positions, although we are trying to achieve this reduction without redundancies wherever possible. At the same time, we are closing the Kriens and Münchenstein locations as of 30 June 2018 due to the overcapacity of office space. On 1 June 2018, we will also transfer document processing to Swiss Post Solutions, and by the end of the year, we will integrate the St Gallen Contact Center into the one at Netstal. And finally, we are reviewing the customer zones in our branches and adapting them to the new branch concept.

Jobs are being lost, and employees are moving to new places of work. How do you help staff with this change?
The changes that are coming cause uncertainty and sometimes also fear. As an employer,

PostFinance understands both its economic interests and its social responsibility as an employer.

Gabriela Länger
Head of Working Environment

we now have a particularly great social responsibility towards our employees. We therefore place great importance on timely and transparent communication and keep the entire workforce informed at all times of the changes involved in the journey towards the digital powerhouse. We hold information events for employees who are directly affected by a particular measure, and we make an active effort to involve the social partners. In addition, we discuss individual situations with each of these employees in one-to-one meetings and seek the best possible solution.

Last autumn, PostFinance conducted a consultation process. What was it about?
Given the potential impact of the planned measures, we were required by law to conduct a consultation process. This process also gave us the opportunity to discuss our deliberations thoroughly with the workforce and explain our reasons to them. Specifically, all PostFinance employees were contacted and had 30 days to make suggestions on how to avoid possible redundancies, limit their number or mitigate their consequences. The Executive Board examined the feasibility and cost-effectiveness of the proposals submitted in detail. As none of the proposals received could replace the planned measures, we will now implement the latter swiftly.

Does that mean that the consultation process was merely for show?
No. Although the measures discussed in the consultation process will all be implemented, numerous good proposals on how to implement them were submitted during this period. We discussed these in several rounds of negotiations with our social partners and took them into account in coming to our decision on the way forward.

How does the cooperation with the social partners work?
When social partners negotiate with companies, they take a tough line. That's part of the process. And when we outsource a section of the company, as in the current year, it is understandable and appropriate to their role that the unions will have fundamental difficulties with that.

What was the outcome of the negotiations?
Fortunately, we were able to agree mitigating provisions with our social partners that go well beyond our collective employment contract and improve the personal situation of the employees affected. The results show that PostFinance understands both its economic interests and its social responsibility as an employer. This is not only important now, but also for the future of PostFinance.

PostFinance's transformation into a digital powerhouse ultimately affects each and every employee.

Gabriela Länger
Head of Working Environment

Sustainability

Vital corporate culture and clean investments

When investing its customer deposits in the financial markets, PostFinance follows the internationally recognized ethical requirements of the Norwegian sovereign wealth fund. Internally, PostFinance also takes its responsibility to the environment and its employees seriously.

More than 70 billion
francs in customer deposits are invested by PostFinance in compliance with strict ethical rules.

PostFinance is not allowed to issue its own loans or mortgages. The financial institution therefore invests more than 70 billion francs of customer deposits in the financial markets. This includes the money that customer Mareike keeps in her account. For Mareike, it is important that her money is not invested in companies or organizations that support unethical business practices and/or damage the environment. And so Mareike wants to know: how does PostFinance invest its customer deposits?

The requirements of the Norwegian sovereign wealth fund

As one of the largest financial institutions in Switzerland, PostFinance is aware of its social and environmental responsibility. It reviews all investments according to the criteria of the Norwegian sovereign wealth fund. An ethics council made up of five people analyses every single investment made by the largest sovereign wealth fund in the world. The council places companies that do not meet its high ethical standards on an exclusion list. This publicly accessible list is considered an international benchmark for ethical investments.

Financing of cities and municipalities in Switzerland

PostFinance is the largest financier of public-sector entities and government-related companies in Switzerland. More than 10 billion francs are invested in this segment in the form of multi-year borrower's note loans. This makes PostFinance, albeit indirectly, one of the largest financiers of domestic infrastructure projects.

Green bonds on the Swiss capital market

The issue of sustainability is also increasingly apparent in relation to public issues on the capital market. One example of this is an environmental bond issued by the Canton of Geneva in 2017, which is used to finance energy-efficient buildings in the healthcare sector. PostFinance invested a sum of almost 150 million francs in this bond, which accounts for more than a quarter of the total.

We invest our customer deposits not only in accordance with economic principles, but also in accordance with ethical and sustainable principles.

Marc Bonfils
Head of Treasury

PostFinance takes its social, environmental and economic responsibilities seriously.

Family AND Profession

Attractive working conditions

Internally, PostFinance takes its social, environmental and economic responsibilities seriously, with policies of fairness to its employees and prudent use of resources. Commitment to sustainability is a vital corporate culture. Both the “Friendly Work Space” award and the “Family AND Profession” label show that PostFinance offers attractive working conditions and promotes the health and well-being of its employees.

Employees are encouraged to switch from their car to public transport with a free half-fare travelcard or a discounted GA travelcard.

Energy efficiency improved continuously
Energy efficiency at PostFinance data centers has been improved continuously since 2008. In addition, only electricity from renewable sources is used for their operation.

Ice hockey as a brand experience

Focused on Swiss ice hockey

PostFinance concentrates its commitment to sponsorship on national ice hockey. Since the 2017/2018 season, the focus has been on the National League and the promotion of young talent. Emotional branding appearances by players strengthen the brand and support young ice hockey talent.

Jockeying around the goal, power plays, gang checks – ice hockey is powerful, dynamic and emotional, and appeals to a wide audience. This makes the sport particularly well suited to PostFinance’s sponsorship activities – in line with the “digital powerhouse” corporate strategy.

Ice hockey is and will remain the most important sponsorship commitment for PostFinance. What is new is the focus: “We concentrate our ice hockey presence on appearances in Switzerland,” says Thomas Zimmermann, Head of Brand Experience at PostFinance. Since 2001, PostFinance has been the principal sponsor of the Swiss Ice Hockey Federation and the National League. The successful partnership was extended from the 2017/2018 season for another five years. In addition, PostFinance supports ten National League clubs with direct sponsorship. In the Swiss League, PostFinance is present with the Top Scorer project. For the national teams, PostFinance acts as official partner. And just recently, the naming partnership with the PostFinance Arena in Berne was extended by five years. PostFinance therefore remains the biggest sponsor of Swiss ice hockey. “With the current portfolio, we have found the ideal mix for ice hockey sponsorship,” explains Thomas Zimmermann. “The focus is on the Top Scorers in the National League and Swiss League, and on the PostFinance Trophy schools tournament.”

Awakening emotions – on all channels

The PostFinance brand is linked emotionally to ice hockey: not only in stadiums, but also on digital channels, where photos are liked, videos posted and results discussed. And in the thick of it, PostFinance, which can deliver its brand message directly to its target group. Complementing this is PostFinance’s presence in digital ice hockey with its sponsorship of the virtual NHL games from EA Sports. “In the future, there will be an even closer focus on brand emotionalization,” says Thomas Zimmermann with assurance. The department itself pointed the way with its renaming from “Sponsoring” to “Brand Experience”.

The partnerships with the Swiss Sport Aid Foundation and the ibelieveinyou.ch crowdfunding platform also remain in place and complete PostFinance’s commitment to Swiss sport.

Fostering young talent

Top scores for the juniors

The points they score count as double: the players with the flame helmets score points for their team and for talented young ice hockey players. In the current season, PostFinance has further expanded its successful Top Scorer concept. For each goal and the first and second assist, the Top Scorers get one point, which in the National League is now worth 300 francs for the junior division of each club – instead of the previous 200 francs. In the Swiss League, it is now 200 francs instead of 100. In addition, the largest young talent promotion initiative in Swiss ice hockey also supports the national association: at the end of the qualification, PostFinance doubles the total from both leagues for the benefit of the national junior teams.

With our ice hockey sponsorship, we emotionalize the PostFinance brand.

Thomas Zimmermann
Head of Brand Experience
at PostFinance

More than 20,000 children
in the past ten years have chased the puck across the ice at the PostFinance Trophy schools tournament.

Corporate governance

Swiss Post Ltd and PostFinance Ltd are guided by the SIX Swiss Exchange "Directive on Information Relating to Corporate Governance" and the recommendations of the "Swiss Code of Best Practice for Corporate Governance" drawn up by economiesuisse.

The PostFinance Ltd remuneration scheme meets the "Minimum standards for remuneration schemes of financial institutions" defined by the Swiss Financial Market Supervisory Authority (FINMA) (Circular 2010/1).

Open and transparent communication is the key to good corporate governance. This creates trust with customers, employees, Swiss Post as the shareholder and with the public.

Basic principles

Corporate governance forms the regulatory framework for the responsible management and monitoring of a company. It concerns both its organizational structure and control system, and its corporate culture and values.

PostFinance Ltd has drawn up a Code of Conduct that sets out its convictions in detail. This forms the basis for its employees' actions.

Corporate structure and shareholders

Legal form and ownership

PostFinance Ltd is a private limited company under private law and a subsidiary of Swiss Post Ltd. PostFinance Ltd is subject to regulation by FINMA and has been granted a licence in accordance with the Banking Act and the Stock Exchange Act. The Board of Directors is the highest supervisory body within PostFinance Ltd.

Capital structure

The company has 2 billion francs of share capital divided into 2 million registered shares, each worth 1,000 francs. The share capital is fully paid in and is wholly owned by Swiss Post Ltd.

Structure of the financial group PostFinance Ltd

The financial group PostFinance Ltd consists of the parent company PostFinance Ltd and its subsidiary Lendico Schweiz AG, which is wholly owned by PostFinance Ltd. As a result of the ownership structure of PostFinance Ltd and of Swiss Post Ltd, there are no cross-participations.

Board of Directors

Composition

The Board of Directors has seven members, with a majority of seats representing Swiss Post Ltd. Three of its members (Rolf Watter, Hans Lauber and Michaela Troyanov) are independent as defined by FINMA requirements. Members are elected for two years.

Rolf Watter

Chairman of the Board of Directors, member since 2012, Switzerland, 1958, Prof. Dr. iur. University of Zurich, LL.M. Georgetown University, USA

Committees:
Organization, Nomination & Remuneration; Risk; Core Banking Transformation

Professional background:
Law firm Bär & Karrer (partner); honorary professor at the University of Zurich. Previous directorships: Nobel Biocare Holding Ltd, Member, Chairman of the Board of Directors; Zurich Insurance Group, Member; Syngenta Ltd, Member; Bär & Karrer, Board of Directors and Executive Board; Cablecom Holding AG, Chairman of the Board of Directors; Forbo Holding Ltd, Vice-Chairman; Feldschlösschen Beverages Ltd, Member; Centerpulse, Vice-Chairman

Key posts:
AP Alternative Portfolio Ltd (Member of the Board of Directors); Aryzta Ltd (Member of the Board of Directors); A.W. Faber-Castell (Holding) AG (Member of the Board of Directors); SIX Regulatory Board (Member) and Chairman or Vice-Chairman of the Foundation Board of three charitable foundations

Marco Durrer

Vice-Chairman of the Board of Directors, member since 2012, Switzerland, 1952, Dr. ès sc. pol. (Relations internationales), MALD, The Fletcher School, Tufts University, USA

Committees:
Organization, Nomination & Remuneration (Chair)

Professional background:
Directorships; Valiant Privatbank AG (CEO and Member of Executive Management, Valiant Holding AG); Lombard, Odier, Darier, Hentsch & Cie (Group Management, Branch Manager Zurich); Deutsche Bank (Suisse) SA (Head of Sales and Trading); Credit Suisse (Investment Banking)

Key posts:
Swiss Post Ltd (Member of the Board of Directors, Organization, Nomination & Remuneration Committee [Chair]); Picard Angst Ltd (Member of the Board of Directors); Piguet Galland & Cie SA (Member of the Board of Directors); DGM Immobilien AG (Chairman of the Board of Directors); Comunus SICAV, (Vice-Chairman of the Board of Directors)

Alex Glanzmann

Member of the Board of Directors, member since 2016, Switzerland, 1970, lic. rer. pol. University of Bern, Executive MBA HSG in Business Engineering at University of St. Gallen

Committees:
Audit & Compliance [1]; Risk

Professional background:
Swiss Post Ltd (Head of Finance); PostLogistics (Head of Finance); BDO Visura (Vice-Director)

Key posts:
Swiss Post Insurance AG (Chairman of the Board of Directors); Post CH Ltd (Member of the Board of Directors); Post Real Estate Ltd (Member of the Board of Directors); PostBus Ltd (Member of the Board of Directors); Swiss Post pension fund (Vice-Chairman of the Foundation Board)

1 Alex Glanzmann stood down from the Board of Directors' Audit & Compliance Committee on 15 December 2017.

Hans Lauber

Member of the Board of Directors, member since 2015, Switzerland, 1962, Economics, University of Basel, certified federal financial analyst and asset manager, AZEK

Committees:
Risk (Chair); Audit & Compliance

Professional background:
Bank Julius Bär (Head of Investment Solutions Group/Chief Investment Officer, Member of the Executive Board); ARECON AG (CEO, Chairman of the Board of Directors); Winterthur Insurance (Head Asset Management, Chief Investment Officer, Member of Executive Management); other positions at UBS, Coutts Bank and Credit Suisse

Key posts:
Fisch Asset Management Ltd (Member of the Board of Directors)

Susanne Ruoff

Member of the Board of Directors, member since 2012, Switzerland, 1958, Master's Degree in Economics from the University of Fribourg, Executive MBA

Committees:
Core Banking Transformation (Chair); Organization, Nomination & Remuneration

Professional background:
Swiss Post Ltd (CEO); British Telecom Switzerland (CEO BT Switzerland Ltd); IBM Switzerland (Management Board member, Global Technology Services); IBM Switzerland (Head of Public Sector Division); various management positions in services, marketing and sales; previous directorships and positions on Foundation Boards: Geberit, Bedag, IBM pension fund, Industrial Advisory Board of the Computer Science Department of ETH Zurich; International Post Corporation (IPC) (Member of the Board)

Key posts:
Post CH Ltd (Chair of the Board of Directors), Post Real Estate Ltd (Chair of the Board of Directors); PostBus Ltd (Chair of the Board of Directors)

Michaela Troyanov

Member of the Board of Directors, member since 2012, Switzerland and Austria, 1961, Dr. iur., University of Vienna, M.C.J. (Master of Comparative Jurisprudence), New York University, USA, lic. iur., University of Geneva

Committees:
Audit & Compliance

Professional background:
Independent consultant; Lombard, Odier, Darier, Hentsch & Cie (Head of Legal & Compliance), Swiss stock exchange organizations (SWX Swiss Exchange, Admission Board, Takeover Board, Geneva Stock Exchange), leading positions in the areas of Corporate Governance, Market Surveillance & Regulation, Kredietbank (Suisse) SA (General Counsel), Shearman & Sterling LLP (Lawyer, Mergers & Acquisitions)

Key posts:
Social Security Funds OAI/II/IC ("compenswiss") (Member of the Board of Directors); Bank SYZ AG (Member of the Board of Directors)

Adriano P. Vassalli

Member of the Board of Directors, member since 2012, Switzerland, 1954, federal diploma in auditing

Committees:
Audit & Compliance (Chair)

Professional background:
Studio di consulenza e di revisione (founder and owner); Arthur Andersen (founder and head of the Lugano and Berne branches, worldwide partner); Revisuisse AG (auditor and management consultant in Berne and founder of the Lugano branch)

Key posts:
Swiss Post Ltd (Vice-Chairman of the Board of Directors, Audit, Risk & Compliance Committee [Chair]); Swiss Red Cross (member of the Red Cross Council and member of the Executive Committee of the Conference of Red Cross Cantonal Associations); Swiss Red Cross (Chairman of the Ticino Cantonal Association and Chairman of the Sottoceneri Section); ATTEST audit & consulting SA (Chairman of the Board of Directors)

Internal organization

Board of Directors’ role and working method

Under the management of its Chairman, the Board of Directors determines PostFinance Ltd’s strategy and exercises supreme supervisory control over the Executive Board and all those subordinated to it. It defines company and business policy, long-term corporate goals, and the means required to achieve those goals. It also ensures that the company meets the obligations assigned to it by Swiss Post Ltd to provide a universal service with payment transaction services. The Board of Directors discusses its performance and that of its members (self-assessment) on an annual basis and carries out regular advanced training. Resolutions are passed with the majority of the votes present. The Chairman also votes; in the event of a tied vote, he has the casting vote.

Meetings and attendance rates

2017	Number	Attendance rate %
Board of Directors’ Meetings	10	95.7
Board of Directors’ Committee Meetings		
Organization, Nomination & Remuneration	8	91.7
Audit & Compliance	9	100
Risk	8	100
Core Banking Transformation (CBT)	4	100

The Board of Directors appoints a standing committee for each of the following areas of responsibility:

- Organization, Nomination & Remuneration
- Audit & Compliance
- Risk

Board of Directors’ Organization, Nomination & Remuneration Committee

The Organization, Nomination & Remuneration Committee focuses on strategic orientation and the establishment of leadership principles and corporate culture; the organizational structure at the highest level; principles for remuneration policy, performance appraisal and advanced training within the Board of Directors; principles for retirement policy and other human resources policies. Its members are:

- Marco Durrer (Chairman)
- Susanne Ruoff
- Rolf Watter

Board of Directors’ Audit & Compliance Committee

The main role of the Audit & Compliance Committee is to determine accounting and financial reporting principles and to carry out tasks related to risk management and risk control of non-financial risks, as well as compliance. It is responsible for liaising with the external auditors and Internal Auditing. This includes appointing and dismissing the Head of Internal Auditing. Its members are:

- Adriano P. Vassalli (Chairman)
- Hans Lauber
- Michaela Troyanov
- Alex Glanzmann (until 15 December 2017)

Due to the structure of the Swiss Post Ltd Group governance model, the committee did not have a majority of members who fulfilled the requirement for independence in accordance with FINMA Circular 2008/24 “Supervision and internal control – banks” or Circular 2017/01 "Corporate governance – banks". Alex Glanzmann stood down from the Board of Directors’ Audit & Compliance Committee on 15 December 2017, and the majority of members now meet the requirement for independence.

Board of Directors’ Risk Committee

The Risk Committee is responsible mainly for risk management and control of financial risks and risk policy. Its members are:

- Hans Lauber (Chairman)
- Alex Glanzmann
- Rolf Watter

The majority of committee members are independent of Swiss Post Ltd.

Board of Directors’ Core Banking Transformation Committee

For the duration of the Core Banking Transformation project, the Board of Directors has also established a committee of the same name. Its aim is to modernize PostFinance’s core banking system.

The Core Banking Transformation Committee is responsible for strategic management, monitoring progress and dealing with the programme’s key issues. It also addresses aspects that cannot be clarified in subordinated working groups and the Executive Board Steering Committee. It is responsible for the preliminary processing of requests submitted to the Board of Directors. Its members are:

- Susanne Ruoff (Chair)
- Rolf Watter

Executive Board

Headed by the CEO, the Executive Board is responsible for the operational management of PostFinance Ltd. There are nine members of the Executive Board. They may not take on corporate governance positions within the Group and may not be members of the Board of Directors of PostFinance Ltd.

Hansruedi Köng

CEO, member since 2012, Switzerland, 1966, lic. rer. pol. University of Bern, Swiss Finance Institute Advanced Executive Program

Professional background:
PostFinance Ltd (Head of Treasury, Head of Finance, CEO; Member of the Executive Board since 2003); BVgroup Berne (Deputy Managing Director); PricewaterhouseCoopers Ltd (Senior Manager); Basler Kantonalbank (Member of Executive Management); Schweizerische Volksbank (Head of Asset & Liability Management)

Key posts:
None

Kurt Fuchs

Head of Finance and Deputy CEO, member since 2011, Switzerland, 1962, qualified banking expert, Swiss Finance Institute Advanced Executive Program

Professional background:
UBS (Head of Regional Accounting & Controlling Switzerland, Head of Financial Accounting Switzerland); Swiss Bank Corporation

Key posts:
Bern Arena Stadion AG (Member of the Board of Directors)

Markus Fuhrer

Head of Delivery Factory IT & Operations, member since 2014, Switzerland, 1968, Federal Certificate in Business Information Technology (WISS), SKU Advanced Management Diploma in Corporate Governance, AMP-HSG University of St. Gallen

Professional background:
PostFinance Ltd (Deputy Head of Information Technology, Head of Core Banking Transformation); Entris Banking Ltd

Key posts:
None

Patrick Graf

Head of Corporates, member since 2014, Switzerland, 1973, lic. iur. and lic. oec. HSG, Executive MBA in Financial Services and Insurance, University of St. Gallen

Professional background:
PostFinance Ltd (Project Manager; Head of Compliance; Head of Legal Service & Compliance, Head of Corporate Center), PriceWaterhouseCoopers (Assistant Manager), Zurich Financial Services (Cash Manager)

Key posts:
esisuisse (Board member); Finform Ltd (Member of the Board of Directors);
SECB Swiss Euro Clearing Bank GmbH (Member of the Board of Directors);
SIX Interbank Clearing AG (Member of the Board of Directors)

Beat Jaccottet

Head of Business Development, member since 2017, Switzerland, 1965, Dr. rer. pol. University of Bern, Executive Development Program, The Wharton School, University of Pennsylvania, USA

Professional background:
PostFinance Ltd (Head of Core Banking Transformation);
Avaloq (Program Manager Avaloq Banking System, Head of BPO Implementation); SBB (Head of Technology & Innovation, Member of the SBB Infrastructure Executive Board); Swisscom (Head of Application Engineering, Member of the Swisscom IT Services Executive Board)

Key posts:
None

Felicia Kölliker

Head of Risk, Legal & Compliance, member since 2017, Switzerland, 1977, M.A. HSG in Legal Studies, University of St. Gallen, DAS in Compliance Management, Institute of Financial Services IFZ Zug

Professional background:
PostFinance Ltd (Head of Compliance, Head of Regulation unit, Project Manager); Malik Management Center St. Gallen;
Huber+Suhner AG

Key posts:
Lendico Schweiz AG (Chair of the Board of Directors)

Gabriela Länger

Head of Working Environment, member since 2017, Switzerland, 1971, lic. phil. I Psychology and Business Administration at the University of Zurich,
Executive Master's in systematic, solution-oriented coaching from the University of Applied Sciences and Arts Northwestern Switzerland in Olten, Executive MBA HSG

Professional background:
localsearch.ch (Head of HR and Member of the Executive Board); SBB Cargo (various other positions); SIG Beverages International AG (Head of Employee Development); Credit Suisse (Head of the Graduates and Management Development Sector)

Key posts:
Pantex AG (Member of the Board of Directors)

Daniel Mewes

Head of Investment Solutions, member since 2017, Switzerland, 1973, lic. rer. pol. University of Bern, Finance and Investment Expert AZEK, Executive MBA – University of Applied Sciences in Business Administration Zurich / Darden School of Business, University of Virginia, USA

Professional background:
PostFinance Ltd (Head of Product Management Financial Services); Zurich Financial Services (various positions including Financial Consultation Specialist)

Key posts:
PostFinance Retirement Savings Foundation 3a (Member of the Foundation Board)

Sylvie Meyer

Head of Retail, member since 2013, Switzerland/France, 1960, Management Executive MBA at Fribourg School of Management

Professional background:
PostFinance Ltd (Head of Contact Center); Swisscom (positions including Director of Sales and Marketing of the subsidiary SICAP)

Key posts:
TWINT Ltd (Member of the Board of Directors), PostFinance conciliation office (Member of the Foundation Board)

Changes in the year under review

Valérie Schelker left PostFinance Ltd in March 2017 and was replaced by Gabriela Länger as Head of Working Environment on 1 November 2017. Until then, Daniel Marti was in charge of Working Environment on an interim basis.

As part of PostFinance's new strategic focus, the IT and Operations units were combined on 1 July 2017 to form "Delivery Factory IT & Operations" headed by Markus Fuhrer. The previous Head of Operations, Peter Lacher, left the Executive Board at the end of June 2017. The new "Risk, Legal & Compliance" and "Investment Solutions" units were also created on 1 July 2017.

Beat Jaccottet (Business Development), Felicia Kölliker (Risk, Legal & Compliance) and Daniel Mewes (Investment Solutions) were appointed as new members of the Executive Board on 1 July 2017.

Information and supervisory tools

Reporting

The Board of Directors receives regular reports from the Executive Board as well as from the following units: Internal Auditing, Finance, Risk Control, Compliance and Security. Ten meetings were held in 2017.

The Executive Board receives regular reports from the following units: Internal Auditing, Finance, Risk Control, Compliance and Security. It meets once every two weeks on average.

Internal control system

PostFinance Ltd has an integrated internal control system. Internal control refers to all the control structures and processes in place throughout PostFinance Ltd that form the basis for attaining corporate goals and operating the company in line with the regulations in force. In formal terms, the business monitoring process and entire internal control system comply with the eight-level COSO II framework and "three lines of defence" concept.

Effective internal control requires control measures that have been integrated into work processes, risk management processes, processes to ensure compliance with applicable standards and appropriate reporting. Risk control is completely separate from risk management.

Internal Auditing

Internal Auditing is PostFinance Ltd's independent inspection body. It is the Board of Directors' management tool for control purposes. Internal Auditing works independently of PostFinance Ltd's daily business processes and is an autonomous unit from an organizational standpoint. Functionally, it reports to the Board of Directors. The Chairman of the Board of Directors' Audit & Compliance Committee is responsible for HR management, while the Board of Directors is in charge of technical management. This guarantees maximum independence. The Board of Directors' Audit & Compliance Committee appoints the Head of Internal Auditing, who then appoints the remaining members of staff. The Head of Internal Auditing also appoints a deputy.

Remuneration

Basic principles

The PostFinance Ltd remuneration scheme meets the “Minimum standards for remuneration schemes of financial institutions” defined by FINMA (Circular 2010/1).

Remuneration policy

The Board of Directors determines the remuneration for the Executive Board.

Corporate risk, scope of responsibility and the Confederation’s Ordinance on Executive Pay are taken into account by the Board of Directors when setting the remuneration due to members of the Executive Board. The amount of the fees paid to members of the Board of Directors is based on their function and the demands placed upon them. Expenses are reimbursed. The chairing of committees and any extraordinary efforts conducted outside the range of normal Board activities are remunerated additionally. Remuneration of the Board of Directors is determined by the General Meeting.

Remuneration structure

Remuneration for members of the Executive Board is comprised of a fixed base salary and a variable performance-related component. This may amount to a maximum of 35 percent of the gross annual base salary (45 percent for the CEO). It is determined on the basis of benchmarks for Swiss Post Ltd (30 percent) and PostFinance Ltd (30 percent) as well as the individual’s own performance (40 percent). At Swiss Post Ltd level, the variable component is calculated on the basis of the economic value added (weighting: 70 percent) and customer satisfaction (weighting: 30 percent). At PostFinance Ltd level, return on equity (weighting: 50 percent), customer satisfaction and unit fitness according to the employee survey (weighting: 25 percent each) are used to calculate the variable component.

Members of the Executive Board receive a first-class GA travelcard, a company car if necessary (private use is invoiced), a mobile phone and a monthly expense account. PostFinance Ltd pays the insurance premiums for a risk insurance policy. Life insurance is taken out for the CEO. Individual bonuses may be paid to reward special personal contributions.

Neither the members of the Executive Board nor persons closely linked to them received any additional fees, remuneration, guarantees, advances, credits, loans or benefits in kind during the financial year. Both the base salary and the performance-related component are insured for members of the Executive Board. Occupational pension provision for salary components up to twelve times the maximum Swiss Old Age and Survivors’ Insurance (AHV) retirement pension (2017: 338,400 francs) is handled by the Swiss Post pension fund in accordance with the basic plan and supplementary plan 1. Any income in excess of this amount is covered by an external comprehensive insurance solution. Contributions to occupational pension provision are divided in line with the regulatory provisions applicable to the Swiss Post pension fund. Employment contracts are based on the Swiss Code of Obligations. Severance payments can be paid in justified cases up to a maximum of half the gross annual salary. The notice period for members of the Executive Board is six months.

The following weightings are given to the benchmarks for calculating the variable remuneration due to staff exercising a control function: Swiss Post Ltd (15 percent), PostFinance Ltd (20 percent), the individual’s own performance (65 percent). In addition, care is taken that no individual targets are linked to the financial success of PostFinance Ltd.

Consideration of risk

A penalty system also applies for calculating the variable salary component.

A penalty system also applies for the calculation of the variable salary component of members of the Executive Board. All three performance levels are taken into account (Swiss Post Ltd, PostFinance Ltd and individual performance) to determine whether the threshold for the variable component has been reached. The variable component is only paid on reaching this value. There is a penalty area below the threshold for the variable salary. If a penalty applies, the variable salary component is reduced accordingly. One third of the variable salary component that is actually awarded is booked to a special account for variable remuneration. One-third of the balance of this account is paid out from the third year. The remaining two thirds of the variable salary component are paid out directly. If, as a result of the penalty system, a negative variable salary component is awarded, this negative amount is booked to the account for variable remuneration and the account balance is reduced accordingly.

2017 remuneration

Human Resources

PostFinance Ltd paid a total of 379 million francs in salaries to its staff in 2017. This sum consists of fixed salaries of 353 million francs and variable components of 26 million francs for 2016, which were paid in 2017. Remuneration of 24 million francs for 2017 will not be paid until subsequent years.

PostFinance employed 3,950 staff on average in 2017. This corresponds to 3,474 full-time equivalents.

Board of Directors

The members of the Board of Directors (including the Chairman) received remuneration of 797,535 francs (fees and fringe benefits). The fringe benefits amounted to 237,535 francs. The Chairman of the Board’s fee totalled 200,000 francs, and fringe benefits amounted to 26,135 francs. Remuneration for members of the Board of Directors who also held an Executive Management position at Swiss Post was paid directly to Swiss Post Group.

Executive Board

The members of the Executive Board (incl. the CEO) received remuneration of 3,295,924 francs (base salaries, fringe benefits, variable remuneration and fringe benefits). The fringe benefits amounted to 207,206 francs. The variable remuneration payable to members of the Executive Board is based on the average attainment of targets in the previous two years. The variable remuneration payable in 2018, which is based on attainment of targets in 2016 and 2017, and, for several Executive Board members on the payment from the account for variable remuneration, amounts to 784,218 francs.

The base salary of the CEO stood at 550,000 francs, and the variable remuneration amounted to 231,590 francs, of which 70,351 francs were paid from the account for variable remuneration.

PostFinance Ltd | Remuneration

CHF	2016	2017
Chairman of the Board of Directors		
Fees	200,000	200,000
Fringe benefits		
Expenses and representation allowances	20,000	20,000
First-class GA travelcard	5,970	6,135
Total remuneration	**225,970**	**226,135**
Other members of the Board of Directors (6)[1]		
Fees	360,000	360,000
Fringe benefits		
Expenses and representation allowances	38,200	36,600
Additional fringe benefits	147,800	174,800
Total remuneration	**546,000**	**571,400**
Entire Board of Directors (7)[1]		
Fees	560,000	560,000
Fringe benefits	211,970	237,535
Total remuneration	**771,970**	**797,535**
Chief Executive Officer		
Fixed base salary	532,000	550,000
Variable remuneration (payable the following year)		
Variable salary component	160,513	161,239
Outpayment from account for variable remuneration[2]	65,216	70,351
Fringe benefits		
Expenses and representation allowances	19,200	19,200
Additional fringe benefits[3]	33,056	32,961
Total remuneration	**809,985**	**833,751**
Other members of the Executive Board (10)[4]		
Fixed base salary	1,927,062	1,754,500
Variable remuneration (payable the following year)		
Variable salary component[5]	463,011	384,103
Paid from the account for variable remuneration[6]	207,765	168,525
Fringe benefits		
Expenses and representation allowances	105,000	96,250
Additional fringe benefits[3]	45,990	43,095
Additional payments[7]	6,000	15,700
Total remuneration	**2,754,828**	**2,462,173**
All members of the Executive Board (11)[8]		
Fixed base salary and variable remuneration	3,355,567	3,088,718
Fringe benefits	209,246	207,206
Total remuneration	**3,564,813**	**3,295,924**

1 Remuneration for the two members of the Board of Directors who also held an Executive Management position at Swiss Post was paid directly to Swiss Post Group.
2 For the financial year 2017, the Chief Executive Officer receives an outpayment from his account for variable remuneration.
3 Additional fringe benefits include: first-class GA travelcard, company car, mobile phone and premiums for risk insurance policies.
4 This includes the remuneration for ten Executive Board members. Four members were appointed during the year and two stepped down during the year. One position was partially vacant.
5 The previous year’s figure was erroneously stated; it was too high by 143,847.
6 No payments from the account for variable remuneration have yet been made to the four Executive Board members newly appointed in 2017.
7 UPU Award of CHF 100 for seven members; top bonus for Valérie Schelker.
8 This includes the two members who stepped down in 2017.

Management contracts

PostFinance Ltd has not concluded any management contracts with companies or individuals outside Swiss Post Group.

Auditor

According to the provisions of the Swiss Code of Obligations on the subject of corporate law, the auditors are to be appointed by the General Meeting. According to the Banking Act and Stock Exchange Act, this is the responsibility of the Board of Directors. Each term of office is one year. KPMG have been appointed as the auditors (accounting and regulatory audit) in accordance with the Swiss Code of Obligations as well as the Banking Act and Stock Exchange Act. Their work is carried out by two separate audit teams. The term of office for the head auditor in each case is one year. The mandate for the auditors in accordance with the Banking Act and Stock Exchange Act was awarded to KPMG and the current auditor in charge engaged for the first time in 2013. In accordance with the provisions of the Swiss Code of Obligations, the head auditor may exercise his mandate for a maximum of seven years. In the year under review, the expense for PostFinance Ltd for auditing and consultancy fees from KPMG stood at a total of 2,534,761 francs, of which 548,792 francs were due for the accounting audit and 1,985,969 francs for the regulatory audit. The auditors may provide the overall management body with information in the form of reports during their accounting and regulatory audits, as well as with extraordinary reports in the course of their activities. They may also attend meetings held by the Board of Directors or its Committees.

Information policy

PostFinance maintains regular contact with its parent at various levels, in particular with regard to the universal service for payment transaction services.

Reporting concepts are in place for FINMA and OFCOM as well as for the SNB. The authorities are informed about events within their area of responsibility promptly and on a regular basis.

PostFinance examines current money-related topics in a range of publications for its customers. The online magazines Ganz einfach (https://magazin.postfinance.ch) for private customers, +Finance (https://plusfinance.postfinance.ch) for business customers and +Performance (https://plusperformance.postfinance.ch) for individual customers are published several times a year (available in German, French and Italian). PostFinance is also present on social networks and makes an active contribution to shaping dialogue on Facebook, Twitter, Instagram, LinkedIn, Xing and YouTube.

Management report

PostFinance is one of Switzerland's leading financial institutions and is a reliable partner for 2.9 million private and business customers who manage their own finances.

As the number one for payment transactions in 2017, PostFinance ensured a seamless daily flow of liquidity with 1,072 million transactions.

PostFinance employed 3,950 staff in 2017. This corresponds to 3,474 full-time equivalents.

In 2017 PostFinance recorded an operating profit (EBIT) of 543 million francs and generated company profits (EBT) of 463 million francs. Total assets rose by one billion francs to 121 billion francs.

Customer deposits were down by around 600 million francs, with a growing trend towards transferring assets from postal and savings accounts to investment products such as funds and shares.

The ongoing uncertain situation on the domestic and international financial and capital markets with low and in some cases negative interest rates increasingly presents PostFinance with significant challenges.

Business activities

Markets

PostFinance is one of Switzerland's leading retail financial institutions. We are the ideal partner for all customers who want to manage their own finances, anytime and anywhere. As the market leader in Swiss payment transactions, we ensure a seamless daily flow of liquidity. Whether in payments, savings, investments, retirement planning or financing – we offer our customers everything to meet their daily financial needs, including our simple products with attractive conditions and easy access to us.

Customers

Almost 2.6 million private customers and 0.3 million business customers put their trust in PostFinance. Our range of services is straightforward and user-friendly, enabling our customers to manage their own finances, anytime and anywhere. We are there for them whenever they need advice: in branches operated by PostFinance or Swiss Post, or online and by phone in our Contact Center. We advise our business customers in person at their premises – because that's the best place to identify their needs.

Regulatory framework

Legal framework

PostFinance has had a banking licence since 2013.

PostFinance is a private limited company under private law wholly owned by Swiss Post Ltd. PostFinance was granted a banking licence as a bank and securities dealer on 26 June 2013 and is subject to regulation by the Swiss Financial Market Supervisory Authority (FINMA). Postal legislation and the strategic goals of the Federal Council remain relevant to PostFinance's business activities. In particular, postal legislation specifies that PostFinance must provide a universal service for payment transactions throughout Switzerland. It also states that PostFinance may not issue loans and mortgages to third parties. PostFinance has been one of Switzerland's five systemically important banks since summer 2015. This highlights the importance of PostFinance for the Swiss financial system. However, as a systemically important bank, PostFinance must also meet additional regulatory requirements.

Developments

Customers

As a result of technological progress, customers increasingly have access to better networks, so are more well informed. The sheer volume of information available makes things more complex for individuals. There is a demand for simple solutions that offer security and comfort, and hence a positive customer experience. This allows us to give our customers genuine added value.

Competition

PostFinance operates in a dynamic market environment with ever greater competition. The digital revolution in retail banking is continuing. Growing numbers of new competitors from other industries and countries are attempting to gain a foothold in payment transactions and retail banking.

Economy

The past few months have seen further improvements in the international environment. The global economy exhibited strong, broad-based growth in the third quarter. International trade, in particular, remained dynamic. In view of companies' higher capacity utilization and growing confidence, investment continued to recover. The employment trend remained positive, which helped to buoy household confidence, too. Inflation in most advanced economies trended sideways in recent months.

The Swiss National Bank (SNB) is leaving the interest rate on sight deposits at –0.75 percent and its target range for the three-month Libor at between –1.25 and –0.25 percent. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is still highly valued. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary remain essential. The expansionary monetary policy aims to stabilize price developments and support economic activity.

Regulation

Regulatory requirements are increasing within the banking sector. Due to global harmonization, international laws are being applied or giving rise to an equivalent Swiss solution. The new regulations focus mainly on offering greater transparency and on meeting the growing information requirements of customers, authorities and the public. This increasing regulatory pressure is leading to considerably higher costs, which will no doubt result in even more pressure on margins.

Strategy

PostFinance makes handling money as easy as possible.

PostFinance aims to help its customers manage their money as easily as possible. Its approach is based on an in-depth understanding of what customers need, both now and in the future. Working to achieve this is what drives all PostFinance employees on. To reach its goals, PostFinance is prepared to take unconventional steps and to keep surprising its customers in a positive way.

Positioning

PostFinance is the first choice for retail customers who would like to manage their own finances, anytime and anywhere. We provide solutions that make it easier for them to manage their financial affairs and give them added value. For our corporate customers, we provide a tailor-made service that fits in perfectly with their value chain.

Digital powerhouse

New opportunities are opening up for PostFinance in the digital world: the profitability of services is improving thanks to digitization, and PostFinance is setting itself apart from the competition by developing innovative digital business models.

PostFinance, the Swiss digital powerhouse within financial services, is promoting digital penetration among its broad customer base and increasing profitability by exploiting customer potential more effectively as it introduces new digital services. At the same time, cost efficiency is being improved by end-to-end digitization. PostFinance provides a simple range of services in the digital – and above all – mobile world, and impresses customers by offering them the best customer experience and a rapid response to their changing requirements. As a digital powerhouse, PostFinance is conserving its customer interface for banking operations and other bank-related transactions. It offers its customers an appropriate portfolio of products and services with additional services from third parties. Its existing business is also being redesigned from a digital customer perspective.

Commentary on business performance

Key figures

In the financial year 2017, PostFinance generated company profits (EBT) as per Group IFRS guidelines of 463 million francs. This represents a decline of 79 million francs or 14.6 percent.

The ongoing uncertain situation on the financial and capital markets with low and in some cases negative interest rates again led to a significant decline in the interest differential business, which is the most important source of revenue for PostFinance. This situation will remain a challenge over the next few years. Higher non-interest related revenue in net service and commission income and trading activities, one-off capital gains from the sale of two equity portfolios, and portfolio reversals of impairment on financial investments, all had a positive effect on operating income. One-off depreciation and impairments on participations had a negative impact on earnings before tax. PostFinance also had to make the first Group compensatory payment for the letter of comfort agreed as part of the too-big-to-fail stabilization plan for systemically important banks.

The sales and transactions figures confirm the emphasis placed on customers who manage their own finances and use our simple, attractive products. The introduction of a fee on the credit balance that exceeds the exemption limit of one million francs for private customers too resulted in a marginal outflow of customer deposits and partly in a transfer of assets to funds and securities investments.

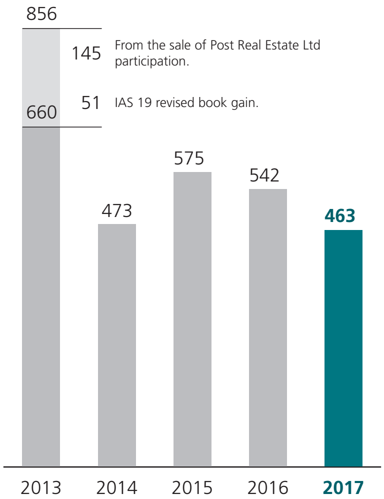
PostFinance Ltd | Key figures

2017 with previous year for comparison		2016	2017
Balance sheet			
Total assets as per IFRS	CHF million	119,435	120,837
Capital ratio as per guidelines for systemically important banks	%	17.1	17.1
ARB leverage ratio	%	4.5	4.7
Income statement (as per Group IFRS guidelines)			
Operating income	CHF million	1,675	1,693
Operating profit (EBIT)	CHF million	575	543
Company profits (EBT)	CHF million	542	463
Return on equity [1]	%	9.7	8.3
Cost-income ratio	%	65.6	68.0
Customer assets and loans			
Customer assets [3]	CHF million monthly avg.	119,436	119,797
Funds, securities and life insurance [2]	CHF million monthly avg.	8,246	9,968
Customer deposits	CHF million monthly avg.	111,190	109,829
Development of customer deposits	CHF million	4,479	–611
Managed assets as per provisions of Circ. 2015/1 [3]	CHF million	45,845	46,305
Inflow of new money as managed assets	CHF million	197	–714
Loans to business customers (taken up)	CHF million	9,894	10,185
Mortgages [2]	CHF million	5,361	5,650
Market and employee key figures			
Customers	In thousands	2,952	2,890
Private customers	In thousands	2,651	2,594
Business customers (incl. banks and agencies)	In thousands	301	296
E-finance users	In thousands	1,743	1,756
Accounts – private customers	In thousands	4,449	4,418
Accounts – business customers	In thousands	396	391
Customer satisfaction – private customers	Index	80	80
Customer satisfaction – business customers	Index	78	76
Average headcount	Full-time equivalents	3,599	3,474
Employee satisfaction	Index	79	78
Transactions			
Transactions	In millions	1,044	1,072

1 Return on equity = company profits (EBT) as per Group IFRS guidelines / average eligible equity capital as per ARB.
2 Commission business in cooperation with financial partners.
3 PostFinance reports customer assets and managed assets. “Customer assets” includes all assets held by customers based on average monthly assets. “Managed assets” encompasses only values deposited for investment purposes on the reference date.

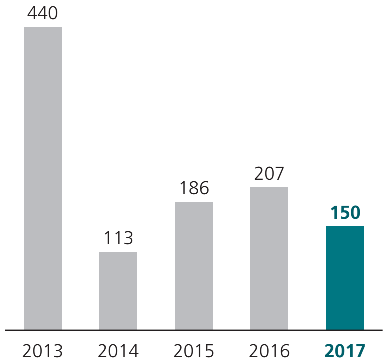
Company profits (EBT)

2013 to 2017
CHF million



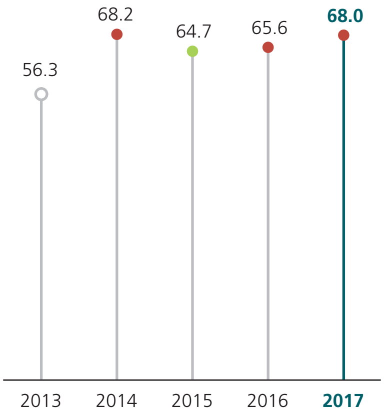
Economic value added

2013 to 2017
CHF million



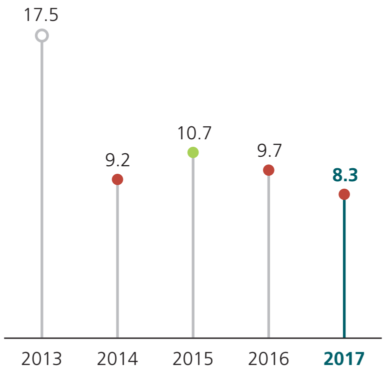
Cost-income ratio

2013 to 2017
Percent



Return on equity [1]

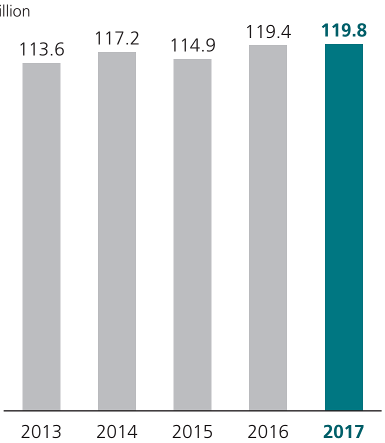
2013 to 2017
Percent



[1] Return on equity = company profits (EBT) as per Group IFRS guidelines / average eligible equity capital as per ARB.

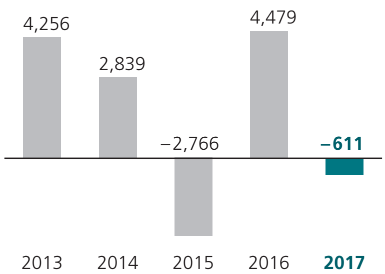
Average customer assets (monthly avg.)

2013 to 2017
CHF billion



Development of customer deposits

2013 to 2017
CHF million



General developments

There has been a further rise in divergence between the monetary policy stances of major currency areas. The US Federal Reserve increased base interest rates three times in 2017, and the Bank of England gave an indication that it would raise interest rates for the first time in more than ten years. The Swiss National Bank (SNB), the European Central Bank (ECB) and the Bank of Japan on the other hand maintained their highly expansionary monetary policy. Their base interest rates remain historically low, and unconventional measures such as interventions in the currency market, bond purchases or control of long-term interest rates remain integral parts of their monetary policy instruments. This international divergence in monetary policy is rooted in discrepancies between the status of the business cycle and the inflation situation in the various countries.

Differences in monetary policy stances are expected to accentuate further in 2018. Additional interest rate increases are planned in the US and cannot be ruled out in the UK.

In contrast, the expansionary policy in Switzerland, the euro area and Japan should be maintained, at least in the short term.

The ECB is conserving its very expansionary monetary policy. It has no plans to touch base interest rates, which should remain at the current low level for some time yet. The only slight reduction will be in monetary policy stimulus via the bond purchase programme. Although purchases should continue until at least September 2018, volumes will decrease. According to the latest inflation forecasts, inflation is expected to rise to just 1.7 percent by 2020.

Swiss monetary policy will also remain expansionary. In its December assessment, the SNB confirmed its willingness to intervene in the foreign exchange market as well as the negative interest rate of –0.75 percent.

Although the Swiss franc has weakened further, in the SNB's view, the Swiss franc remains "highly valued". Despite the improved economic outlook, the conditional inflation forecast is higher in the short term only, whereas inflation prospects are moderate in the medium term. The maximum inflation limit of 2 percent is not likely to be reached until mid-2020 – provided that the expansionary monetary policy is maintained. There is therefore no question of abandoning the current expansionary policy in the near future.

Long-term interest rates remain at low levels and have altered very little recently. Although the global economic outlook remains very positive, the subdued inflation forecasts and interest rate expectations will continue to weigh on long-term interest rates, as will the expansionary monetary policy stance around the world.

Economic signals for the coming months are encouraging. The SNB expects the global economy to continue developing favourably. It has even raised its forecasts slightly for the euro area and the US. Economic recovery and convergence with the inflation target are most advanced in the US. The Federal Reserve plans to continue its gradual policy normalization. By contrast, the European Central Bank (ECB) intends to pursue its asset purchases until at least September 2018, and to leave its key rate unchanged beyond this horizon. In Japan, the highly expansionary monetary policy also looks set to continue.

Assets and financial situation

In the year under review, total assets rose by 1.4 billion francs. Customer deposits were down by around 600 million francs. Further growth of customer deposits was recorded in sight deposits of both private and business customers. Fees on credit balances over a certain exemption limit had to be maintained for selected individual customers due to the negative interest rates on sight deposit balances at the SNB, resulting in a further outflow of customer deposits. In February 2017, the fee on the credit balance had to be extended to include private customers with assets of over one million francs. This measure concerns only a very small number of customers, and had only a marginal impact on the development of customer deposits.

PostFinance continues to invest a large proportion of its assets in long-term fixed-interest financial investments in Switzerland and abroad. A very large amount of liquidity was still held at the SNB as at 31 December 2017.

In the year under review, a growing trend was observed towards transferring assets from savings accounts to investment products such as funds and shares. PostFinance provides services in the commission business such as funds, e-trading, life insurance and credit cards in cooperation with partners. Average customer assets in investment products stand at around 10 billion francs.

Investments

In the year under review, PostFinance invested significant amounts in the modernization of the core banking system and in the harmonization of payment transactions project. Some of these expenses are capitalized and systematically amortized following roll-out.

At the end of 2017, the real estate portfolio of 21 properties had a market value of 1.1 billion francs. PostFinance invested around 37 million francs in developing and preserving the value of its own properties in 2017.

Work on the residential and office building in Frauenfeld is progressing on schedule. PostFinance invested over 13 million francs in this construction and renovation project in 2017. The building will be put into use at the end of 2018. Contracts have already been signed with anchor tenants. Demand is also high for the centrally located apartments.

Work on the construction project in Zurich-Oerlikon began in spring 2017 with the demolition of part of the building. Modern commercial and residential space will be created in an ideal location in two stages by 2021.

In 2017 approximately 10 million francs were invested in the Geneva 2 property located immediately next to the railway station. Changes in postal usage had resulted in empty floorspace. Targeted investments in expanding and improving access to the property aim to make it attractive to the rental market. The impressive building has a lettable area of 75,000 square metres, which requires constant investments in maintenance and modernization.

PostFinance made additional investments by way of capital contributions in participations in connection with corporate venturing.

Balance sheet

PostFinance Ltd | Balance sheet as per Group IFRS guidelines

CHF million	31.12.2016	31.12.2017
Assets		
Cash and cash equivalents	1,777[1]	2,113
Amounts due from banks	35,936	37,105
Interest-bearing amounts due from customers	405	348
Trade accounts receivable	21	23
Other receivables	774	705
Inventories	4	4
Financial investments	79,166	79,309
Participations	56	19
Tangible fixed assets	486	420
Investment property	236	261
Intangible assets	167	181
Deferred tax assets	407	349
Total assets	**119,435[1]**	**120,837**
Liabilities		
Customer deposits	111,231[1]	113,709
Other financial liabilities	1,839	843
Trade accounts payable	83	106
Other liabilities	144	101
Income tax liabilities	0	11
Provisions	396	263
Deferred tax liabilities	82	82
Equity	5,242	5,343
Profit for the year	418	379
Total liabilities	**119,435[1]**	**120,837**

1 PostFinance modified the disclosure of open item accounts in the second quarter of 2017. A customer settlement account is now disclosed in amounts due from banks on the assets side of the balance sheet, and settlement accounts from ATMs are recognized in customer deposits on the liabilities side. These items were previously reported under cash holdings. The balance stood at 88 million francs as at 31 December 2017 (31 December 2016: 68 million francs). The aim of this change is to take the ordinary course of business into account more accurately in future disclosures.

Profit situation

Change in the recognition method for interest expense on assets and interest income from the borrowing business (restatement 2016)

PostFinance changed the recognition method for interest expense on financial assets and interest income from the borrowing business in the course of the financial year 2017. Interest expense on assets (negative interest) is reported in interest expense, and interest income from the borrowing business (fees on the credit balance) is disclosed in interest income. The aim of this change is to take negative interest rates and fees on the credit balance into account more closely. Reclassification is recognized directly in equity in the comparison period; as at 31 December 2016, 12 million francs of commission income on securities and investment business were reclassified as interest income from the borrowing business, and 24 million francs of commission expenses were reclassified as interest expense on financial assets.

Operating income

The interest differential business is the most important source of income.

The interest differential business remains the most important source of revenue for PostFinance. The persistently low interest rates and lack of profitable investment opportunities weighed heavily on interest income during the financial year 2017 (–77 million francs year-on-year). This situation will remain a challenge in the coming years, particularly as PostFinance is not allowed to issue its own loans and mortgages. The decline in net interest income, net of impairment, was partially offset by portfolio reversals of impairment on financial investments.

Operating income benefited from one-off capital gains of 109 million francs from the sale of two equity portfolios in January 2017 as part of the revision of the investment strategy. One-off gains from the targeted sale of a participation and an equity portfolio had already boosted operating income in the previous year.

Non-interest related revenue in net service and commission income and trading activities, which in recent years has been encouraging, also had a positive effect on operating income.

Operating expenses

Headcount decreased by –125 full-time equivalents year-on-year to an average of 3,474 full-time equivalents. As part of its new strategic focus, PostFinance is placing an emphasis on the simplification and digitization of its services and processes. Vacant positions were therefore only partly filled. As a result of a provision in connection with the transformation into a digital powerhouse, personnel expenses remained on a par with the previous year despite the decline in headcount.

General and administrative expenses (+7 million francs) were affected by expenses for strategic projects.

Company profits (EBT)

PostFinance recorded earnings before tax of 463 million francs (–79 million francs year-on-year). Depreciation in connection with strategic projects for the modernization of the core banking systems, as well as real estate and impairments on participations, had a negative impact on earnings before tax. For the first time, there was also a Group compensatory payment for the letter of comfort agreed as part of the too-big-to-fail stabilization plan for systemically important banks.

Economic value added of 150 million francs was generated in 2017. At 8.3 percent, return on equity was in line with our expectations. Despite a consistent focus on costs, the cost-income ratio rose slightly.

Income taxes

Expenses for current taxes were down 43 million francs year-on-year due to the lower statutory result in 2017 (result in accordance with the Accounting rules for banks (ARB)).

Profit for the year

PostFinance achieved profit for the year of 379 million francs, down 39 million francs year-on-year.

Reconciliation of the income statement from the segment disclosure with the PostFinance profit for the year

Swiss Post includes the financial services market segment in its reporting. It indicates transfers of individual income and expense items from PostFinance to other Group units from a Group perspective. It also contains fully consolidated participations, some of which were sold in the course of 2016. The following table reconciles the financial services market segment result with the PostFinance profit for the year in accordance with Group IFRS guidelines.

PostFinance Ltd | Reconciliation of income statement
Segment disclosure on PostFinance's profit for the year as per Group IFRS guidelines

CHF million	2016	2017
Segment operating profit (EBIT) prior to fees and net cost compensation	**542**	**549**
Expenses from management fees, licence fees and excess costs, as well as income from net cost compensation	14	–5
Normalization (profit adjusted for one-off items)	–	–
Segment operating profit (EBIT) after fees and net cost compensation	**556**	**544**
Financial expenses – PostFinance Ltd	–4	–78
Investment income from subsidiaries and associates	1	1
Operating profit from subsidiaries	19	–1
Losses from the sale of subsidiaries and associates	–30	–3
Company profits (EBT)	**542**	**463**
Expenses for current taxes	–78	–35
Expenses for deferred taxes	–46	–49
Profit for the year	**418**	**379**

Income statement

PostFinance Ltd | Income statement as per Group IFRS guidelines

CHF million	2016	2017
Net interest income, net of impairment [1]	939	923
Net income from services	167	170
Net commission income [1]	66	91
Net trading income	200	236
Net income from financial assets	99	85
Other net income	204	188
Operating income	**1,675**	**1,693**
Personnel expenses	–507	–507
General and administrative expenses	–527	–534
Operating expenses	**–1,034**	**–1,041**
Gross profit (EBDIT)	**641**	**652**
Depreciation of fixed assets	–66	–109
Operating profit (EBIT)	**575**	**543**
Net financial income	–33	–80
Company profits (EBT)	**542**	**463**
Expenses for current taxes	–78	–35
Expenses for deferred taxes	–46	–49
Income taxes	**–124**	**–84**
Profit for the year	**418**	**379**

1 Change in the recognition method for interest expense on assets and interest income from the borrowing business (restatement 2016). See comment on page 48.

Non-financial results of a material nature

Customer satisfaction

The simplicity and reliability of services are the main factors that drive customer satisfaction.

PostFinance's private customers remain very satisfied, awarding PostFinance 80 points on a scale of 0 to 100 for customer satisfaction. Despite a slight decrease, a good score of 76 points was also obtained among business customers. 96 percent of private customers, and 92 percent of business customers questioned described themselves as satisfied, very satisfied or impressed.

One of the factors with the most influence on customer satisfaction is the generally positive image of PostFinance as a fair, secure and trustworthy bank. Customers also appreciate products and services that are straightforward to use and make it easier for them to manage their daily financial affairs.

Although the current interest rate situation is perceived negatively by private and business customers alike, the impact on overall satisfaction and hence on customer migration is minimal. For business customers, comprehensive customer advice plays a key role in connection with the upcoming harmonization of payment transactions.

Staff motivation

Participation levels in the employee survey remained high again this year, with 86.8 percent of PostFinance staff responding. The changes over the past year are reflected in the results. Amidst the comprehensive change processes and associated uncertainty, the overall results nevertheless convey a positive image.

Commitment (identification, fluctuation and motivation) represents the central element of the survey and achieved a very good score of 86 points (down 2 points on 2016). Staff identify with PostFinance and are fully committed to their work. The slight decline is principally due to a lower identification rate and greater intention to change jobs.

At 78 points, the work situation was rated just as highly as in 2016. Direct line managers, team interaction and work content received the highest scores in this index. Employees are also very satisfied with working hours regulations and with the opportunity to balance their private and professional life.

Unit fitness declined by one point this year, but still achieved a positive score of 74 points. The lower ratings given to strategy and management are noticeable in this index.

Staff satisfaction levels are reflected in the score given to employee satisfaction. Although this aspect was rated one point lower than the previous year, its score remains high at 78 points.

Risk assessment

The current negative interest rate environment presents PostFinance with particular challenges. Of particular significance is the fact that PostFinance is almost entirely exposed to the current interest environment when making new investments due to the lending prohibition and its investment activity on the money and capital markets. Returns on investments are therefore maintained by cautious expansion of capital market investments in the lower investment grade area, combined with a moderate increase in the credit risks taken. The term structure of the investment portfolio is coordinated with the refinancing structure, enabling the company to benefit from scenarios involving a rise in interest rates. The market risks taken are of secondary importance. Greater volatility on the equity markets only has limited effects on the result achieved by PostFinance, for example. Market risks are measured and evaluated rapidly. The liquidity situation at PostFinance remains very stable at a high level.

In principle, the major risks at PostFinance arise from the longer-term persistency of the current negative interest environment, particularly while the interest level of deposit products remains limited to 0 percent. Additional challenges could emerge as a result of new regulatory developments that PostFinance is particularly exposed to due to the restricted flexibility in its business model imposed by law. PostFinance is less affected by increased market volatility thanks to its large fixed income portfolio.

Customer transaction volumes

In the year under review, total assets rose by 1.4 billion francs. Customer deposits were down by around 600 million francs on average. Further growth of customer deposits was recorded in sight deposits of both private and business customers. Fees on credit balances over a certain exemption limit had to be maintained for selected individual customers due to the negative interest rates on sight deposit balances at the SNB, resulting in a further outflow of customer deposits.

In February 2017, the fee on the credit balance had to be extended to include private customers with assets of over one million francs. This measure concerns only a very small number of our customers, and had only a marginal impact on the development of customer deposits.

Adjustments were made to customer interest rates in the savings and retirement planning segments in the fourth quarter of 2016. In the year under review, a growing trend was therefore observed towards transferring assets from savings accounts to investment products such as funds and shares. Average customer assets in investment products rose by an encouraging 21 percent and stood at around 10 billion francs in 2017.

The topic of investment is becoming of greater strategic importance at PostFinance. PostFinance wants to increase awareness of its investment products, and organized successful campaigns on the subject. This is underpinned by the launch of new products. For example a new fund was launched in November: the PostFinance Fonds High Dividend. This fund focuses on Swiss and international shares with high dividend yields and is suitable for investors looking for regular dividends.

In the commission business, sales volumes for funds and e-trading increased, as did those for life insurance, credit card and mortgage products. PostFinance offers these products in cooperation with partners.

PostFinance processed 1,072 million payment transactions, representing an increase of 2.7 percent year-on-year. Overall, our customers carried out transactions representing a total volume of almost 1,800 billion francs. These figures illustrate the major importance of PostFinance in the Swiss financial services market. Inpayments at Swiss Post branches declined further as electronic processing gained ground. Particular growth is being seen in transaction volumes in the interbank sector and in trading activities (EFT/POS) as well as in e-finance.

2017 milestones

Digital powerhouse

PostFinance wants to become Switzerland's leading digital bank. In 2020, PostFinance customers should be able to carry out their banking transactions predominantly via online and mobile channels – faster, more easily and more securely than with our competitors. This creates a direct benefit for our customers – and helps us to design our internal processes more efficiently.

PostFinance has successfully introduced a chat function with a virtual assistant at postfinance.ch. We want to use virtual assistants to automate repetitive inquiries, maintain the same level of quality in our response at all times, and become more efficient as a result.

We want to bring our digital services closer to our customers. We aim to offer experience-oriented advice with the pop-up store concept.

We are seeking to reduce complexity by simplifying our provision of services and to increase speed thanks to improved fitness. By optimizing and transforming our core business, we are endeavouring to achieve simplification through standardization. PostFinance wants to maintain and expand its position as an innovation leader in the future.

Networking beyond organizational borders and mobile, flexible means of working are helping us on the road to becoming a digital powerhouse and increasing cooperation, innovation and efficiency. We need a working environment that illustrates this agility and flexibility, eliminates inefficiency and supports new ways of working (and working together). A new working environment has therefore been introduced and a new zone concept set up at the Mingerstrasse and Engehalde sites in Berne.

Innovation and projects

PostFinance has systematically developed its innovation management and adapted its innovation lab and innovation process in line with organizational changes, incorporating experience gathered in previous years. Various start-upsand young entrepreneurs have benefited from the innovation process. Thanks to innovation projects implemented in association with start-ups, customers have been able to take advantage of new products and services along their value chain since last year. A platform for the digital initiation of debt collection proceedings has been created with tilbago, for example. Employees also make an active contribution to the process and help to launch solutions thanks to the open innovation culture and ideal framework conditions. SmartCommerce is a new payment and online solution that benefited from the innovation process and was launched in 2017, for instance. Future innovations from PostFinance will focus on the creation of new, innovative business areas. The topic of blockchain is also on the agenda.

Development of products and services

With the May release, not only was the postfinance.ch website redesigned, but optimizations were also made to e-finance and the app.

It is now possible to apply for a mortgage extension via the appropriate tile in e-finance, for example, and the reference number is now shown on approval for "Scan now, pay later". The visual appearance of the app was also modified. PostFinance Benefit offers can now be seen and activated in the fast service. In addition, push notifications were introduced for e-bill, e-trading and PostFinance Benefit.

PostFinance wants to make it easier for online shop operators to process payment transactions, and has therefore launched the PostFinance SmartCommerce online shop solution.

SmartCommerce is intended principally for small retailers looking for a quick and easy way of entering e-commerce. Larger customers with small product ranges, or charities and associations, can also enjoy a simple introduction to e-commerce.

Corporate venturing

In the current market environment with low and in some cases negative interest rates, it is essential to diversify our income structure and tap into new sources of income that do not depend on interest rate levels. We see potential in the medium term in corporate venturing, by which we mean equity investment in start-up companies.

The activities initiated in 2016 in the field of corporate venturing were pursued and professionalized. The Corporate Venture Capital business unit was established in the past financial year to focus on potential investments in areas derived from PostFinance's strategy. A total of more than 500 investment and participation possibilities have already been analysed by the Venture Capital team. In 2017 this resulted in five investments in dynamic growth companies to expand PostFinance's portfolio. The activities of the Corporate Venture Capital unit are not an end in themselves, however, but are conducted in close coordination with the strategy and further innovation plans. They thereby enable PostFinance to use every possible channel to achieve innovation gains.

Harmonization of payment transactions

Swiss payment transactions are being modernized and automated. As part of this harmonization, the current formats are being switched to the ISO 20022 standard. PostFinance launched the strategic project "Harmonization of payment transactions" back in 2013. Since mid-2014 up to 300 employees and around 500 software partners have worked tirelessly on the switch to the uniform international ISO standard. Thanks to the well-coordinated contributions of all those involved, PostFinance is the first financial institution in Switzerland to have completed the transition to the ISO 20022 standard.

Outlook

The Swiss National Bank (SNB) expects the global economy to continue developing favourably. Economic recovery and convergence with the inflation target are most advanced in the US. This prompted the US Federal Reserve to carry out a number of interest rate adjustments and to initiate the reduction of the balance sheet in 2017. The Federal Reserve plans to continue its gradual policy normalization. By contrast, the European Central Bank (ECB) intends to pursue its asset purchases until at least September 2018, and to leave its key rate unchanged beyond this horizon. In Japan, the highly expansionary monetary policy also looks set to continue.

The baseline scenario for the global economy is subject to risks. In the medium term, risks for the international economy are still to the downside. These risks include political developments in certain countries, as well as potential international tensions, which are difficult to predict and assess. Moreover, the normalization of monetary policy in the advanced economies presents challenges. An abrupt rise in the currently very low capital market interest rates and risk premia, in particular, could negatively impact the global economy.

The Federal Government's Expert Group expects the Swiss economy to make a speedy recovery over the next few quarters. The forecast for GDP growth in 2018 is strong at 2.3 percent in the course of the global economic upturn. A solid 1.9 percent growth is predicted for 2019. Both foreign trade and the domestic economy are contributory factors in this regard. Employment is likely to increase noticeably, with unemployment set to drop again.

The SNB confirmed its expansionary monetary policy stance in its assessment of September 2017. It decided to leave the target range for the three-month Libor unchanged at between –1.25 percent and –0.25 percent. It also left unchanged, at –0.75 percent, the interest rate on sight deposits held by banks and other financial market participants at the SNB which exceed a given threshold. Furthermore, the SNB reaffirmed that it will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market serve to ease upward pressure on the Swiss franc. The SNB's monetary policy thus helps to stabilize price developments and support economic activity.

The SNB's conditional inflation forecast for 2017 is 0.5 percent. For 2018, it has predicted inflation of 0.7 percent. The National Bank anticipates inflation of 1.1 percent for 2019. This forecast is based on the assumption that the three-month Libor will remain at –0.75 percent during the forecast period.

The ongoing uncertain situation on the domestic and international financial and capital markets with negative interest rates in some cases increasingly presents PostFinance with significant challenges. The competitive disadvantage that we face in not being able to issue our own loans and mortgages is becoming more pronounced. For this reason, and to guarantee PostFinance's long-term profitability in the current market environment, it is therefore essential to diversify the income structure and to tap into new sources of revenue in which non-interest income can be generated.

Added to this are changing customer requirements: Our society, and with it the banking world, is rapidly becoming more and more digital. As a recognized innovator, we not only want to keep up, but make our mark and be regarded as one of the leading financial institutions. Our aim is of course to create the ideal combination of the digital and physical worlds in order to offer PostFinance customers a consistently positive customer experience.

We will therefore pursue several strategic thrusts as we pave the way to becoming a "digital powerhouse". We focus on the retail and corporate markets. In the retail market, we manage independent private and corporate customers, We offer them modular and above all digital standard products in the areas of money in everyday life, money for the future and money for investments. In the corporate market, we provide business customers with integrated solutions. The emphasis here is on payment transactions, working capital management or financing offers, for example.

This strategic transformation process also requires various organizational changes. We will continuously automate and digitize our processes. This will lead to a reduction in the number of full-time equivalents of around 45 in 2018. We will try to achieve this reduction without redundancies wherever possible. The Kriens and Münchenstein sites will be closed in 2018, and the St. Gallen Contact Center will be integrated into the Netstal location at the end of 2018. Document processing will be transferred to Swiss Post Solutions in 2018. The customer zones in our branches are checked regularly and adapted to the new branch concept.

In March 2017, the Swiss financial center provided information about the switch to ISO 20022 and the new QR bill. The QR bill will replace all inpayment slips from 2019. PostFinance completed the migration to ISO 20022 at all its customers by the end of 2017. In future, all the information required for transfers and debits will be sent and received in a standard format. The internationally standardized IBAN will replace all bank and postal account numbers in future. The new QR bill will be introduced as soon as the changeover to the ISO 20022 standard is complete. It will replace all seven previously valid inpayment slips.

We will replace our core banking system over the Easter weekend in 2018. E-finance and e-trading will be unavailable from the evening of Maundy Thursday for a period expected to last until the evening of Easter Monday. Other services may be unavailable or only available on a limited basis during shorter timeframes.

PostFinance's current core banking system has been in operation since 1993. It is stable and works very well. On peak days it processes over 15 million book entries. The system has evolved historically and consists of over 100 applications. It is becoming increasingly complex to maintain the interfaces and to integrate innovations properly. PostFinance has therefore decided to replace its core banking system with more modern standard software from the Indian software manufacturer Tata Consultancy Services (TCS). More than 240 banks, including the Bank of India and the Bank of China, use this standard software, "TCS BaNCS", for their business operations. The software has proven its capacity to handle high transaction volumes. PostFinance is also benefiting from the technological innovative strength of the global operator TCS.

After Easter 2018 PostFinance will bring the Swiss financial and economic center into a new digital era with the new banking software and ISO formats. PostFinance will continue to simplify the handling of money for customers by constantly digitizing its processes and bringing new products to market more quickly.

Reconciliation

PostFinance issues financial statements in accordance with Group IFRS (International Financial Reporting Standards) guidelines and the Accounting rules for banks (ARB) set out in article 6 ff. of the Banking Act and article 25 ff. of the Banking Ordinance (FINMA Circular 2015/1 "Accounting – banks"). The following tables show the differences between the two accounting standards in the balance sheet and the income statement. They reconcile the total assets and the profit for the year in accordance with Group IFRS guidelines with the ARB financial statements.

Balance sheet

PostFinance Ltd | Reconciliation of balance sheet as per Group IFRS guidelines with ARB

CHF million		31.12.2016	31.12.2017
Total assets	**as per Group IFRS guidelines**	**119,435**	**120,837**
Assets			
Financial investments	Revaluation of financial investments held to maturity	25	3
	Lower of cost or market value principle for shares/funds as per ARB	–82	–17
	OCI[1] bonds/shares/funds in financial investments	–327	–378
Participations	Amortization of equity securities	–3	–12
	Lower of cost or market value principle for participations as per ARB	–	–1
Tangible fixed assets	Revaluation of real estate	370	360
	Goodwill adjustment in ARB less amortization	1,200	1,000
Other assets	Deferred tax assets (assets)	–407	–349
	Compensation account (assets)	56	165
	Hedge fair value compensation account	44	25
Items in other amounts due to customers	PostFinance's own postal accounts (Finance/Real Estate)	0	0
Items in liquid assets	IFRS restatement	68	–
Difference in assets	**ARB – Group IFRS guidelines**	**944**	**796**
Liabilities			
Other amounts due to customers	PostFinance's own postal accounts (Finance/Real Estate)	0	0
Other liabilities	Compensation account (liabilities)	56	165
	Employee benefit obligations	–247	–243
	Deferred tax liabilities (liabilities)	–18	–9
	OCI[1] equity interest transfer	47	24
Statutory capital reserve	Capital reserves (from revaluations)	1,446	1,340
	Retained earnings reserve under IFRS	188	188
Profit for the year	Difference in profit as per Group IFRS guidelines – ARB	–107	–244
Items in financial investments	OCI[1] bonds/shares/funds in financial investments	–327	–378
	Hedge fair value compensation account	44	25
OCI[1] as per Group IFRS guidelines only	OCI[1] from shares and participations	–206	–72
Items in liquid assets	IFRS restatement	68	–
Difference in liabilities	**ARB – Group IFRS guidelines**	**944**	**796**
Total assets	**as per ARB**	**120,379**	**121,633**

1 Other comprehensive income (other comprehensive income recorded directly in equity).

Reconciliation of income statement

PostFinance Ltd | Reconciliation of income statement as per Group IFRS guidelines with ARB

CHF million		2016	2017
Profit for the year (as per Group IFRS guidelines)		**418**	**379**
Interest and dividend income from financial investments	Amortization of revalued held-to-maturity financial investments	–44	–22
Various items of net income	Valuation differences for financial investments as per ARB	78	–28
Changes in value adjustments for default risks and losses from interest operations	Reversal of impairment on / impairment of loans	3	–
Result from the disposal of financial investments	Realized gains from (earlier than scheduled) sales	–5	–34
Personnel expenses	Valuation differences between IAS 19 and Swiss GAAP ARR 16	22	–3
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets	Revalued real estate	–4	–1
	Individual impairment loss due to lower fair value	–4	–9
	Goodwill	–200	–200
Various income statement items	Valuation differences for participations as per ARB	0	5
Extraordinary income / extraordinary expenses	Realized gains from participations	1	–
Taxes	Deferred tax income as per Group IFRS guidelines	46	49
Profit for the year as per ARB		**311**	**136**

Statutory financial statements

PostFinance issues annual financial statements in accordance with the Accounting rules for banks (articles 25–28 of the Banking Ordinance, FINMA Circular 2015/1 “Accounting – banks” ARB).

The statutory financial statements indicate profit after tax of 136 million francs. Total assets rose to 122 billion francs in 2017. With a capital ratio of 17.11 percent, PostFinance exceeds the minimum capital requirements of Basel III.

Balance sheet

PostFinance Ltd | Balance sheet as per ARB

CHF million	Notes	31.12.2016	31.12.2017
Assets			
Liquid assets		37,453	38,476
Amounts due from banks		4,397	4,823
Amounts due from securities financing transactions	5	84	24
Amounts due from customers	6	13,169	12,173
Mortgage loans	6	0	0
Trading portfolio assets		–	–
Positive replacement values of derivative financial instruments	7	65	43
Other financial instruments at fair value		–	–
Financial investments	8	61,742	62,819
Accrued income and prepaid expenses		598	556
Participations	9, 10	101	122
Tangible fixed assets	11	1,259	1,223
Intangible assets	12	1,200	1,000
Other assets	13	311	374
Total assets		**120,379**	**121,633**
Total subordinated claims		1	13
of which subject to mandatory conversion and/or debt waiver		–	–
Liabilities			
Amounts due to banks		2,406	543
Liabilities from securities financing transactions	5	723	–
Amounts due in respect of customer deposits		109,709	113,292
Trading portfolio liabilities		–	–
Negative replacement values of derivative financial instruments	7	268	728
Liabilities from other financial instruments at fair value		–	–
Cash bonds		114	93
Bond issues and central mortgage institution loans		–	–
Accrued expenses and deferred income		138	108
Other liabilities	13	8	6
Provisions	16	20	45
Reserves for general banking risks		–	–
Bank's capital	17	2,000	2,000
Statutory capital reserve		4,682	4,682
of which tax-exempt capital contribution reserve		4,682	4,682
Statutory retained earnings reserve		–	–
Voluntary retained earnings reserves		–	–
Profit carried forward		–	–
Profit		311	136
Total liabilities		**120,379**	**121,633**
Total subordinated liabilities		–	–
of which subject to mandatory conversion and/or debt waiver		–	–

PostFinance Ltd | Off-balance sheet transactions

CHF million	Notes	31.12.2016	31.12.2017
Contingent liabilities	25	0	33
Irrevocable commitments		709	722
Obligations to pay up shares and make further contributions		–	–
Credit commitments		–	–

Income statement

PostFinance Ltd | Income statement as per ARB

CHF million	Notes	2016	2017
Interest and discount income	28	175	171
Interest and dividend income from trading portfolios		–	–
Interest and dividend income from financial investments	28	790	689
Interest expense	28	–44	4
Gross result from interest operations		**921**	**864**
Changes in value adjustments for default risks and losses from interest operations		21	40
Net result from interest operations		**942**	**904**
Commission income from securities trading and investment activities		40	47
Commission income from lending activities		16	20
Commission income from other services		633	626
Commission expense		–462	–438
Result from commission business and services		**227**	**255**
Result from trading activities and the fair value option	27	**211**	**222**
Result from the disposal of financial investments		28	67
Income from participations		2	2
Result from real estate		68	80
Other ordinary income		158	100
Other ordinary expenses		–	–20
Other result from ordinary activities		**256**	**229**
Operating income		**1,636**	**1,610**
Personnel expenses	29	–488	–512
General and administrative expenses	30	–516	–554
Operating expenses		**–1,004**	**–1,066**
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets		–275	–369
Changes to provisions and other value adjustments, and losses		–8	–9
Operating result		**349**	**166**
Extraordinary income	31	74	10
Extraordinary expenses	31	–29	–
Changes in reserves for general banking risks		–	–
Taxes	32	–83	–40
Profit		**311**	**136**

Appropriation of profit

PostFinance Ltd | Distributable profit

CHF million	31.12.2016	31.12.2017
Profit for the year	311	136
Profit carried forward	–	–
Total distributable profit	**311**	**136**

At the General Meeting on 6 April 2018, the Board of Directors of PostFinance will propose the following appropriation of profit (previous year: 7 April 2017):

PostFinance Ltd | Appropriation of profit

CHF million	31.12.2016	31.12.2017
Allocation to other reserves	–	–
Dividend distributions	311	136
Profit carried forward to new account	–	–
Total distributable profit	**311**	**136**

Cash flow statement

PostFinance Ltd | Cash flow statement as per ARB

CHF million	Cash inflow 2016	Cash outflow 2016	Cash inflow 2017	Cash outflow 2017
Cash flow from operating activities (internal financing)				
Profit for the year	311	–	136	–
Value adjustments on participations, depreciation and amortization of tangible fixed assets and intangible assets	275	–	359	–
Provisions and other value adjustments	7	–	25	–
Change in value adjustments for default risks and losses	–	5	–	39
Accrued income and prepaid expenses	54	–	42	–
Accrued expenses and deferred income	20	–	–	30
Other items	44	–	23	–
Previous year’s dividend	–	221	–	311
Subtotal	**485**	**–**	**205**	**–**
Cash flow from shareholder’s equity transactions				
Share capital	–	–	–	–
Recognized in reserves	–	–	–	–
Subtotal	**–**	**–**	**–**	**–**
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets				
Participations	–	43	1	61
Real estate	11	86	9	45
Other tangible fixed assets	–	83	–	47
Intangible assets	–	–	–	–
Subtotal	**–**	**201**	**–**	**143**
Cash flow from banking operations				
Amounts due to banks	1,186	–	–	1,863
Liabilities from securities financing transactions	615	–	–	723
Amounts due in respect of customer deposits	2,743	–	3,651	–
Cash bonds	–	19	–	22
Negative replacement values of derivative financial instruments	58	–	460	–
Other liabilities	–	10	–	1
Amounts due from banks	74	–	–	425
Amounts due from securities financing transactions	227	–	59	–
Amounts due from customers	–	2,183	998	–
Mortgage loans	0	–	0	–
Positive replacement values of derivative financial instruments	–	4	21	–
Financial investments	–	4,378	–	1,062
Other accounts receivable	–	22	–	64
Subtotal	**–**	**1,713**	**1,029**	**–**
Liquidity				
Liquid assets	1,429	–	–	1,091
Subtotal	**1,429**	**–**	**–**	**1,091**
Total	**1,914**	**1,914**	**1,234**	**1,234**

Statement of changes in equity

Presentation of the statement of changes in equity

CHF million	Bank's capital	Capital reserve	Retained earnings reserve	Reserves for general banking risks	Voluntary retained earnings reserves and profit carried forward	Result of the period	Total
Equity as at 01.01.2017	**2,000**	**4,682**	**–**	**–**	**311**	**–**	**6,993**
Dividends	–	–	–	–	–311	–	–311
Profit	–	–	–	–	–	136	136
Equity as at 31.12.2017	**2,000**	**4,682**	**0**	**0**	**0**	**136**	**6,818**

Notes

1 | Business name and the legal form and domicile of the bank

Business name: PostFinance Ltd (company number CHE-114.583.749)
Legal form: Private limited company (Ltd)
Domicile: Berne (Switzerland)

2 | Accounting and valuation policies

General principles

The bookkeeping, accounting and valuation policies are based on the Swiss Code of Obligations, the Banking Act and the related ordinance, statutory provisions and the guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA). The true and fair view statutory single-entity financial statements give an accurate picture of the assets, liabilities, financial position and results of operations of the company in accordance with the Accounting rules for banks, securities dealers, financial groups and conglomerates.

Individual report figures are rounded in the notes, while calculations are carried out using the non-rounded figures. Small rounding differences may therefore occur.

Foreign currency translation

Balance sheet items in foreign currency are converted at the foreign exchange rates valid at the end of the year. Any resulting exchange gains and losses are recognized in the income statement. Income and expenses are converted at the applicable daily rates.

Closing rates

	31.12.2016	31.12.2017
EUR	1.0753	1.1685
USD	1.0227	0.9766
GBP	1.2554	1.3163
JPY	0.0087	0.0087

Offsetting

In principle, no offsetting takes place, except in the cases set out below. Receivables and liabilities are offset if all the following conditions are met: the receivables and payables arise from transactions of the same type with the same counterparty, with the same maturity or earlier maturity of the receivable and in the same currency, and cannot lead to a counterparty risk. Positive and negative replacement values with the same counterparty are offset provided that legally recognized and enforceable bilateral agreements are in place. Value adjustments are deducted from the corresponding asset item.

Trade date / settlement date accounting

In principle, securities transactions are recognized on the trade date. Concluded foreign exchange and money market transactions are recognized in the balance sheet on the settlement date (value date). Foreign exchange transactions are recognized in the balance sheet in positive replacement values of derivative financial instruments or negative replacement values of derivative financial instruments until their settlement date.

General valuation principles

The detailed positions of items in the balance sheet are valued separately (item-by-item valuation).

Liquid assets, amounts due from banks and amounts due from securities financing transactions

These items are included in the balance sheet at their nominal value or acquisition cost less value adjustments for impaired loans / receivables. Impairment is measured according to the difference between the book value of the receivable and the presumably collectible amount, taking into account the counterparty risk and the net proceeds from the realization of any collateral. Any premiums and discounts related to bank receivables are accrued over the term. Cash outflows arising from reverse repurchase transactions are presented as amounts due from securities financing transactions. Financial investments obtained from transactions as collateral are generally not recognized in the balance sheet. Interest income from reverse repurchase transactions is accounted for using the accrual-based accounting principle. Securities lending and borrowing transactions are recorded at the value of the cash deposits that have been received or made, including the accrued interest. Securities borrowed or received as collateral are only recognized in the balance sheet if PostFinance gains control over the contractual rights associated with these securities. Securities lent and provided as collateral are only taken off the balance sheet if PostFinance loses the contractual rights associated with these securities. The fair values of the securities borrowed and lent are monitored on a daily basis in order to provide or claim additional collateral where required. Securities cover for reverse repurchase and securities lending transactions is recognized on a daily basis at current fair values. Fees received or paid in relation to securities lending and repurchase transactions are stated in the result from commission business and services.

Amounts due from customers and mortgage loans

These items are included in the balance sheet at their nominal value or acquisition cost less value adjustments for impaired loans / receivables. Impairment is measured according to the difference between the book value of the receivable and the presumably collectible amount, taking into account the counterparty risk and the net proceeds from the realization of any collateral. Any premiums and discounts related to bank receivables are accrued over the term. Receivables are classed as impaired at the latest when the contractually agreed payments of capital and/or interest are more than 90 days outstanding. Interest outstanding for more than 90 days is regarded as overdue. In addition to individual value adjustments, PostFinance calculates portfolio value adjustments to cover losses incurred on the balance sheet date that cannot yet be identified separately. Bad debt provisions are made for the accounts of private and business customers that have been overdrawn for more than 60 days. Value adjustments that are no longer economically necessary are released to income. All value adjustments are deducted directly from this item in the balance sheet.

Overdue interest, the collection of which is impaired, is no longer accrued as income, but is reported without interest when its collection is so doubtful that the accrual of such interest is no longer deemed appropriate. If a receivable is considered entirely or partially uncollectible or a waiver has been granted, the amount of the receivable is derecognized from the corresponding value adjustment.

Trading portfolio assets

Securities held for trading acquired primarily with the aim of achieving short-term gains by making targeted use of fluctuations in market prices are measured at fair value. Realized and unrealized profit and loss from these securities is recorded in the result from trading activities and the fair value option. Interest and dividend income from securities held for trading is recognized under net interest income. Where, as an exception, no fair value is ascertainable, valuation and recognition are to follow the principle of the lower of cost or market value.

Positive and negative replacement values of derivative financial instruments

Derivative financial instruments which are not accounted for under the hedge accounting rules or which do not meet the conditions to qualify for hedge accounting are treated as trading instruments. Derivative financial instruments acquired for trading purposes are recognized at fair value and are subsequently measured at fair value. Hedge accounting is applied if derivative financial instruments are effective in offsetting changes in fair value or cash flows attributable to the hedged items. The effectiveness of these hedges is reviewed every six months. Fair value hedges are used to hedge exposure to changes in fair value of an asset or liability. Changes in the fair value of both the hedging instrument and the hedged underlying instrument are recognized in the income statement. Cash flow hedges are used to hedge anticipated future transactions. Changes in value to the extent a hedge is effective are allocated to the compensation account, while changes in value to the extent a hedge is ineffective are recorded in the income statement. Positive and negative replacement values for all derivatives are recognized at fair value in positive replacement values of derivative financial instruments or negative replacement values of derivative financial instruments.

Financial investments

Financial investments with a fixed maturity that PostFinance intends and is able to hold to maturity are measured at amortized cost (accrual method). The effective interest method spreads the difference between the acquisition cost and the repayment amount (premium/discount) over the life of the investment in question using the present value method. The fair values of financial instruments are determined on the basis of stock market prices and valuation techniques (present value method, etc.). In the case of listed financial instruments, the fair values correspond to market prices provided that such prices have been set on a price-efficient and liquid market. If financial investments intended to be held to maturity are sold or repaid prior to maturity, the profits and losses realized that correspond to the interest component are accrued over the remaining term. Holdings in equity securities (shares) are valued according to the principle of the lower of cost or market value. Debt securities acquired without the intention of being held to maturity are also valued according to the principle of the lower of cost or market value. PostFinance checks its financial investments on a regular basis for any indication that an asset may be impaired. Here it looks in particular to fair value trends and the downgrading of credit ratings by recognized rating agencies or qualified banks. If there are indications that an asset is impaired, the recoverable amount is calculated. In addition to individual value adjustments, PostFinance calculates portfolio value adjustments to cover losses incurred on the balance sheet date that cannot yet be identified separately. Both value adjustments are deducted directly from this item in the balance sheet. Value adjustments that are no longer economically necessary are released to income. Recoveries of receivables written off in prior periods are credited to this item in the balance sheet. Real estate available for sale is recognized in the balance sheet under financial investments according to the principle of the lower of cost or market value.

Participations

All equity securities in companies intended to be held as long-term investments are reported as participations. These items are included in the balance sheet at acquisition cost less economically necessary depreciation in accordance with the individual valuation principle.

Tangible fixed assets

Tangible fixed assets are recognized in the balance sheet at historical cost less cumulative depreciation. Tangible fixed assets are depreciated on a straight-line basis over their estimated useful life. Useful life is as follows:

– IT infrastructure 3–4 years
– Postomats 10 years
– Payment transaction software 10 years
– Real estate 10–50 years

Assets associated with the purchase, installation and development of payment transaction software are capitalized if they are of measurable economic benefit.

Regular checks are carried out to determine if there are signs of overvaluation. If this is the case, the book value is compared with the recoverable amount (the higher of fair value less costs to sell and value in use). If the book value of an asset exceeds its recoverable amount, an impairment equal to the difference between the book value and the recoverable amount is recognized in the income statement. Profits realized from the disposal of tangible fixed assets are recorded in extraordinary income, while realized losses are recognized as extraordinary expenses.

Intangible assets

Surplus assets (goodwill) arising from the initial valuation of a business acquisition are included in the balance sheet under “Intangible assets” and depreciated over their useful life. Capitalized goodwill is depreciated on a straight-line basis over a ten-year period. If an assessment on the balance sheet date shows that the capitalization of a proportion of goodwill is no longer justified, the proportion in question is additionally depreciated on the relevant date. An assessment is carried out if there are any indications of impairment.

Accrued income and prepaid expenses, and accrued expenses and deferred income

Interest income and expenses, commission and other income and expenses during the accounting period are accounted for using the accrual-based accounting principle to ensure that they are correctly represented in the income statement.

Amounts due to banks, liabilities from securities financing transactions and amounts due in respect of customer deposits

Private and business accounts are included in the balance sheet at their nominal value. Financial investments transferred as collateral as part of repurchase transactions continue to be recognized in the balance sheet under “Financial investments”. Interest expenses from repurchase transactions are accounted for using the accrual-based accounting principle. Securities cover for repurchase and securities borrowing transactions is recognized on a daily basis at current fair values. Amounts borrowed from banks and cash bonds are recorded on the balance sheet at nominal value.

Provisions

Provisions are made according to objective criteria for all risks detectable on the balance sheet date and presented under this item in the balance sheet. Provisions that are no longer economically necessary are released to income.

Contingent liabilities, irrevocable commitments, obligations to pay up shares and make further contributions

These items are recorded at their nominal value as off-balance sheet transactions. Provisions are made for foreseeable default risks.

Pension benefit obligations

The accounting treatment of pension benefit obligations at PostFinance is based on Swiss GAAP ARR 16/26 in accordance with FINMA Circular 2015/1, margin no. 495 ff. PostFinance employees are insured with the Swiss Post pension fund foundation under a Duoprimat (combined defined benefit and defined contribution) scheme in accordance with the Federal Law on the Occupational Old-age, Survivors' and Disability Benefit Plan (BVG). Staff are thereby insured against the financial consequences of old age, death and disability. The retirement benefits of all active members are calculated on a defined contribution basis and the risk cover (death and disability) on a defined benefit basis. Expenses related to pension benefit obligations are recognized in personnel expenses. Pension benefit obligations represent the actuarial present value of benefits for the employee's eligible insurance period and take the future into account by including statistical probabilities such as death and disability.

The employer contribution reserve is part of the Swiss Post pension fund. PostFinance Ltd has no power of disposal over it. The employer contributions are not capitalized, given that PostFinance does not have control over the future economic benefit.

Taxes

Income tax is determined in each reporting period on the basis of the profit/loss accrued for the year. Deferred tax liabilities are calculated at the current tax rate. Accruals and deferrals are recognized in the balance sheet under accrued income and prepaid expenses or accrued expenses and deferred income.

The tax consequences of time differences between the values of assets and liabilities shown in the balance sheet and their tax bases are recognized as deferred taxes under provisions. Deferred taxes are determined separately in each business period.

Outsourcing of business units

PostFinance Ltd has outsourced various services to Swiss Post Group companies. Outsourcing relationships exist, notably with Post CH Ltd in payment transactions, financial and IT services, and with Swiss Post Solutions Ltd for printing and sending account documents and for the e-bill solution.

Accounting changes year-on-year

In the financial year 2017, there were no accounting changes year-on-year.

Business policy on the use of derivative financial instruments and hedge accounting

PostFinance Ltd uses derivative financial instruments exclusively to hedge interest and currency risks.

The bond market in Swiss francs is not sufficient to cover PostFinance Ltd's investment requirements. It therefore also invests in foreign currency bonds. As a general rule, two methods are used to hedge foreign currency risks. A proportion of the foreign currency bonds refinanced in Swiss francs are hedged by means of cross-currency interest rate swaps (CCIRS). The advantage of this hedging approach is that the amounts of all future cash flows (coupons, nominal value repayment) in Swiss francs are already known on the date of conclusion of the transaction. However, it rules out the diversification benefits associated with the varying amounts and performance of term spreads of different foreign currency yield curves. To take advantage of this diversification potential and access bond markets on which CCIRS are only available with high illiquidity discounts, the currency risks of certain foreign currency bonds are hedged by means of a currency overlay of rolling short-term foreign exchange forward contracts (FX forwards).

The foreign currency risks arising from equity/fund mandates are also hedged on a rolling basis using FX forwards.

Interest rate swaps are used to control duration on the assets side. Long (short) duration bonds are transformed into short (long) duration bonds by means of interest rate swaps. In principle, interest rate swaps are used to control the maturity transformation strategy in the overall balance sheet.

Types of hedged items and hedging transactions
PostFinance Ltd mainly uses hedge accounting in connection with bonds (hedging of interest and currency risks by means of interest rate / interest rate currency swaps) and shares (partial hedging of the currency risk via foreign exchange forward contracts).

Composition of groups of financial instruments
Financial investments that are sensitive to interest rates and currencies are hedged by micro hedges. In the case of shares, the currency risk is largely reduced by foreign exchange forward contracts.

Economic relationship between hedged items and hedging transactions
PostFinance Ltd records the relationship between the hedging instrument and the hedged item on the date on which a financial instrument is classed as a hedging relationship. The information recorded includes the risk management objectives and strategy of the hedging transaction, and the methods used to measure the effectiveness of the hedging relationship. The economic relationship between the hedged item and the hedging transaction is constantly measured on a prospective basis in the course of effectiveness tests by measuring factors such as inverse performance and its correlation.

Effectiveness measurement
Hedging is deemed to be highly effective if the following criteria are essentially met:

– Hedging is considered to be highly effective both upon its initial recognition (on a prospective basis via regression analysis) and throughout its term (retrospectively via the dollar offset method).
– There is a close economic relationship between the hedged item and the hedging transaction.
– There is an inverse relationship between the value changes of the hedged item and those of the hedging transaction with regard to the hedged risk.
– The actual results of the hedging are within a range of 80–125 percent.

Ineffectiveness
If the result of the effectiveness test is within a range of 80–125 percent, hedge accounting may be applied for the relevant period in accordance with IAS 39. If this results in an ineffective portion, this is included in the income statement for the period in question.

Events after the balance sheet date

On the date of issue of the financial statements, no material events had occurred as at 31 December 2017 which would have to be disclosed in the financial statements and/or in the notes.

3 | Risk management

Business model and risk profile

PostFinance operates mainly in the fields of payment transaction services, the receipt of customer deposits, accounts and related services. It also handles customer securities trading, carries out investments in its own name, and manages other financial services on behalf of third parties. On account of its business model, PostFinance is exposed to the risks shown in the following table. PostFinance could suffer losses if these risks exacerbate. The specific business risks affecting PostFinance are described and managed using industry-standard tools and methods.

Risk category	Potential loss or negative impact
Financial risks [1]	
– Interest rate risks	Loss in present value of equity following market interest changes Fluctuating net interest income over time
– Liquidity risks	Insolvency
– Credit risks	Losses due to the default of counterparties
– Market risks	Losses in fair value to be charged to the ARB income statement
Strategic risks [2]	Losses mainly in terms of non-realized profits due to missed opportunities or incorrectly assessed potential. The estimated residual risks represent the potential losses from strategic risks.
Operational risks [3]	Losses arising from business disruptions or errors committed when conducting business activities (see FINMA Circular 2008/21: losses resulting from inadequate or failed internal processes, and caused by persons or systems, or external events). The estimated residual risks represent the potential losses from operational risks.

1 Risks from the investment and deposit business and from customer asset management.
2 Events which jeopardize the attainment of strategic goals.
3 The risk of losses resulting from inadequate or failed internal processes, and caused by persons or systems, or external events.

Governance and reporting

In formal terms, the business control and monitoring process and entire internal control system comply with the eight-level COSO II framework and "three lines of defence" concept. The COSO II framework incorporates risk management as well as risk control and monitoring. PostFinance also uses the ISO 31000 standard as a guideline.

PostFinance's Board of Directors conducts an annual risk assessment. Assisted by the Board of Directors' Risk and Audit & Compliance Committees, it sets out the primary guidelines and principles on managing financial, strategic and operational risks, approves the framework for risk management throughout the institution and sets conditions for an appropriate risk and control environment and for an effective internal control system (ICS) which the operating units are required to observe in managing risks. These limits are based on the international standardized approach set out in the regulatory provisions and specify the highest risks that PostFinance may take, expressed in terms of "equity needed to meet regulatory requirements". Maximum risk exposure is determined by the risk capacity of PostFinance and the risk appetite of the Board of Directors.

With regard to risk management and control, the Board of Directors' Audit & Compliance Committee is responsible for monitoring and assessing the efficiency of the ICS and the 2nd line of defence functions entrusted with its implementation. In doing so, it focuses on operational risks (including financial reporting risks). In terms of risk management and control, the Board of Directors' Risk Committee is in charge of evaluating capital and liquidity planning and of checking whether PostFinance has an appropriate risk management system comprising effective processes. In doing so, it focuses on financial risks and balance sheet controlling.

The PostFinance Executive Board is responsible for the active management of financial, strategic and operational risks within the framework defined by the Board of Directors and ensures that the risk management infrastructure meets requirements in organizational, human resources, technical and methodology terms. Its duties and responsibilities include implementing risk control and risk monitoring by drawing up requirements and guidelines and by establishing limits in individual risk categories and by defining requirements for risk monitoring reports. If limits are exceeded, the relevant official body is informed promptly so that decisions can be made on the measures to be taken. The Executive Board ensures that a consistent approach is adopted when limits are exceeded by defining an escalation process.

The business units which represent the 1st line of defence carry out this function by managing risks in day-to-day business and, in particular, by monitoring, controlling and reporting on such risks. The Risk Management department at PostFinance provides support to the Executive Board and to the Asset & Liability Committee, as the non profit-oriented unit of the 1st line of defence mandated for this purpose, in managing financial risks in the overall balance sheet. It identifies and measures the financial risks entered into by PostFinance and proposes control measures. It also monitors and reports on the effectiveness of the control decided upon. The Risk Management department submits weekly and monthly reports to the Executive Board on the risk measurement results and the extent to which limits are used. This enables it to decide on the necessary control measures, if any, with regard to financial risks. The monthly reports are also discussed as a standard agenda item in the Board of Directors' Risk Committee meetings.

The units which represent the 2nd line of defence are control entities which are independent of the business units assuring the 1st line of defence. As an independent control entity, the Risk Control department defines appropriate instruments to identify, measure, evaluate and control the strategic and operational risks entered into by PostFinance. It also provides support to risk managers in applying these instruments. As an independent control body, it monitors the established risk profile across all risk categories and provides a central overview of the entire risk situation of PostFinance Ltd.

The Compliance department provides support and advice to the Executive Board and employees for the drafting, implementation and monitoring of statutory and internal regulations, and assists with associated staff training. Compliance is responsible for assessing the compliance risk and reports significant information to the Board of Directors and Executive Board on a regular basis. Security & Shared Services provides support and advice to the Executive Board and employees for the drafting, implementation and monitoring of statutory and internal regulations related to security, and assists with associated staff training. Security & Shared Services is responsible for assessing the security risk and reports significant information to the PostFinance Board of Directors and Executive Board on a regular basis.

Risk Control, Compliance, and Security & Shared Services together submit a quarterly report to the Executive Board and Board of Directors which gives a complete picture of the general risk situation. This report contains information about the progression of the risk profile (compliance with risk capacity, risk limits and risk appetite, changes in compliance and security risks), top risks and significant risk-related events, as well as details of the activities of the three units on the 2nd line of defence. Facts of major importance are reported by Risk Control, Compliance, and Security & Shared Services immediately and on an ad-hoc basis.

As part of the 3rd line of defence, Internal Audit is responsible for risk monitoring and for overseeing the 1st and 2nd lines of defence. It reports directly to the Board of Directors of PostFinance Ltd.

Risk measurement methods

Risk category	Potential loss or negative impact	Method of risk description and/or control
Financial risks		
– Interest rate risks	Loss in present value of equity following market interest changes Fluctuating net interest income over time	Absolute and relative sensitivity limits for equity Implementation of multi-period dynamic revenue analyses
– Liquidity risks	Insolvency	Compliance with the minimum regulatory requirements for the liquidity coverage ratio (LCR) Provision of liquidity cushions (standard and additional cushions), liquidity stress test and liquidity early warning system
– Credit risks	Losses due to the default of counterparties	Concentration, rating structure and country portfolio limits as well as nominal limits at counterparty level
– Market risks	Losses in fair value to be charged to the ARB income statement	VaR limits for fair value effects on the income statement
Strategic risks	Losses mainly in terms of non-realized profits due to missed opportunities or incorrectly assessed potential. The estimated residual risks represent the potential losses from strategic risks.	Quantification of gross risk by evaluating the extent of loss and probability of occurrence. On this basis, establishment of a risk management strategy and risk-mitigating measures, and assessment of the residual risk in both quantitative and qualitative terms. Monitoring by defining reporting limits for individual risks.
Operational risks	Losses arising from business disruptions or errors committed when conducting business activities (see FINMA Circular 2008/21: losses resulting from inadequate or failed internal processes, and caused by persons or systems, or external events). The estimated residual risks represent the potential losses from operational risks.	Quantification of gross risk by evaluating the extent of loss and probability of occurrence. On this basis, establishment of a risk management strategy and risk-mitigating measures, and assessment of the residual risk in both quantitative and qualitative terms. Monitoring by defining reporting limits for individual risks and operational top risks

PostFinance measures and monitors financial risks both at individual portfolio level and with regard to the overall balance sheet. Risks are limited by means of a multi-dimensional limit system. A variety of methods of differing degrees of complexity are used to measure financial risks. In concrete terms, they include scenario analyses (e.g. to measure the earnings effects of interest rate risks or the full utilization of credit risk limits), sensitivity analyses (e.g. to measure the present value effects arising from interest rate risks) and value at risk methods (e.g. to measure fair value risks resulting from equity investments). The principal aim of risk measurement is to allow the supervisory bodies to control risks adequately at all times.

PostFinance uses a range of industry-standard tools to measure and monitor operational and strategic risks. Strategic and operational risks are assessed on the basis of a risk matrix containing both a quantitative and a qualitative dimension. Gross risks and residual risks are evaluated by means of probability of occurrence and extent of loss. Near-losses subject to reporting or losses incurred are recorded in a company-wide loss database. In addition, structured risk assessments (self risk assessments) are used to evaluate potential risk scenarios that may in future pose a threat to PostFinance. The resulting risk inventory allows the Executive Board to obtain a good overview of the company's entire risk situation and to define appropriate measures to mitigate risk. The measures decided on to minimize operational and strategic risks are monitored on a centralized basis by Risk Control. Early risk warning indicators are used, in particular, by the decentralized units to promptly identify any change in the risk situation.

Stress testing

The Risk Management department regularly carries out an inverse stress test to identify developments which could pose a particular threat to PostFinance. This test identifies scenarios in which a specific measure of risk takes on extremely unfavourable values. The results of the inverse stress tests are discussed by the Executive Board and the Board of Directors on a regular basis.

As well as being used for control purposes, stress tests are also applied in the Risk Control department as a monitoring tool for recognizing significant (new) risks, to determine risk concentrations and to verify the appropriateness of risk appetite in stress situations.

Financial risk management at PostFinance

Interest rate risk and balance sheet structure risk

The term "interest rate risk" refers to the potential impact of a change in market interest rates on the present value of assets and liabilities in the balance sheet, resulting mainly from maturity mismatches, as well as the possible effect on the result from interest operations in the income statement. PostFinance's interest-earning operations are a key earnings driver for Swiss Post. As changes in interest rates have a direct impact on net interest income, management of the risks associated with such changes is considered a priority. The majority of the customer deposits held by PostFinance do not earn a fixed rate of interest or require capital commitment. The interest rate and capital commitment of these deposits are therefore estimated using a replication method which aims to map the most closely matching maturities of similar customer products while minimizing the interest margin volatility of each product.

The maturities of money and capital market investments are determined on the basis of the target present value sensitivity, and used to define the maturity transformation strategy. The resulting imbalance between the liability and asset interest rates corresponds to the maturity transformation, which is controlled from a present value and income perspective.

The present value perspective covers the net effect of a change in interest rates on the equity of PostFinance in the event of modifications to the yield curve. Future cash flow accruals are discounted according to the risk-adjusted present value formula. Sensitivity to a parallel shift in the yield curve is determined on the one hand, and to isolated interest shocks at specific maturities (key rates) on the other. Present value sensitivity is measured by the Risk Management department on a weekly basis and reported to the Executive Board. If present value sensitivity deviates significantly from the level specified by the Executive Board due to short-term shocks, maturity can be controlled on the asset side using swaps.

As at 31 December 2017, the absolute change in the present value of equity with a parallel shift in the yield curve of +100 basis points amounted to –29 million francs (previous year: –158 million francs with a shift in interest of +100 basis points).

Unlike assessments based on present value, income perspective analyses examine the impact of several potential multiple period interest scenarios on PostFinance's future net interest income. In addition, dynamic income simulations are carried out for several deterministic scenarios. These scenarios describe future market interest trends and the resulting changes in customer interest and customer volumes for each replica, as well as different maturity transformation strategies where applicable. Dynamic income simulations are carried out by the Risk Management department on a monthly basis. Risk control proposals are submitted and discussed regularly with the Executive Board on the basis of the results.

Credit risks

PostFinance Ltd was granted a banking licence on 26 June 2013. Even with a banking licence, PostFinance Ltd is not permitted to issue direct loans and mortgages due to postal legislation provisions. Interest-bearing customer deposits therefore do not go towards granting mortgages, but are invested on the money and capital markets. PostFinance continues to pursue a conservative investment strategy. Liquidity and creditworthiness are the main criteria for its investment decisions. The cluster risk is deliberately limited by holding financial investments that are broadly diversified in terms of the sectors, countries and counterparties. A large proportion of customer deposits are invested as a sight deposit balance at the SNB. On 31 December 2017, this sight deposit balance stood at 36,362 million francs (previous year: 35,596 million francs).

The term "credit risk" refers to the risk that a counterparty will no longer be able to fulfil its obligations, thereby causing the creditor to incur a financial loss. Credit risk increases as counterparties become more concentrated in an individual sector or region. Economic developments affecting whole sectors or regions can threaten the solvency of an entire group of otherwise unrelated counterparties.

To limit the credit risks taken, each year the Board of Directors of PostFinance Ltd sets a maximum figure not to be exceeded with regard to regulatory minimum equity to cover credit risks. It also determines directives on the investment rating structure, limits potential country risks and delegates responsibility for approving major counterparty limits to the Board of Directors' Risk Committee. In principle, new investments are only permitted if the debtor has a rating and its creditworthiness is classed as investment grade.

In addition to the portfolio limits defined by the Board of Directors, the credit risks associated with investment activities are restricted by the Executive Board by setting counterparty limits and other investment regulations.

Specifications for counterparty limits are based on publicly accessible ratings by recognized rating agencies and qualified banks, and on internal limit systems. By means of analyses of balance sheet key figures and early warning indicators, publicly accessible ratings in the limit systems are examined critically and limits derived from them. Qualitative criteria are also taken into account in the evaluation for high-risk counterparties. The Risk Management department is responsible for developing and applying internal limit systems. These limit systems are approved and released by the Executive Board at least once a year. Changes in a counterparty's creditworthiness or of relevant key figures result in the immediate adjustment of the directives. Compliance with prescribed limits is monitored on an ongoing basis and is verified by the Treasury department before the closing of each transaction.

The Risk Management department informs the Executive Board of the extent to which limits are used in monthly reports. It submits risk control proposals where limits have been exceeded, resulting from adjustments to counterparty limits.

As an integral part of credit risk management, the limit systems are subjected to regular checks by Risk Control, Internal Auditing and the statutory audit from the mandated auditing company.

Credit risks arising from customer transactions are of secondary importance at PostFinance, and are due to account overdraft limits proposed in connection with payment transaction services, and to the range of credit cards available. The credit risks taken are established and monitored by means of product-specific processes. The Executive Board issues general directives on credit checks and authorizations for approving individual limits.

Note on collateral concentration risks:

Collateral concentration risks may arise when carrying out repo transactions (financial investments in exchange for collateral) and securities lending transactions (securities lending in exchange for collateral). The collateral protects PostFinance against the counterparty default risk, as it can be realized by PostFinance in the event of default by the counterparty. High concentrations of collateral are measured, monitored and restricted, as considerable losses in collateral value can lead to the insolvency of counterparties (the issuers of the collateral).

Note on credit risks arising from mortgage lending and SME financing:
The mortgage lending solutions offered in cooperation with Münchener Hypothekenbank eG (MHB) since June 2008 do not result in any credit risks for PostFinance. These are borne entirely by the partner bank. Since autumn 2009, PostFinance has been collaborating with Valiant Bank on financing for SMEs. This cooperation arrangement has enabled PostFinance to expand its range of services in the retail market. Since autumn 2010, PostFinance has also worked with Valiant Bank on mortgage lending to private customers. The credit risks resulting from the two areas of cooperation are assumed by Valiant Bank.

Liquidity risks
Liquidity risk refers to the risk that current and future payment obligations cannot be met on time or in full. Liquidity risks are managed in the short, medium and long term. To guarantee liquidity on a daily basis, financial cushions are defined for the settlement of unforeseen payments. These financial cushions should be available for use in stress situations in particular, when it may no longer be possible to turn to the unsecured interbank market for liquidity. The minimum amount for a financial cushion is based on high daily cash outflows with an extremely low probability of occurrence.

Liquidity in the short term is guaranteed and limited by determining the Liquidity Coverage Ratio (LCR), which is a regulatory key figure. As at 31 December 2017, the Liquidity Coverage Ratio stood at 194 percent (previous year: 204 percent). LCR over the next 90 days is forecast for early warning purposes. The Executive Board must take appropriate countermeasures in the event of a foreseeable shortfall of 100 percent compared to the regulatory limit.

To ensure liquidity in the medium term, liquidity stress scenarios are defined that last at least three months and must not lead to illiquidity. The long-term structural liquidity situation is reassessed by the Executive Board on an annual basis. There is an emergency plan to resolve any liquidity crises.

Market risks
PostFinance does not keep a trading book, and uses the market risk, standardized approach in accordance with art. 86 CAO to determine minimum equity for market risks. To limit the market risks taken, each year the Board of Directors of PostFinance sets a maximum figure not to be exceeded with regard to regulatory minimum equity to cover market risks.

According to PostFinance's business model, market risks are expressed by increased volatility in the income statement in the short term. PostFinance is exposed to market risks for two reasons:

– Open foreign currency items and changes in value arising from foreign currency derivatives affect the volatility of the income statement (foreign currency risks).
– Changes in value of instruments that are recognized according to the principle of the lower of cost or market value or managed in accordance with hedge accounting (including equity positions, fund investments in the banking book, hedged items and the related hedge instruments) also have an effect on the volatility of the income statement.

Market risks are modelled according to value at risk and measured in the income statement. To measure market risks, the risk factors that have an impact on the present value of the relevant item are assigned to each item. The change in present value is modelled according to the change in the allocated risk factors. A functional correlation between the item value and the associated risk factors must also be defined. The stochasticity of all relevant risk factors over the next 250 days is determined on the basis of probability distribution assumptions. Corresponding market data time series are used to calibrate the probability distributions. The distribution of changes to the income statement as per ARB over a one-year period can be determined with the help of the functional correlation established between risk factors and portfolio items. Value at risk is then determined on the basis of the 95 percent quantile.

As at 31 December 2017, value at risk for the income statement as per ARB stood at 66 million francs (previous year: 98 million francs). The decline in value at risk was principally due to the reduction of equity positions in foreign currencies.

Operational risk management at PostFinance

Definition
In line with the Basel Committee on Banking Supervision, operational risk at PostFinance is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The principles on managing operational risk at PostFinance are set out in the risk policy.

Strategy
The strategy applied throughout the company for responding to operational risks is based on the banking standard and guarantees risk capacity and compliance with regulatory requirements. The tasks, competencies and responsibilities relating to active risk management and transparent reporting are clearly assigned. A good understanding of risk and a risk culture are widespread and well established within PostFinance.

Process and organization
PostFinance operates an operational risk management system that is controlled centrally by the Risk Control department. It is based on the COSO II framework and ISO 31000 standard, as well as taking into account the "three lines of defence" concept. The Risk Control department defines the risk management process for PostFinance and ensures regular and transparent identification, measurement, monitoring and reporting on all material operational risks. The specialist unit also provides the necessary tools (e.g. company-wide loss database) and instruments (e.g. self risk assessment) and acts as an independent interface between line management and the Executive Board and Board of Directors. Each unit has its own decentralized risk manager who is responsible for coordinating its organizational unit and for recording unit losses. The Executive Board and Board of Directors define the top risks at PostFinance across all the risk categories each year on the basis of the principal individual risks periodically identified and by means of regular surveys conducted amongst members of the Executive Board (number of current top risks: ten, five of which are operational top risks). Early risk warning indicators are used, in particular, by the decentralized units to promptly identify any change in the risk situation.

4 | Capital adequacy disclosure in accordance with FINMA Circular 2016/01

According to the decree issued by the SNB on 29 June 2015, PostFinance Ltd was designated a systemically important financial group. As a result, the requirements set out in articles 124 to 133 of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO) also became relevant to PostFinance Ltd. In its ruling dated 23 May 2016, the Swiss Financial Market Supervisory Authority (FINMA) set out extended individual requirements based on the CAO valid until 30 June 2016. The new CAO, which also amended the requirements for systemically important banks, came into force on 1 July 2016.

As at 31 December 2017 two disclosures were published: the "Capital adequacy disclosure" and the "Capital adequacy disclosure on grounds of systemic importance". The "Capital adequacy disclosure on grounds of systemic importance" is a parallel calculation which supplements the "Capital adequacy disclosure". The different requirements result in deviations, particularly with regard to eligible equity and capital ratios. The specified documents are published at postfinance.ch.

Information on the balance sheet

5 | Securities financing transactions

Breakdown of securities financing transactions (assets and liabilities)

CHF million	31.12.2016	31.12.2017
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	84	24
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	723	–
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	3,251	3,046
with unrestricted right to resell or pledge	2,528	3,046
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	2,906	3,523

6 | Collateral for loans/receivables and off-balance-sheet transactions, as well as impaired loans/receivables

Presentation of collateral for loans/receivables

as at 31.12.2017 CHF million		Type of collateral			
		Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)					
Amounts due from customers		–	16	12,195	12,211
Mortgage loans		0	–	–	0
Residential property		0	–	–	0
Total loans (before netting with value adjustments)	**31.12.2017**	**0**	**16**	**12,195**	**12,211**
	31.12.2016	0	–	13,210	13,210
Total loans (after netting with value adjustments)	**31.12.2017**	**0**	**16**	**12,157**	**12,173**
	31.12.2016	0	–	13,169	13,169

Presentation of collateral for off-balance-sheet transactions

as at 31.12.2017 CHF million		Type of collateral			
		Secured by mortgage	Other collateral	Unsecured	Total
Off-balance sheet					
Contingent liabilities		–	31	2	33
Irrevocable commitments		–	–	722	722
Total off-balance sheet	**31.12.2017**	**–**	**–**	**724**	**755**
	31.12.2016	–	–	709	709

Impaired loans/receivables

CHF million	31.12.2016	31.12.2017
Gross debt amount	1	1
Net debt amount	1	1
Individual value adjustments	1	1

7 | Derivative financial instruments

Presentation of derivative financial instruments (assets and liabilities)

as at 31.12.2017 CHF million	Trading instruments			Hedging instruments		
	Positive replacement values	Negative replacement values	Contract volume	Positive replacement values	Negative replacement values	Contract volume
Interest rate instruments						
Forward contracts including FRAs	–	–	–	0	–	25
Swaps	–	–	–	–	93	2,125
Foreign exchange / precious metals						
Forward contracts	4	4	557	14	17	2,986
SWAPS CCIRS	–	–	–	26	614	7,832
Equity securities / indices						
Options (exchange-traded)	–	–	2	–	–	–
Total before netting agreements as at 31.12.2017	**4**	**4**	**559**	**39**	**724**	**12,967**
of which, determined using a valuation model	4	4		39	724	
31.12.2016	4	5	779	61	263	10,278
of which, determined using a valuation model	4	5		61	263	
Total after netting agreements as at 31.12.2017	**4**	**4**	**559**	**39**	**724**	**12,967**
31.12.2016	4	5	779	61	263	10,278

Breakdown by counterparty

as at 31.12.2017 CHF million	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	–	43	0

8 | Financial investments

Breakdown of financial investments	Book value		Fair value	
CHF million	31.12.2016	31.12.2017	31.12.2016	31.12.2017
Debt securities	60,118	61,614	62,374	63,238
of which, intended to be held to maturity	60,118	61,614	62,374	63,238
Equity securities	1,624	1,205	1,706	1,222
Total	**61,742**	**62,819**	**64,080**	**64,460**
of which, securities eligible for repo transactions in accordance with liquidity requirements	47,097	42,657	–	–

Breakdown of counterparties by rating [1] as at 31.12.2017 CHF million	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	Below B–	Unrated
Debt securities: book values	41,105	12,382	6,036	–	–	2,092

1 The following ratings agencies, all of which are recognized by FINMA, were consulted for the ratings: fedafin AG, Fitch Ratings, Moody's Investors Service, Standard & Poor's Ratings Services.

9 | Participations

Presentation of participations CHF million	Acquisition cost	Accumulated value adjustments	Book value 31.12.2016	2017 Reclassifications	Additions	Disposals	Value adjustments	Depreciation reversals [1]	Book value 31.12.2017	Market value 31.12.2017
Participations										
with market value	47	–10	37	–	–	–1	–	10	46	55
without market value	64		64	–	61	0	–49	–	76	–
Total participations	**111**	**–10**	**101**	**–**	**61**	**–1**	**–49**	**10**	**122**	**55**

1 Price losses from a participation with market value were recouped in 2017 and the participation was revalued up to acquisition cost.

10 | Significant participations

Non-consolidated significant participations				Share of capital and of votes [1]	
CHF or EUR, percent	Business activities	Currency	Bank's capital	31.12.2016	31.12.2017
Lendico Schweiz AG, Zurich, Switzerland	Crowdlending platform	CHF	100,000	24.44%	100.00%
Finform Ltd, Berne, Switzerland	Fintech and regtech	CHF	100,000	50.00%	50.00%
TWINT Ltd, Zurich, Switzerland	Mobile payment	CHF	10,200,000	33.33%	33.33%
TWINT Acquiring Ltd, Zurich, Switzerland	Acquiring for payment transactions	CHF	100,000	33.33%	33.33%
TONI Digital Insurance Solutions AG, Schlieren, Switzerland	Insurance service provider	CHF	244,333	–	30.01%
SECB Swiss Euro Clearing Bank GmbH, Frankfurt a.M., Germany	Payment transaction processing in EUR for Swiss financial institutions	EUR	30,000,000	25.00%	25.00%
SIX Interbank Clearing Ltd, Zurich, Switzerland	Payment transaction processing for financial institutions	CHF	1,000,000	25.00%	25.00%
moneymeets community GmbH, Cologne, Germany	Online financial services	EUR	81,000	20.39%	20.39%
moneymeets GmbH, Cologne, Germany	Infrastructure for online financial services	EUR	81,000	20.39%	20.39%

1 TWINT Acquiring Ltd is held indirectly via TWINT Ltd. All other participations are directly owned by PostFinance Ltd.

Additional information on the true and fair view statutory single-entity financial statements in accordance with FINMA Circular 2015/1 margin no. 264: the effect of a theoretical application of the equity method with regard to these participations would be to increase total assets by 26 million francs (previous year: reduction of 6 million francs) and to reduce profit for the year by 14 million francs (previous year: 3 million francs).

11 | Tangible fixed assets

Presentation of tangible fixed assets

CHF million	Acquisition cost	Accumulated depreciation	Book value 31.12.2016	2017 Reclassi-fications	Additions	Disposals	Depreciation	Reversals	Book value 31.12.2017
Bank buildings	194	−30	164	–	1	0	−9	–	156
Other real estate	1,002	−112	890	–	44	−9	−70	–	855
Proprietary or separately acquired software	174	−7	167	–	43	–	−29	–	181
Other tangible fixed assets	83	−45	38	–	4	–	−11	–	31
Total tangible fixed assets	**1,453**	**−194**	**1,259**	**–**	**92**	**−9**	**−119**	**–**	**1,223**

Future lease obligations under operating leases

CHF million	2018	2019	2020	2021	2022	2023	Total
Future lease payments	18	18	1	1	0	0	38
of which cancellable within a year	0	0	0	0	0	0	0

12 | Intangible assets

Presentation of intangible assets

CHF million	Acquisition cost	Accumulated amortization	Book value 31.12.2016	2017 Additions	Disposals	Amortization	Book value 31.12.2017
Goodwill	2,000	−800	1,200	–	–	−200	1,000
Total intangible assets	**2,000**	**−800**	**1,200**	**–**	**–**	**−200**	**1,000**

13 | Other assets and other liabilities

Breakdown of other assets and other liabilities

CHF million	31.12.2016 Other assets	31.12.2017 Other assets	31.12.2016 Other liabilities	31.12.2017 Other liabilities
Compensation account	172	244	–	–
Indirect taxes	134	122	6	5
Other assets and liabilities	4	8	1	1
Total other assets and other liabilities	**310**	**374**	**7**	**6**

14 | Pledged or assigned assets and assets under reservation of ownership

Total amount of assets pledged or assigned to secure own commitments and of assets under reservation of ownership [1]

CHF million	31.12.2016	31.12.2017
Book value of assets pledged and assigned as collateral	50	63

1 Excluding securities lending and repurchase transactions.

15 | Liabilities relating to own pension schemes

Pension benefit obligations

There is no independent pension scheme for PostFinance staff. Their pension benefits are handled exclusively by the Swiss Post pension fund. The employer may be required to pay restructuring contributions in the event of underfunding of the Swiss Post pension fund.

Additional amounts due for extended disability benefit plans in the form of transitional disability insurance (supplementary disability pensions for men up to the age of 65 and women up to the age of 64) and staff vouchers are taken into account in the annual financial statements.

Liabilities relating to own pension schemes as per Swiss GAAP ARR 16

All the compulsory ordinary employer contributions associated with the employee benefits plan are accounted for as personnel expenses using the accrual-based accounting principle. An annual assessment is carried out in accordance with Swiss GAAP ARR 16 to determine whether the pension schemes generate an economic benefit or an economic obligation for PostFinance. The assessment is based on information from contracts, the financial statements of the pension schemes and other calculations presenting their financial situation and current overfunding or underfunding – in accordance with Swiss GAAP ARR 26 accounting principles. PostFinance does not however intend to use the economic benefit that may result from overfunding to reduce employer contributions. Consequently, a future economic benefit is not capitalized. An economic obligation is however recognized under liabilities. With 41,435 active insured people and 28,741 pensioners (as at 31 October 2017), the Swiss Post pension fund had total assets of 16,797 million francs as at 31 December 2017 (previous year: 15,837 million francs). The level of cover calculated according to the accounting principles applicable to the Swiss Post pension fund stands at approximately 105.8 percent (previous year: 102.2 percent). As the Swiss Post pension fund value fluctuation reserves have not yet reached the set regulatory level, there is no overfunding available. The Foundation Board of the Swiss Post pension fund decided on compensation measures as part of its plan amendment. Employers with an affiliation agreement with the Swiss Post pension fund were obliged to make one-off payments totalling around 500 million francs to the Swiss Post pension fund. The pro-rata margin requirement for PostFinance Ltd stands at 17 million francs, which was paid in the year under review. The payment of 500 million francs was credited to the employer contribution reserves by the Swiss Post pension fund and will be used at the beginning of 2018. The Swiss Post pension fund has employer contribution reserves of 1,051 million francs, of which 550 million francs with a waiver of use (previous year: 561 million francs, of which 550 million francs with a waiver of use). A technical interest rate of 2.25 percent (previous year: 2.25 percent) and the technical basis of BVG 2015 (previous year: BVG 2015) were used to calculate pension cover. It should be noted that all data regarding the Swiss Post pension fund is based on the information available at the time of drawing up the ARR 16 financial statements. Consequently, it may differ from the actual information contained in the annual financial statements for the Swiss Post pension fund. A detailed assessment did not reveal any financial impact on the bank; according to the financial statements for the Swiss Post pension fund drawn up according to Swiss GAAP ARR 26, there were no spare funds or underfunding as at 31 December 2017. There are no employer-sponsored pension schemes.

The economic benefit or obligations and pension expenses can be summarized as follows:

Presentation of the economic benefit/obligation and the pension expenses	Overfunding/underfunding	Economic interest of PostFinance Ltd		Change in economic interest (economic benefit/obligation) versus previous year	Contributions paid	Pension expenses in personnel expenses	
CHF million	31.12.2017	31.12.2016	31.12.2017	2017	2017	31.12.2016	31.12.2017
Swiss Post pension fund	9	0	0	0	53	36	53
Staff vouchers	–7	–7	–7	0	0	1	0
Disability pensions	–1	0	–1	1	0	–1	1
Total ARR 16	**1**	**–7**	**–8**	**1**	**53**	**36**	**54**

The employer contribution reserves of the Swiss Post pension fund are allocated based on the percentage of PostFinance's retirement capital of PostFinance Ltd's entire retirement capital. This gives the following picture:

Employer contribution reserves (ECR)	Nominal value	Waiver of use	Net amount		Influence of ECR on personnel expenses	
CHF million	31.12.2017	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017
Swiss Post pension fund	64	–63	1	1	28	0
Total ARR 16	**64**	**–63**	**1**	**1**	**28**	**0**

16 | Value adjustments and provisions, and reserves for general banking risks

Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year CHF million	As at 31.12.2016	Use in conformity with designated purpose[1]	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at 31.12.2017
Provisions for pension benefit obligations	7	–	–	–	1	–	8
Provisions for restructuring	0	0	–	–	14	0	14
Other provisions	12	–2	–	–	14	–1	23
Total provisions	**19**	**–2**	**–**	**–**	**29**	**–1**	**45**
Reserves for general banking risks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Value adjustments for default and country risks	**216**	**–**	**–**	**–**	**49**	**–59**	**206**
of which, value adjustments for default risks in respect of impaired loans/receivables	70	–	–	–	49	–21	98
of which, value adjustments for latent risks	146	–	–	–	–	–38	108

1 There were no changes in purpose.

17 | Bank's capital

PostFinance Ltd is owned entirely by Swiss Post Ltd.

Presentation of the bank's capital			31.12.2016			31.12.2017
CHF million, number in million	Total par value	No. of shares	Capital eligible for dividend	Total par value	No. of shares	Capital eligible for dividend
Bank's capital						
Share capital	2,000	2	2,000	2,000	2	2,000
of which, paid up	2,000	2	2,000	2,000	2	2,000
Total bank's capital	**2,000**	**2**	**2,000**	**2,000**	**2**	**2,000**

18 | Amounts due from / to related parties

Disclosure of amounts due from/to related parties		Amounts due from		Amounts due to
CHF million	31.12.2016	31.12.2017	31.12.2016	31.12.2017
Holders of qualified participations	1,664	1,474	565	711
Group companies	–	–	–	2
Linked companies	17	19	795	591
Transactions with members of governing bodies	0	0	5	7

Associated companies and subsidiaries that are under the direct or indirect management of associated companies are regarded as linked companies.

Transactions (such as securities transactions, payment transactions, and interest on deposits) with related parties, with the exception of members of the Executive Board and Senior Management (senior management and individual specialist functions at PostFinance Ltd), were carried out according to the same terms and conditions and lending rates as transactions with third parties.

Industry-standard preferential conditions apply to the Executive Board and members of Senior Management, as is the case for all PostFinance employees.

PostFinance only issues loans and mortgages in cooperation with partners. These are not regarded as transactions with members of governing bodies in the strict sense and are therefore not shown in the Annual Report.

19 | Holders of significant participations

Disclosure of holders of significant participations		31.12.2016		31.12.2017
CHF million	Nominal	% of equity	Nominal	% of equity
With voting rights: Swiss Post Ltd	2,000	100	2,000	100

20 | Maturity structure of financial instruments

Presentation of the maturity structure of financial instruments (assets/financial instruments)

as at 31.12.2017 CHF million		At sight	Cancellable	Due: Within 3 months	Due: Within 3 to 12 months	Due: Within 12 months to 5 years	Due: After 5 years	No maturity	Total
Liquid assets		38,476	–	–	–	–	–	–	38,476
Amounts due from banks		716	–	55	50	1,686	2,317	–	4,823
Amounts due from securities financing transactions		–	–	24	–	–	–	–	24
Amounts due from customers		342	4	880	1,284	3,499	6,163	–	12,172
Mortgage loans		–	–	0	–	–	–	–	0
Positive replacement values of derivative financial instruments		43	–	–	–	–	–	–	43
Financial investments		1,136	–	2,552	6,416	29,762	22,953	–	62,819
Total	**31.12.2017**	**40,713**	**4**	**3,511**	**7,750**	**34,947**	**31,433**	**–**	**118,358**
	31.12.2016	39,709	3	4,324	7,688	35,087	30,098	–	116,910

Presentation of the maturity structure of financial instruments (debt capital/financial instruments)

as at 31.12.2017 CHF million		At sight	Cancellable	Due: Within 3 months	Due: Within 3 to 12 months	Due: Within 12 months to 5 years	Due: After 5 years	No maturity	Total
Amounts due to banks		543	–	–	–	–	–	–	543
Liabilities from securities financing transactions		–	–	–	–	–	–	–	–
Amounts due in respect of customer deposits		71,436	41,852	3	2	–	–	–	113,292
Negative replacement values of derivative financial instruments		728	–	–	–	–	–	–	728
Cash bonds		–	–	4	9	73	7	–	93
Total	**31.12.2017**	**72,707**	**41,852**	**6**	**11**	**73**	**7**	**–**	**114,656**
	31.12.2016	69,517	42,865	734	11	85	8	–	113,220

21 | Assets and liabilities by domestic and foreign origin

Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle	31.12.2016		31.12.2017	
CHF million	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	37,441	12	38,475	1
Amounts due from banks	4,337	60	4,250	573
Amounts due from securities financing transactions	12	72	24	–
Amounts due from customers	13,167	2	12,164	9
Mortgage loans	0	–	0	–
Positive replacement values of derivative financial instruments	6	59	9	34
Financial investments	31,042	30,700	30,865	31,954
Accrued income and prepaid expenses	351	247	331	225
Participations	69	32	95	27
Tangible fixed assets	1,259	–	1,223	–
Intangible assets	1,200	–	1,000	–
Other assets	309	2	374	0
Total assets	**89,193**	**31,186**	**88,810**	**32,823**
Liabilities				
Amounts due to banks	2,360	46	483	60
Liabilities from securities financing transactions	723	–	–	–
Amounts due in respect of customer deposits	105,846	3,863	109,518	3,774
Negative replacement values of derivative financial instruments	181	87	145	583
Cash bonds	113	1	92	1
Accrued expenses and deferred income	137	1	108	0
Other liabilities	7	1	6	–
Provisions	20	–	45	–
Bank’s capital	2,000	–	2,000	–
Statutory capital reserve	4,682	–	4,682	–
Profit carried forward	–	–	–	–
Profit	311	–	136	–
Total liabilities	**116,380**	**3,999**	**117,215**	**4,418**

22 | Assets by country / group of countries

Breakdown of total assets by country or group of countries (domicile principle)	31.12.2016		31.12.2017	
CHF million, percent	Absolute	Share as %	Absolute	Share as %
Assets				
Switzerland	89,193	74.09	88,810	73.01
Europe	19,690	16.36	18,100	14.88
North America	6,038	5.02	7,330	6.03
Other countries	5,458	4.53	7,393	6.08
Total assets	**120,379**	**100.00**	**121,633**	**100.00**

23 | Assets by credit rating of country groups

Breakdown of total assets by credit rating of country groups (risk domicile view)	Net foreign exposure 31.12.2016		Net foreign exposure 31.12.2017	
CHF million, percent	Absolute	Share as %	Absolute	Share as %
Rating (Moody's)				
Aaa	15,947	51.40	16,166	48.91
Aa	12,273	39.55	11,400	34.49
A	1,608	5.18	4,282	12.96
Baa	426	1.37	377	1.14
Ba	217	0.70	217	0.66
B	170	0.55	200	0.60
Caa	269	0.87	319	0.97
No rating	118	0.38	91	0.27
Total	**31,028**	**100.00**	**33,052**	**100.00**

24 | Assets and liabilities by currency

Presentation of assets and liabilities broken down by the most significant currencies for the bank

as at 31.12.2017 CHF million	CHF	EUR	USD	GBP	JPY	Other	Total
Assets							
Liquid assets	38,338	138	–	–	–	–	38,476
Amounts due from banks	4,739	56	12	2	9	5	4,823
Amounts due from securities financing transactions	–	–	24	–	–	–	24
Amounts due from customers	12,148	18	7	0	0	0	12,173
Mortgage loans	0	–	–	–	–	–	0
Positive replacement values of derivative financial instruments	43	–	–	–	–	–	43
Financial investments	49,096	9,932	3,713	–	–	78	62,819
Accrued income and prepaid expenses	464	73	18	0	0	1	556
Participations	95	9	18	–	–	0	122
Tangible fixed assets	1,223	–	–	–	–	–	1,223
Intangible assets	1,000	–	–	–	–	–	1,000
Other assets	374	0	0	–	–	0	374
Total assets shown in balance sheet	**107,520**	**10,226**	**3,792**	**2**	**9**	**84**	**121,633**
Delivery entitlements from spot exchange, forward forex and forex options transactions	10,946	268	67	55	0	39	11,375
Total assets	**118,466**	**10,494**	**3,859**	**57**	**9**	**123**	**133,008**
Liabilities							
Amounts due to banks	533	10	0	–	0	0	543
Amounts due in respect of customer deposits	110,227	2,529	434	53	9	40	113,292
Negative replacement values of derivative financial instruments	728	–	–	–	–	–	728
Cash bonds	91	2	–	–	–	–	93
Accrued expenses and deferred income	108	0	0	0	–	–	108
Other liabilities	6	0	0	–	–	0	6
Provisions	45	–	–	–	–	–	45
Bank's capital	2,000	–	–	–	–	–	2,000
Statutory capital reserve	4,682	–	–	–	–	–	4,682
Profit	136	–	–	–	–	–	136
Total liabilities shown in balance sheet	**118,556**	**2,541**	**434**	**53**	**9**	**40**	**121,633**
Delivery obligations from spot exchange, forward forex and forex options transactions	419	7,886	3,411	4	–	81	11,801
Total liabilities	**118,975**	**10,427**	**3,845**	**57**	**9**	**121**	**133,434**
Net position per currency 31.12.2017	**–509**	**67**	**14**	**0**	**0**	**2**	**–426**
Net position per currency 31.12.2016	–117	64	13	7	1	14	–18

Information on off-balance sheet transactions

25 | Irrevocable commitments, contingent liabilities and assets

Breakdown of contingent liabilities and contingent assets

CHF million	31.12.2016	31.12.2017
Guarantees to secure credits and similar	–	31
Other contingent liabilities	0	2
Total contingent liabilities	**0**	**33**

PostFinance discloses payment obligations for depositor protection in irrevocable commitments. PostFinance Ltd is jointly and severally liable for all amounts due in connection with VAT for the companies belonging to the “Swiss Post” VAT group.

As far as systemic importance is concerned, Swiss Post Ltd has deposited a letter of comfort amounting to 2 billion francs in favour of PostFinance Ltd.

26 | Managed assets

Breakdown of managed assets

CHF million	31.12.2016	31.12.2017
Type of managed assets:		
Other managed assets	45,845	46,305
Total managed assets (including double counting)[1]	**45,845**	**46,305**
of which, double counting	–	–

1 “Managed assets” refers only to assets deposited for investment purposes. Assets in connection with retirement planning products which are managed by third parties and assets deposited for transaction purposes are not included. PostFinance Ltd offers neither collective investment instruments managed by the bank nor asset management. Accordingly, assets for which the customer decides independently how they should be invested are reported under “Other managed assets”.

Presentation of the development of managed assets

CHF million	31.12.2016	31.12.2017
Total managed assets (including double counting) at beginning	**40,889**	**45,845**
+/– net new money inflow or net new money outflow[1]	197	–714
+/– price gains/losses, interest, dividends and currency gains/losses	223	1,174
+/– other effects[2]	4,536	0
Total managed assets (including double counting) at end	**45,845**	**46,305**

1 The net new money inflow or the net new money outflow is calculated from the overall change in managed assets minus the price, interest and currency developments as well as dividend distributions and other effects.
2 Other effects includes the migration of customer custody accounts that were transferred from Banque Cantonale Vaudoise to PostFinance Ltd.

Information on the income statement

27 | Result from trading activities and the fair value option

Breakdown by business area

CHF million	2016	2017
Payment transactions and financial investments	212	211
Hedge accounting	–3	2
Proprietary trading	2	9
Total result from trading activities	**211**	**222**

Breakdown by risk and based on the use of the fair value option

CHF million	2016	2017
Result from trading activities from:		
Interest rate instruments	0	–1
Equity securities	1	–1
Foreign currencies	210	224
Total result from trading activities	**211**	**222**

28 | Material negative interest

PostFinance is affected by the SNB's measures and has paid negative interest on part of its sight deposit balance at the SNB since 22 January 2015. PostFinance has defined individual customer thresholds for major business customers and banks, based on their usual behaviour in relation to payment transactions. The proportion of credit that exceeds this threshold has been subject to a fee since 1 February 2015. Since 1 February 2017, PostFinance has charged a fee on the credit balance of private customers that exceeds the threshold value of one million francs.

Disclosure of material refinancing income in the item interest and discount income as well as material negative interest

CHF million	2016	2017
Interest and discount income	175	171
of which interest expense from financial assets [1]	–24	–6
Interest and dividend income from financial investments	790	689
Total interest income	**965**	**860**
Interest expense	**–44**	**4**
Gross result from interest operations	**921**	**864**

1 Interest expense from financial assets is due to negative interest on financial instruments.

29 | Personnel expenses

Breakdown of personnel expenses

CHF million	2016	2017
Salaries (meeting attendance fees and fixed compensation to members of the bank's governing bodies, salaries and benefits)	393	388
Social insurance benefits	75	90
Changes in book value for economic benefits and obligations arising from pension schemes	0	0
Other personnel expenses	20	34
Total personnel expenses	**488**	**512**

30 | General and administrative expenses

Breakdown of general and administrative expenses

CHF million	2016	2017
Office space expenses	47	42
Expenses for information and communications technology	178	197
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	40	27
Fees of audit firm(s) (Art. 961a no. 2 CO)	1	3
of which, for financial and regulatory audits	1	3
of which, for other services	0	0
Other operating expenses	250	285
Total general and administrative expenses	**516**	**554**

31 | Extraordinary expenses and income

Extraordinary expenses

CHF million	2016	2017
Losses from disposal of participations	29	–
Total extraordinary expenses	**29**	**0**

Extraordinary income

CHF million	2016	2017
Reversals of impairment	2	10
Gains from disposal of participations	72	0
Total extraordinary income	**74**	**10**

32 | Taxes

Tax expenses for corporate income tax and taxes on capital stood at 41 million francs (previous year: 83 million francs). As in the previous year, a tax rate of 20.5 percent was used for calculating corporate income tax.

Current and deferred taxes

CHF million	2016	2017
Expenses for current capital and income taxes	83	41
Total taxes	**83**	**41**

Report of the Statutory Auditor to the General Meeting of PostFinance AG, Berne

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the financial statements of PostFinance AG, which comprise the balance sheet, income statement, cash flows statement, statement of changes in equity and notes (pages 59 to 94) for the year ended 31 December 2017.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system 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 2017 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the provisions governing the preparation of financial statements for Banks and comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Ertugrul Tüfekçi Licensed Audit Expert Auditor in Charge	Philipp Bertschinger Licensed Audit Expert

Zurich, 23 February 2018

Reporting

Download

The PostFinance Ltd Annual Report is available online in electronic form at postfinance.ch/annualreport.

Ordering

Print versions of the Annual Report can be ordered online at postfinance.ch/order-annualreport.

Structure of Swiss Post reporting documents

The Swiss Post annual reporting documents consist of:

– Swiss Post Ltd Annual Report
– Swiss Post Ltd Financial Report (management report, corporate governance, annual financial statements)
– PostFinance Ltd Annual Report

The present text is a translation of the original German Annual Report (“Geschäftsbericht 2017”), which constitutes the definitive text and is binding in law.

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