



For all your daily
financial needs
Annual Report 2016

PostFinance 

About us

PostFinance is one of Switzerland's leading 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 all customers who manage their own finances, anytime and anywhere. On request, we advise private and business customers personally. For demanding business customers, we offer tailored solutions along the value chain.

Our customers

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

Our services

Whether in payments, savings, investments, retirement planning or financing – we offer our customers everything to meet their daily financial needs, including transparent products with fair conditions, some of which are provided in cooperation with established partners.

Our performance

PostFinance Ltd Key figures			
2016 with previous year for comparison		2015	2016
Balance sheet			
Total assets as per IFRS	CHF million	114,468	119,503
Capital ratio as per guidelines for systemically important banks	%	19.5	17.1
ARB leverage ratio	%	4.6	4.5
Income statement (as per Group IFRS guidelines)			
Operating profit (EBIT)	CHF million	577	575
Earnings before tax (EBT)	CHF million	575	542
Return on equity ¹	%	10.7	9.7
Cost-income ratio	%	64.7	65.6
Customer assets and loans			
Development of customer deposits	CHF million	-2,766	4,479
Customer assets	CHF million monthly avg.	114,866	119,436
Market and employee key figures			
Customers	In thousands	2,951	2,952
E-finance users	In thousands	1,683	1,743
Accounts	In thousands	4,835	4,845
Customer satisfaction – private customers	Index	80	80
Customer satisfaction – business customers	Index	79	78
Average headcount	Full-time equivalents	3,571	3,599
Employee satisfaction	Index	78	79
Transactions			
Transactions	In millions	1,020	1,044

¹ Return on equity = earnings before tax (EBT) as per Group IFRS guidelines/average eligible equity capital as per ARB.

Our accounting

PostFinance issues financial statements in accordance with Group IFRS (International Financial Reporting Standards) 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 Group IFRS. The management report includes a reconciliation between the two accounting standards in the balance sheet and income statement.

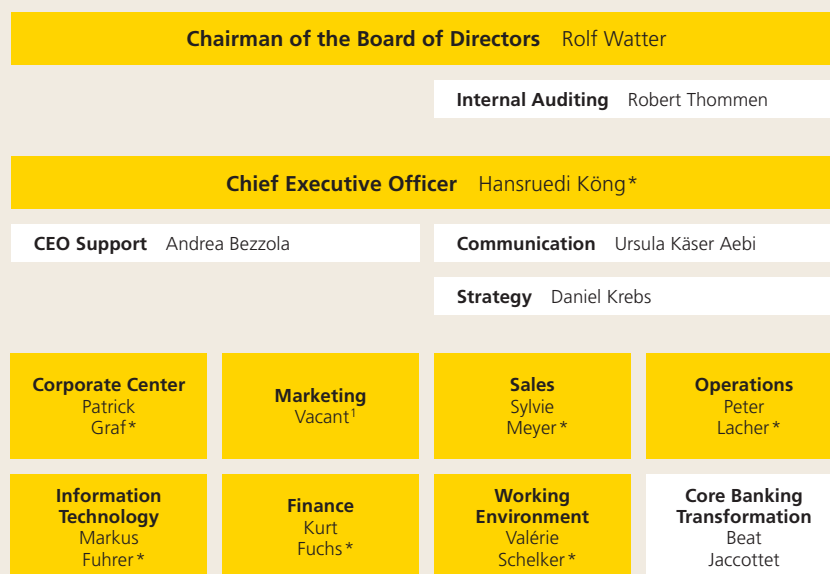
Our conviction

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 the Swiss Financial Market Supervisory Authority (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 organization



* Member of Executive Board

¹ Armin Brun left PostFinance Ltd at the end of November 2016 and was replaced as Head of Marketing on an interim basis by Nicole Walker on 1 December 2016.

PostFinance at a glance

With around three million customers and almost 120 billion francs in customer assets, PostFinance is one of Switzerland's leading 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.

More than 1.7 million customers handle all their finances online. This makes PostFinance the ideal partner for everyone who wants to manage their own finances as easily as possible.



542 million

Earnings before tax (EBT) fell by 33 million francs year-on-year.



4.5 billion

francs represents the **rise in customer deposits**.



3.0 million

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



1.7 million

users manage their money with **e-finance**.



1 billion

transactions were processed by PostFinance at home and abroad in 2016.



3,599

full-time equivalents or around 4,100 employees work daily to serve our customers.

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"We have a mandate to generate profit"



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PostFinance is developing into a digital powerhouse



 Foreword

Rolf Watter

Chairman of the Board of Directors

Hansruedi Köng

Chief Executive Officer

Dear Reader

In the financial year 2016, PostFinance generated earnings before tax (EBT) as per Group IFRS guidelines of 542 million francs. This represents a decline of 33 million francs or 5.7 percent compared to 2015.

The decline in profit is due firstly to lower portfolio reversals of impairment on financial investments (–18 million francs year-on-year) and higher impairment losses needed on individual items (+11 million francs). Secondly, the result from interest operations fell significantly due to a lack of profitable investment opportunities (–48 million francs). Higher expenses for strategic projects and property maintenance also weighed on the result.

The decline in the result was nevertheless moderate, due primarily to one-off income from the sale of equity holdings and a participation. The operating result was therefore down significantly year-on-year.

Diversification of income structure

Because of the lending prohibition, PostFinance is not allowed to issue its own loans and mortgages. In the current market environment with low and in some cases negative interest rates, this is a major competitive disadvantage. To guarantee PostFinance's long-term profitability, it is therefore essential for us to diversify our income structure and to tap into new sources of income that do not depend on interest rate levels. We see potential in investment business and also in the medium term in corporate venturing, by which we mean equity investment in start-up companies.

Membership of the Swiss Bankers Association

In May, we became a member of the Swiss Bankers Association (SBA). We are convinced that, in an extremely challenging eco-

nomie, political and regulatory environment, joint representation of interests for Swiss banks is in the best interests of the entire Swiss financial center. By joining the SBA, we are now also affiliated with the Swiss Banking Ombudsman institution.

Changes in the Board of Directors

On 18 August 2016, Alex Glanzmann became a Member of the Board of Directors and of the Board of Directors' Audit, Risk & Compliance Committee. He succeeds Thomas Egger, who was appointed Head of Finance in the PostLogistics Group unit and, for this reason, stood down from the Board of Directors in mid-August. The Board of Directors would like to thank Thomas Egger for his hard work on behalf of PostFinance. We wish him much joy and every success in his new role.

Changes in the Executive Board

At the end of November 2016, Deputy CEO and Head of Marketing Armin Brun left PostFinance after 15 years of service and has now taken up a position in the Swiss Post Group. In recent, demanding years, Armin Brun has made a decisive contribution to the development of PostFinance as a leading Swiss financial institution. The Board of Directors would like to thank him for his many years of commitment and wish him all the best with his fresh challenge.

Kurt Fuchs, Head of Finance, was appointed new Deputy CEO of PostFinance. Nicole Walker has assumed the role of Head of Marketing on an interim basis.

Outlook

Our customers' requirements have changed significantly in recent years. Our society, and with it the banking world, are rapidly becoming more and more digital. This, and the persistently difficult market environment of declining interest rates, force us to act. Our traditional banking services face a substantial threat if we do not take appropriate measures. We will therefore focus more clearly on the digital world in the future and develop PostFinance from a traditional financial service provider into a digital powerhouse. We are convinced that this transformation will help us to better meet the challenges of the future.

But despite digitization, we do not want to forget those customers who prefer to continue using physical banking services, and our job is therefore to create the ideal combination of the physical and digital worlds.

Thank you

We would like to thank our employees for their great commitment. They again faced major challenges in their everyday work and in various projects in the past year. For example, we reached important milestones in the modernization of our core banking system and strengthened our range of investment products with the launch of the new e-trading service.

And we would like to say a special thank you to you, our customers. In the past year, there was no way to get around reducing interest rates on accounts and increasing fees. This is painful. So we are particularly appreciative that you continue to place your trust in us. We will continue doing everything possible to offer you fair conditions, attractive products and first-class service.

Rolf Watter
Chairman of the Board

Hansruedi Köng
Chief Executive Officer



We have a mandate to generate profit

Interview

with **Hansruedi Köng**
Chief Executive Officer

Hansruedi Köng, PostFinance generated a profit of 542 million francs in the past financial year.

How satisfied are you with the result?

All things considered, we can certainly be satisfied. But if we analyse the result a little more closely, what we see is that the decline in profit is relatively low only because of our profitable sale of equity holdings and a participation. We must not deceive ourselves: these are one-off effects that, while they show the annual result in a better light, are at the expense of capital assets and will therefore impact future profits and distributions. Some business units were already under serious pressure last year. In particular, the significant drop in interest operations worries me.

But at a publicly owned bank, shouldn't profit play a secondary role?

This notion is a fallacy. As part of Swiss Post, we have a clear mandate to operate economically and fund the universal service from our own resources. Or to put it another way: PostFinance is a profit-oriented company. Unlike the listed banks, of course, our main focus is not on traditional shareholder value thinking. But we do ultimately bear responsibility for generating economic value added or at least maintaining the value of the invested capital in real terms. In the past, PostFinance contributed around two thirds of the profit generated by Swiss Post, making an important contribution to the maintenance and financing of the universal service. If our profit declines, Swiss Post will feel it...

...as will customers. PostFinance has further reduced interest rates and increased fees.

This is a development from which our customers understandably derive little pleasure. And these measures are painful for us too. We have been able to share our success with our customers for many years, offering them attractive interest rates and fees. But given the negative interest rate in particular, this is currently no longer possible to the same extent. Nevertheless, we still offer very good value for money compared to our competitors.

Speaking of negative interest rates: the introduction of a fee on the credit balance for wealthy private customers has caused something of a stir. Was this step really necessary?

PostFinance not allowed to issue its own loans and mortgages. This means that we have to invest our customer deposits in the national and international financial markets. In the current negative interest rate environment, however, they yield virtually no returns. We therefore parked a large share of our customer deposits at the SNB, to ensure that we can respond quickly to any changes in the market. But since January 2015, we have paid the SNB negative interest on some of these funds. This cost us more than 20 million francs last year. This shortfall is something that we can and will no longer accept. In an effort to at least reduce the loss, we have introduced a fee of 1 percent on the credit balance of private customers with cash

holdings above a threshold of one million francs. But we also provide our customers with alternatives. The credit balance fee can be avoided by investing assets above the threshold, for example in funds or other securities.

Is this the prelude to credit balance fees for all accounts?

No, most private and business customers will remain exempt from the fee on the credit balance. We want to hold to that. However, if market conditions change significantly, we will of course have to reassess the situation in both directions. If the SNB ends its negative interest rate policy, we will reverse the fee on the credit balance.

Fee increases may help to cushion the fall in revenue in the short term. What are you doing to ensure that PostFinance remains profitable in the medium and long term?

We currently generate around two thirds of our income from the interest differential business. However, this income is increasingly melting away. For this reason, and to guarantee PostFinance's long-term profitability in the current negative interest rate environment, it is essential for us to diversify our entire income structure and to tap into new sources of revenue in which non-interest income can be generated. I see potential for example in investment products, and in the long term also in corporate venturing.

What does the term corporate venturing mean exactly?

Corporate venturing is basically any kind of participation in companies. As a financial services provider, we focus on young, innovative and growth-oriented companies in the fintech sector. There are many exciting new developments that may be relevant to us.

Why is PostFinance committed to corporate venturing?

Digitization means that traditional business models will come under threat or be completely changed. In the media sector or music industry, this is already a fact. In the banking sector, this development is to be anticipated. But corporate venturing is also about the transfer of knowledge. It allows us to find out how certain business models and technologies work in the market. This is very illuminating and can lead to innovative changes to existing products.

By itself, however, this is unlikely to be enough to fully offset the fall in revenue from interest-related operations.

Corporate venturing is a first step towards new sources of non-interest income. It is admittedly still a niche business at the moment, but one that can develop. Another area that we intend to strengthen significantly in the coming years is our investment business.

That is likely to see a stronger focus on consulting business. But PostFinance positions itself as the bank for customers who manage their own finances. A contradiction?

There is a differentiation to be made here. In areas such as investments, retirement planning and financing, personal customer advisory services continue to play an important role – particularly at the start. But there are also other areas, such as payment transactions, where customers increasingly want to take care of their business independently, whenever and wherever it suits them. For these requirements, what they expect from us are simple, modern and reliable digital services. Digitization is therefore the central thrust of our strategic transformation process.



Digitization is the central thrust of our strategic transformation process.

Hansruedi Köng

You allude to the “Victoria 2017–2020” programme. What is that about?

Changing customer requirements and the persistently difficult market environment of declining interest operations force us to act. Our traditional banking services and our livelihood face a substantial threat if we do not take appropriate measures. We therefore decided at the end of 2015 to review the existing strategy and to adapt it if necessary.

What were the findings of this strategy review?

Our society – and with it the banking world – is rapidly becoming more and more digital. This is a development that we cannot and do not wish to ignore. On the contrary – as a digital innovation leader in the Swiss banking world, we want to take advantage of our strong starting position and evolve from a traditional financial services provider into a digital powerhouse. Our aim is to create the ideal combination of the digital and physical worlds in order to offer our customers a consistently positive customer experience.

Does this mean that in ten years’ time, PostFinance will be a technology company that offers banking services only on the side?

No, we are a bank and will continue to be a bank. But the question is, what will the bank and the financial center of the future look like? Digitization cannot be stopped, and that means that in some traditional areas, such as investment consultation, we will probably have to let go of some traditional ideas.



Our job is to create the ideal combination of the physical and digital worlds.

Hansruedi Köng



Business performance

In 2016, PostFinance generated earnings before tax (EBT) of 542 million francs → [Page 9](#). From traditional financial institution to digital powerhouse → [Page 10](#). New brand identity: the pleasure of managing money → [Page 11](#). PostFinance invests in the future → [Page 12](#). TWINT – the Swiss solution for mobile payment → [Page 13](#). Carry out stock market transactions anywhere in real time → [Page 14](#). SMEs benefit from harmonized payment transactions → [Page 15](#). New core banking system: standard formats for payment transactions introduced → [Page 16](#).



5.5 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.



9.7 %

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



120 billion

francs in **total assets** as per IFRS.



4.5 billion

francs of **growth in customer deposits**.



65.6 %

The **cost-income ratio** was maintained at an appropriate level.



PostFinance is changing

Society – and with it the banking world – 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 services 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.

Solid
financial figures

KEY FIGURES

575
million
francs in operating profit
(EBIT)

542
million
francs in earnings before
tax (EBT)

65.6 %
cost-income ratio

120
billion
francs in customer assets

Result

Moderate 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 only partially offset.

In the financial year 2016, PostFinance generated earnings before tax (EBT) as per Group IFRS guidelines of 542 million francs. This represents a decline of 33 million francs or 5.7 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 interest operations. Unlike in the previous year, portfolio reversals of impairment on financial investments fell and the impairment charges needed on individual items rose, also impacting the result. A rise in long-term expenses for strategic projects and property maintenance led to an increase in operating costs. The decline in profit was nevertheless moderate, due primarily to one-off income from the sale of a participation and a block of shares.

In the year under review, total assets rose by 5 billion francs. Customer deposits were up by around 4.5 billion francs, with most of the growth attributable to private customer sight deposits. 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,



Due to a lack of investment opportunities, we have continued to park a large share of our customer deposits at the SNB.

Kurt Fuchs
Head of Finance

continued investment in long-term fixed-interest financial investments in Switzerland and abroad at historically low interest rates is required. A large amount of liquidity is still held at the Swiss National Bank (SNB). Since January 2015, PostFinance has been charged negative interest on the sight deposit balance exceeding the defined exemption limit.

The interest differential business remains the most important source of revenue for PostFinance. Persistently low interest rates are weighing increasingly heavily on net interest income and further eroding interest margins. To guarantee PostFinance's long-term profitability, it is therefore essential for us to diversify our income structure and to tap into new sources of income that do not depend on interest rate levels.

Equity base

Solid capital base

As a systemically important financial institution, PostFinance has to meet stringent requirements with respect to capital resources. With a total capital ratio of 17.1 percent and a leverage ratio of 4.5 percent, PostFinance significantly exceeds FINMA's going concern equity requirements for banks at the end of 2016. In 2017, additional going concern equity requirements will be defined for systemically important domestic banks, although it can be assumed that PostFinance already currently meets any requirements for additional loss-absorbing equity.

Strategy

From traditional financial institution to digital powerhouse

PostFinance's strategic focus in the future will concentrate even more closely on digitization, in order to maintain and expand its position as an innovation leader.

Digitization is a social trend that does not stop at the world of banking. Our customers 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 very early on, and is now market and innovation leader in mobile banking in Switzerland.

Transformation into a digital powerhouse

The increasing digitization of banking services has resulted in more and more global technology companies, as well as fintech start-ups, forcing their way onto the market. This, and today's difficult market environment with persistently low interest rates and declining revenues in our core business, force us to act. Our aim is to make better use of the many opportunities offered by digitization and to actively drive and help shape the process. We are therefore focusing our strategy even more closely on the digital world and developing PostFinance into a "digital powerhouse".

To achieve this, PostFinance has defined a number of strategic thrusts for the future: digitization of our core business, enhancement of the investment options we offer our customers, implementation of the solutions business for our major business customers, and various innovation aspects.

Progress through innovation

On the road to becoming a digital powerhouse, our Innovation Management plays a key role, allowing us to recognize promising products, technologies and business models at an early stage. At the same time, we are increasing our commitment to corporate venturing, with targeted investment in young, innovative or highly specialized growth companies whose operations are relevant to our core business. In the future, an increasing proportion of our innovation will therefore be in collaboration with partners.

The best customer experience

Digitization cannot be stopped. For us as a bank, however, it cannot be an end in itself, but must instead aim to provide our customers with the best customer experience by making it as easy as possible for them to manage their money and their financial affairs in general. If we can do this, we will continue to be one of the leading Swiss financial institutions in the future.



We are acting to master the ongoing process of digitization and the difficult market environment.

Daniel Krebs
Head of Strategic Management

Brand development

The pleasure of managing money

The PostFinance brand has become more sophisticated – with a view to developing a more emotional customer experience and a strategic focus on the “digital powerhouse”.



The new brand identity underscores our transformation into a digital powerhouse.

Ursula Käser Aebi
Head of Communication

The brand helps us to realize our vision – “The easiest way to manage money.” – and to create a holistic customer experience. To provide its customers with a more emotional brand experience, PostFinance has further enhanced its brand identity: the focus is on conveying an attitude to life that says “The pleasure of managing money – with a refreshing simplicity that inspires enthusiasm.” It describes the perception that PostFinance wants to engender in the people it serves. The financial institution has set the bar high for itself – because enthusiasm is more than just satisfaction. This is how PostFinance differentiates itself on the market and positions itself in an environment of potential competitors in the digital world.

Employees as brand ambassadors

The brand also formulates the expectations that the company has of its employees: the focus of processes and products should be on the guiding principle of simplicity. In their dealings with each other, employees meet on the same level – regardless of management hierarchies. The same principle applies to their contact with customers and business partners. The brand values – “simple”, “trustworthy”, “independent” – define the experience that employees convey with each contact they make.

The new visual world: “In the thick of it – the power of the moment”

There is no change to the cornerstones of the brand identity – the logo and its colour. However, the design has been simplified and modernized, and is now geared in particular towards digital requirements.

The “emotionality” of the brand is reflected in the new visual world: it shows business and private customers in dynamic situations at work and in their free time – in the middle of things.

Rolling introduction

Starting in spring 2017, the first communication tools, including the website, Annual Report and online employee magazine, will appear in the new design. Market campaigns and brochures will follow at a later date. This rolling introduction saves on costs and resources.

New branch concept

PostFinance is implementing a new design concept in its branches, turning every visit into an emotional experience.





Jens Schulte
Head of Corporate Venturing



Venture capital is risk capital. We therefore examine our investments extremely carefully.

Jens Schulte
Head of Corporate Venturing



Lendico

A crowdlending platform for corporate loans that brings borrowers and investors into direct contact.

moneymeets

A marketplace for private customers who are interested in improving their own finances through financial investments, securities and insurance companies.

Finform

Reshapes the industrialization of banking processes, helping to control the mounting deluge of forms.

tilbago

Offers software of the same name for fast and cost-efficient processing of debt collection proceedings.

Corporate venturing

PostFinance invests in the future

PostFinance invests in start-ups to further expand its expertise. Jens Schulte, Head of Corporate Venturing, explains how this came about and the plans PostFinance intends to pursue in the future.

Jens Schulte, what does corporate venturing mean for PostFinance?

Corporate venturing means financial equity investment in younger, innovative growth companies – start-ups with a correspondingly high risk potential.

Why does PostFinance invest in these start-ups?

PostFinance currently generates around two thirds of its income from the interest differential business. In the current market environment with low and in some cases negative interest rates, it is essential for us to tap into new sources of income that do not depend on interest rate levels. With its investments and partnerships, PostFinance also establishes a strong and attractive position in the market.

What are PostFinance's criteria for choosing suitable companies?

Our corporate venturing commitments must fit into our overall strategy. We do of course look into whether and how a potential investment complements our product and service portfolio, and we pay particular attention to aspects such as business model, market, product image, team and technology.

What is crowdlending, and how does the Lendico joint venture fit into the strategy?

Crowdlending is when multiple investors make money available to a borrower in return for interest income. Working with Lendico, we provide Swiss SMEs with a modern alternative to traditional bank financing.

And why is PostFinance investing in moneymeets?

This is a start-up that creates complete transparency across banking and insurance services, providing a simple overview in a market noted for its lack of transparency. And regardless of which bank or insurance company you are with, PostFinance benefits from the experience that moneymeets has in areas such as sales, the technology used or the customer approach.

With the Finform joint venture, PostFinance is trying to control the mounting deluge of forms. How does it work?

Finform automatically reviews the details provided by customers who, for example, conclude contracts online or want to open their account from their PC. The application, the specialists and the high level of automation enable savings of over 30 percent of previous process costs.

Around 2.8 million debt collection proceedings are initiated each year in Switzerland. How does the start-up tilbago make this easier?

Until now, creditors have mainly processed their debt collection proceedings manually. With tilbago, debt collection proceedings are fast, inexpensive and secure. PostFinance focuses investments on know-how and new technologies in order to provide its customers with even better and even simpler services.

Will PostFinance be investing in other companies?

We will be examining further investments in other companies in Switzerland and abroad. It is important to ensure that they are a good match for us. We therefore scrutinize potential companies intensely and choose them only if they are able to win us over.

TWINT

The Swiss solution for mobile payment

Paying with your smartphone at the checkout, shopping online, redeeming a coupon or paying your girlfriend back for a cinema ticket: all these things are possible with TWINT, the digital wallet. The merger of TWINT and Paymit now offers Switzerland a powerful mobile payment solution.

Rebecca sets down her purchases at the checkout. The man in front of her is picking coins out of his wallet. For Rebecca, this has not been an issue since TWINT came along: she holds her smartphone up to the so-called beacon and that's it – the purchase amount has already been debited from her account. Rebecca doesn't have to show her customer card, because it's already stored in the TWINT App. And thanks to the coupon in her digital wallet, Rebecca automatically gets her strawberry yoghurt at half price.

Pooling strengths

From spring 2017, the TWINT App will be able to do even more: the tried-and-tested functions will be supplemented with direct account debiting when paying with TWINT. This became possible thanks to the merger of TWINT with Paymit, the mobile payment solution from SIX and Swiss banks. "The two systems with their different focuses were combined into a single solution that pools their strengths. This makes TWINT even better," says Thierry Kneissler, CEO of TWINT Ltd.

The six biggest banks on board

The new TWINT Ltd was launched following the positive decision of the Competition Commission. Once the Commission gave the green light in September 2016, development of the

system and negotiations with partners proceeded at full throttle. "We can say with some pride that the six biggest Swiss banks and SIX are involved in TWINT," says Thierry Kneissler. Even before the merger, TWINT and Paymit together had more than 500,000 customers.

From cash to mobile payment

The CEO regards the biggest challenge not as other payment solutions such as Apple Pay, but as deeply ingrained habits: "Many people still prefer to pay with cash. Convincing them that mobile payment is for them is our most important and at the same time most difficult task."



What is TWINT?

TWINT is the Swiss solution for mobile payment that works with all bank accounts and all smartphones.

With TWINT, you can do more than just pay: the app provides additional features such as sending and receiving money, storing customer cards, benefiting from coupons and loyalty cards, and making donations.



E-trading

Carry out stock market transactions: anywhere in real time

Thanks to the new e-trading platform and the PostFinance App, traders can now easily carry out their stock market transactions and get live information on every market trend. The partnership with Swissquote is an important part of this development.



visit at any time, wherever they are, to carry out their stock market transactions," says Luca Ritucci from the e-trading Contact Center at PostFinance.

The new platform was developed by Swissquote, PostFinance's strategic trading partner. Since 2014, PostFinance has held a 5 per cent equity interest in Swissquote Group Holding AG.

New customers have been able to register on the new platform since March 2016, and existing customers were migrated to it in May. PostFinance now acts as a client dealer and custodian bank. Swissquote is responsible for custody account management on behalf of PostFinance.

Trade independently in shares, bonds, funds, ETFs and derivatives in real time on the most important stock exchanges in Switzerland, Europe and North America, view all securities and read comprehensive analyses: you can get all this and much more from PostFinance's new e-trading platform. "Visually, the design of the platform is now clearer. It allows customers to set up the interface themselves – according to their personal preferences," says Roland Flüttsch, e-trading Product Manager. This makes securities trading easier for our 60,000 or so e-trading customers.

When the moment counts

To keep on top of things when you're on the go, you can get notifications about completed trades and defined price alerts by SMS or e-mail and carry out all transactions directly in the PostFinance App. "In the world of stocks and markets, timing plays a particularly important role. That's why it's important to us to provide our customers with a platform they can

Investments and retirement planning

For those willing to take a risk: funds with a high equity component

"Why do I need to think about my retirement now?" young people wonder, while their elders ask themselves: "How can I still invest my money profitably when it's virtually impossible to earn any interest income?" Whatever the case, thinking about your retirement planning is always worthwhile for PostFinance customers: you decide for yourself whether you want to invest your long-term retirement assets cautiously or are willing to take a risk. Since June 2016, investors with the appropriate investor profile have been able to benefit more from the potential of the equity market: PostFinance was the first financial institution to offer a passively managed fund for pillar 3a with an equity component of 75%.

Transition of payment transactions

SMEs benefit from harmonized payment transactions

With a broad customer base and new sales channels, Eugen Buob AG is faced with a changing industry – and sees only advantages in the harmonization of payment transactions. PostFinance supported the trading company during the transition.



For SMEs, the switch to ISO 20022 is a good opportunity to analyse their payment transactions.

Manfred Buob
Owner of Buob AG

“Problem solvers”, the Buob brothers Manfred and Roland call themselves. When a metalworker needs a special thread roller, fine blanking die or deburring machine replaced, they’re the ones who get the call. Or when a workpiece needs to be measured or developed. People have been relying on the expertise available in the family business, from machines and tools to measuring and testing technology, for more than 40 years now. And when it comes to financial matters, the Buob brothers rely on PostFinance. Almost all financial flows run through PostFinance and the Proffix software for SMEs. The webshop used by the company to target new customers also gets its data from the software and offers the PostFinance Card as the only payment option.

Simplifying financial flows

The upcoming changes in payment transactions were brought to the attention of Buob AG by PostFinance customer adviser Stéphane Fagagnini in plenty of time. The switch to ISO 20022 in national and international payment transactions, the standardization of data formats and the consistent use of IBAN required modifications to the software. The conversion has been planned and implemented in coordination with Proffix’s partner, Imhof Consulting AG. The specialists used TeamViewer to access the software and make the required changes. Being present on-site was not necessary. There was no disruption to the processes in accounting – all that was needed was a number of entries in other time windows. Almost every process is now depicted in the software. “Eugen Buob AG benefits from the close support provided by PostFinance during the modification of its accounting software to the ISO 20022 standard. This allows the company to concentrate on its core competencies. Our customer is now ready for the upcoming harmonization of Swiss payment transactions,” says customer advisor Stéphane Fagagnini. “And ISO 20022 also leads to better data quality and lowers error rates.”



ISO 20022

refers to the international standard for electronic data exchange in the financial industry. It defines a uniform data format.



Manfred (left) and Roland Buob, the two owners of Buob AG, have converted their payment software.

Core banking system

Standard formats for payment transactions introduced

The challenging transition to a new core banking system is on schedule. With the introduction of the ISO 20022 payment formats, a milestone has been reached.

PostFinance has been processing the ISO 20022 formats on the new core banking system since 2016. This means that the financial institution has reached another milestone in the migration to the new core banking system. The introduction of the ISO 20022 formats and the transition to the new core banking system are closely linked and meticulously coordinated. At the end of 2015, PostFinance became the first Swiss bank to introduce the new ISO 20022 formats for payment transactions. These standard formats harmonize the payment formats in use in Switzerland, making payment transactions a great deal easier.

For PostFinance, the modernization of the core banking system is the key strategic project. It will help to maintain its position as a financial service provider and as the market leader in Swiss payment transactions.

Comfortable transition period until 2017

In the course of 2016, more than 10,000 business customers converted their payment software to the new payment formats. PostFinance considers it very important to encourage its approximately 300,000 business customers to undertake this conversion as early as possible, and offers them a transition period extending to the end of 2017 at the latest. Early conversion allows PostFinance to provide the best possible support for its customers.

Established standard product replaces in-house development

The core banking system in use today was first developed by PostFinance in 1993 and steadily expanded. Because its maintenance and the integration of changes became increasingly complex over time, PostFinance decided to replace the existing solution with an established market standard product. The product chosen is in use at about 280 banks around the world. Replacing the in-house system with a standard product will significantly reduce the complexity of the business and IT architecture.



Employees

Our employees make PostFinance adaptable and agile → [Page 19](#) . Labour market: PostFinance wants to attract the best → [Page 20](#) . A progressive working environment motivates employees to achieve first-rate performance → [Page 21](#) . At PostFinance, family and work are not mutually exclusive → [Page 22](#) .



3,599

employees (average full-time equivalents) strive to achieve PostFinance's objectives each day.



40.3 years

is the **average age** of the company's employees.



62,897

hours are invested by PostFinance in **basic and advanced training** for its employees.



47

different nationalities ensure a diverse corporate culture at PostFinance.



34 %

of women in management roles work **part-time**. For men, the rate is 14 percent.



30 %

of **management positions** are held by **women**.



The challenge of digital transformation

A rapidly digitizing world of work and a demanding younger generation: PostFinance combines both worlds by offering a progressive working environment for people who want to make a difference in their career without forgoing family and leisure time.



Valérie Schelker
Head of Working Environment,
HR & Facility Management



We will work together in agile project teams more often in future.

Valérie Schelker
Head of Working Environment

Working Environment

PostFinance is agile and adaptable

Society, and with it the banking world, are digitizing. In this interview, Head of Working Environment Valérie Schelker explains what this means for PostFinance employees.

What will it be like to work at PostFinance in the future?

PostFinance is focusing its business consistently on digitization, and this has consequences for the way we will work in the future. We are already enabling and encouraging employees to work together in a mobile and digital manner. There are hardly any personal workplaces left at PostFinance – people find the right workplace for whatever they are currently working on. In 2017, we will gear the working environment even more closely towards mobile and flexible work practices and provide a range of work zones and platforms, allowing PostFinance to be agile and adaptable in its response to whatever changes it encounters.

What do you see as the biggest challenges?

Our job is to support employees as best we can in this process of change and to empower them to engage with the new culture of networking and mobility. For example, we will work in agile project teams more often in future, in other words in teams with employees from different departments. Or alone from our home offices. This calls for a sense of personal responsibility on the part of employees and trust on the part of managers – a combination that is key to PostFinance's development.

How do you attract the right people to achieve the company's goals?

PostFinance presents itself as a progressive employer in a changing and competitive retail financial market. We take part in university trade fairs and specialist events and are continually expanding our online presence. In HR Marketing, our main focus is on ICT specialists, because PostFinance is also faced with a shortage of skilled professionals.

A healthy balance between work, family and leisure time is particularly important to us. This appeals to young, highly qualified applicants, who no longer want to pursue a conventional career path. We also offer our employees the opportunity to take more than the usual five weeks' holiday in return for a reduction in salary. It's an offer that is widely taken up.

PostFinance is becoming a digital powerhouse – how do you manage these changes?

By actively supporting our managers and developing our employees' digital skills – all with a view to implementing new business models. At the same time, improved efficiency and automation mean that we will require fewer employees by 2020. We expect all employees to have a high level of willingness to learn, as well as the motivation to greet changes with an open mind and make their contribution to the transformation.

HR Marketing

PostFinance wants to attract the best

In times of change, the right employees are decisive for the success of a company – particularly in the service sector. PostFinance wants to attract the best and is investing in its image as an employer.

ICT specialists are rare, and creative minds are much sought-after by companies. According to market research, very few people in the ICT scene today realize that PostFinance is an attractive employer. An integrated communication campaign at the end of the year was a first step in changing this. The campaign got employees involved, encouraging them to find challenging quiz questions for ICT specialists. Potential employees were approached in a fun way in specialist media and at specialist events and channelled to a website where they either came across a particular job vacancy or could report their interest in vacancies in general. The first wave of this campaign in December triggered numerous contacts. The campaign will continue in 2017.

New media in campus recruitment

University graduates were addressed with augmented and virtual reality: at trade fairs, students were given the opportunity to experience PostFinance's offices through virtual reality glasses. By pointing their phone's camera at a picture on a leaflet, they could launch a video showing young employees talking about how they started their career at PostFinance. With these new communication technologies, PostFinance positioned itself as an innovative employer.

Digital and on an equal footing

We want applicants to PostFinance to be able to experience our corporate culture before signing their contract. On receipt of their document, applicants receive a video in which an HR consultant confirms receipt and explains the next steps. Interviews are held in an office that reflects the culture at PostFinance. Instead of a thick letter with countless documents, chosen candidates now receive only their contract and a link to a website where all documents are available as PDFs for download.

13%

of the 6,803 **ICT specialists** who took part in a quiz at challengethefuture.postfinance.ch also registered for the ICT newsletter.

2,451

interviews were conducted by PostFinance in 2016 with interested students at trade fairs and events.

At PostFinance, ICT specialists can make a big difference – this is the core message of the campaign.



Working Environment

Networked, agile and beyond borders

Working across departmental boundaries and management levels, in agile project teams, in the mobile workplace or from home – these are some of the ways PostFinance motivates its employees to achieve first-rate performance.



This workplace meets my need for quiet and concentrated work.

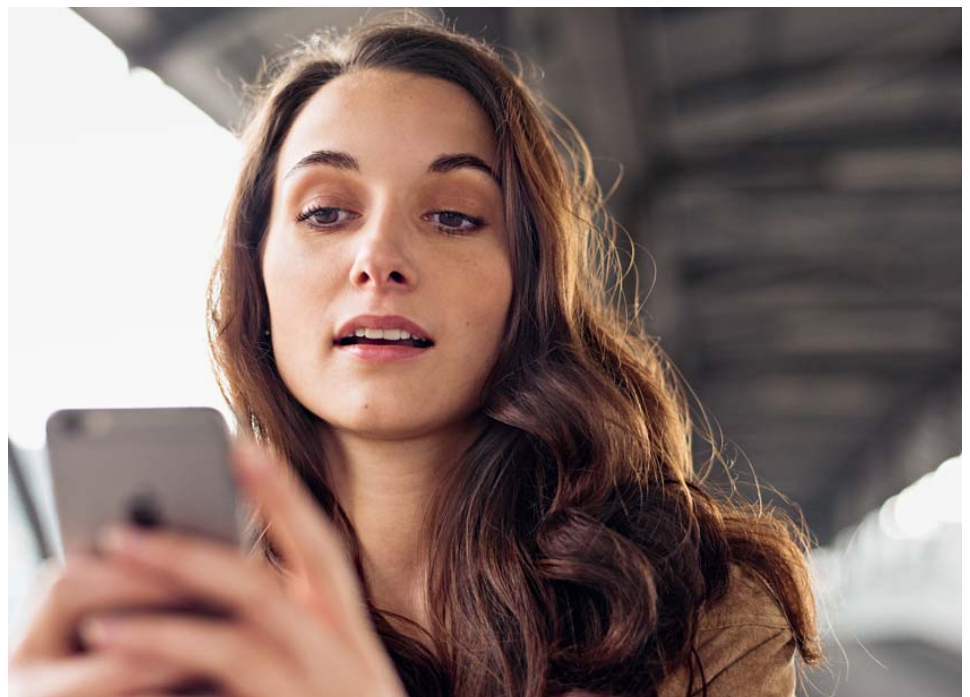
Comment in the survey on the concentration zone

Along with digitization, the imminent reduction of rented office space presented an opportunity to rethink the work zones at the Mingerstrasse 12 (headquarters) and Engehalden 35–39 buildings in Berne. Employees' requirements were determined in a survey and in focus groups, with the results forming the basis for the prototypes for future work zones. The aim was to promote both networking and agile collaboration across departmental boundaries. From the prototypes, an approach to zones was developed that rearranges the work areas in the administration buildings. Selective improvements to the working environment, such as WiFi facilities in break zones and fitness rooms, were implemented immediately. Working in cross-departmental coworking spaces and concentration zones was tested, and the experience gathered was utilized in the approach to zones. In spring 2017, the Executive Board will decide on its im-

plementation as part of the revised corporate strategy.

Between generations and management levels

With a view to promoting collaboration across generations and management levels, PostFinance brought members of senior management and young employees together on two occasions. At these events, which were modular in structure, the members of senior management reflected on their leadership behaviour, while the young employees had the opportunity to cook up unconventional business ideas. Together, they very quickly brought the business ideas to project maturity. The cross-generational teams gave rise to "tandems", which continued to exchange ideas on leadership issues and innovation even after the events. Both groups were enthusiastic about the events, and they will be held again in 2017.



Work-life balance

“Family AND Work” label

PostFinance was awarded the “Family AND Work” label in 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 and the promotion of time- and location-independent work practices. They praised the generous benefits with respect to work-life balance and the fact that directives and management principles broadly corresponded to their implementation. Their suggestions led to the creation of an intranet page with information on the topic of work-life balance.

Absence management

Managers deal with absences professionally

PostFinance has an internal case management system in place to ensure that employees with illnesses are fit for work in the long term. It opens up suitable options for the reintegration of those affected into everyday working life. The absence management system introduced in 2014 was simplified in 2016, improving the way in which it is used by managers, something reflected in the fall in the number of questions submitted to the Human Resources department’s service line. Professional absence management is now established as a natural part of any manager’s responsibilities. An encouraging number of managers also sought training in the legal aspects of dealing with sick employees.



Promoting healthy behaviour

Healthy eating

Catering within the company is an important factor in the health of employees. PostFinance has its staff restaurants evaluated each year by external specialists, and adjusts the food on offer and its preparation accordingly. In 2016, staff were provided with information on healthy eating on the intranet, in the staff restaurants and at the fruit baskets. The range of products available in vending machines was supplemented with healthy snacks.

Balancing work and family life

Circus ring free for children

What to do when the children are on holidays but their parents are not? Acrobatics, juggling, pantomime and balancing are a delight to every child. At the beginning of the summer holidays, PostFinance organized a circus school for school-age children, where 32 children spent a week practising before displaying their newly acquired skills to their proud parents, grandparents and other employees at an end-of-school show. This was a pilot project organized by employees and implemented under the guidance of Zirkusschule Bern in a tent in front of PostFinance headquarters. Its focus was on achieving a healthy work-life balance. Similar activities will be initiated at other PostFinance locations next year.



The children had fun, and we as parents benefited from the excellent care.

Yvonne Gammeter-Biedermann
Head of Finance & Performance Accounts

Sustainability and commitment

CO₂ efficiency: target significantly exceeded → [Page 25](#).
Building technology increases comfort and saves energy → [Page 26](#). With MoneyFit, children learn how to deal with money → [Page 27](#). Fostering young talent: children discover the joys of ice hockey → [Page 28](#).



34 %

is the increase in **CO₂ efficiency** compared to the base year 2010.



161 kg

of **paper** is consumed by PostFinance per full-time equivalent.



24.4 GWh

of **energy** is consumed annually in PostFinance buildings.



100 %

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



4.8 million

francs were added by the top scorers to the fund for **young ice hockey players** in the last 15 years.



124,000

cultural enthusiasts visited DAS ZELT – Chapiteau PostFinance in 2016.



Assuming responsibility

Conserving natural resources strengthens PostFinance's competitiveness and credibility. That's why the financial institution is careful in its approach to dealing with resources. In its social and economic policies, PostFinance is also guided by the concept of sustainability, encouraging the younger generation: athletes, musicians, students and young entrepreneurs. Because if you want to have creative and responsible minds tomorrow, you must support young people today.

On track

ENVIRONMENTAL
INDICATORS

24.4 GWh

of energy is consumed in
PostFinance buildings.

161 kg

of paper is consumed per
full-time equivalent.9 m³is the water consumption
per full-time equivalent.

85 %

of cars procured in 2016
are ECO models.

11,633 t

of CO₂ emissions are
generated by PostFinance
each year.

Climate targets

CO₂ efficiency: target significantly exceeded

For the 2014–2016 strategy period, PostFinance set itself the target of improving its CO₂ efficiency by at least 10 percent. With an improvement of 34 percent, it has significantly exceeded this target.

PostFinance has defined its CO₂ efficiency as CO₂ emissions in relation to core services (number of transactions) and measures it in grams of CO₂ per transaction. The base year is 2010. With a 34 percent efficiency improvement by the end of 2016, PostFinance has exceeded its self-imposed target significantly. In the next strategy period, PostFinance will again remain unabated in its commitment to improving its energy and CO₂ efficiency.

Energy-efficient data centers

PostFinance's two data centers in Berne and Zofingen are continually optimized not only in terms of security and availability – improvement of energy efficiency is also considered a high priority. In addition to investing in the best available building services, this is also achieved by means of a balanced operating mode adapted to outside temperatures.

Environmentally friendly fleet

In the procurement of replacement vehicles for its fleet, PostFinance places particular emphasis on energy-efficient and low-emission models. 87 percent of cars procured in 2016 are in energy efficiency categories A and B, further increasing the environmental friendliness of the PostFinance fleet.



Paper consumption
per full-time equivalent
decreased by around a
third year-on-year – one
of the effects of digitization.

David Lengyel
Head of Distribution Locations

 Intelligent building technology

The weather pipped at the post

Saving energy and costs while at the same time improving well-being – this is the win-win situation achieved by the building technicians at the Zofingen data center.

The indoor climate at the data center in Zofingen offers genuine comfort. The distinctive building not only houses one of PostFinance's two data centers, it is also the workplace of 380 staff in Information Technology, Customer Service and Business Customer Sales. Employees are very satisfied with the indoor climate, which offers a level of comfort made possible by intelligent building technology.

The newly implemented MeteoViva Climate optimization system calculates how the room temperature will change one or two days in advance, based on a mathematical model of the data center that takes into account influencing factors such as the weather (weather forecast), internal loads (employees and devices)

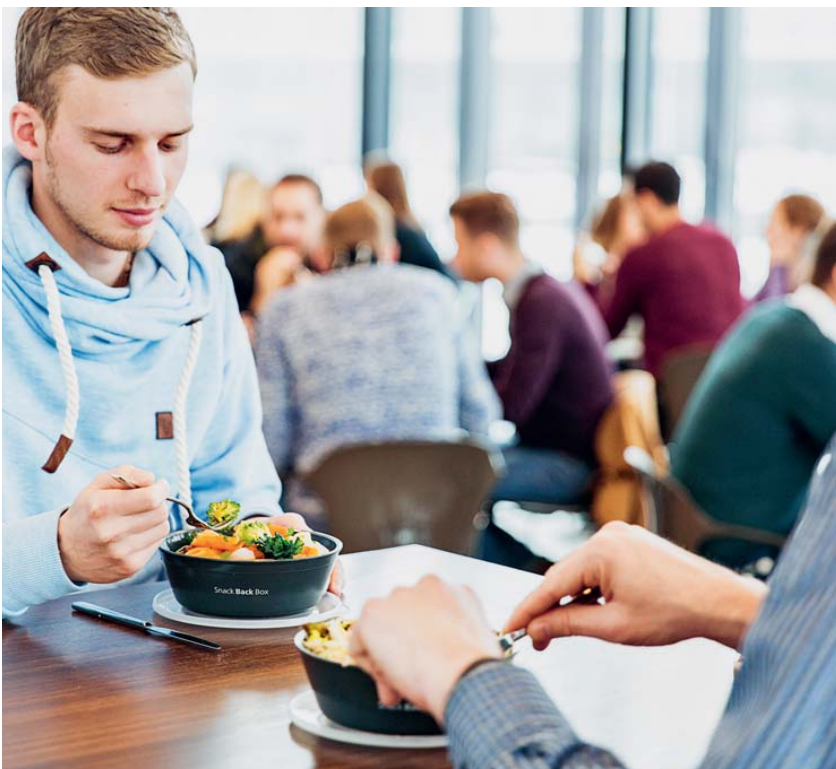
and the building structure (floors, walls, windows). This ensures that heating, cooling and ventilation are kept to the minimum necessary for the required indoor climate. MeteoViva Climate controls energy consumption gently with less output over a longer time interval, reducing the peak load of the power generators. The result: energy and cost savings with improved room comfort.

The innovative building technology came on stream in spring 2016. The system learns continuously and will become even more effective in the coming year. Comparative figures will therefore not be available until 2017. PostFinance is also planning to use MeteoViva Climate in other buildings.

 Reusable crockery

Sustainable catering

A good idea, quickly and easily implemented: at an internal event, three employees decided that they no longer wanted to be served their soup and salads in disposable tableware in the cafeteria. Working together with the staff at the cafeteria and Swiss Post's real estate specialists, they looked into materials and logistics, and the "Snack Back Box" was created within just a few weeks. It is extremely popular with the staff at headquarters, and saves 50,000 items of disposable tableware and their disposal per year.



School materials for promotion of financial literacy

MoneyFit: using games to teach money management skills

With MoneyFit, PostFinance strengthens the financial literacy of children and young people. To date, around 85,000 students have improved their knowledge of money-related topics while having fun.

“Your money under control” – the motto behind PostFinance’s MoneyFit services. MoneyFit draws on a wide range of learning methods and digital media. The service consists of the online platform moneyfit.postfinance.ch and printed teaching materials for middle school and secondary levels I and II. Children and adolescents use age-appropriate activities to learn about money and how to earn, manage and spend it responsibly on their own. By the end of 2016, 84,999 pupils and 4,722 school classes had worked with the attractive teaching materials, which are also widely accepted by teachers.

Suitable offers for all ages

Children as young as middle school pupils can use MoneyFit to learn the fundamentals of dealing with money. They complete a range of different modules that expand their knowledge step by step, allowing them to plan and budget an outing or graduation party and, with a little luck, get a contribution from PostFinance for their planned event. At secondary

level, skills are taught in greater depth and examined in a talent game in which young people have to make selective use of resources such as time, money and energy. Young adults at secondary schools can check their fitness in financial matters with a fun test on topics such as wages and salaries, insurance, online retailing, purchasing and financing. Attractive prizes are given away to winning participants twice a year.

Well-grounded learning content, experience-oriented teaching

Since 2001, PostFinance has been committed to strengthening young people’s financial literacy with a range of free services. All teaching materials for schools are developed by independent authors and are completely free of product advertising.

4,722

school classes now have a better idea of what money is and how to earn, manage and spend it.



My students were enthusiastic about it and learned a lot in class from MoneyFit about how to manage money.

Jessica Felber
Economics and law teacher
Willisau cantonal school



Ice hockey sponsorship

Awakening joy and promoting talent

In Swiss ice hockey, PostFinance supports players at the top of their game, but above all up-and-coming youngsters: to ensure that children discover the joys of the sport as early as possible – and the game finds new talent.

In the 2015/2016 season, talented young ice hockey players again simmered with excitement at the final of the PostFinance Trophy, with 2,400 students having taken part in 21 qualifying tournaments. Month by month, the final 16 teams from all parts of Switzerland had fought their way through local preliminary rounds. On the big day of reckoning in February 2016, they travelled to Langnau im Emmental in a specially organized Postbus. Shortly before their arrival, they were surprised by some prominent visitors: ice hockey pros such as Eric Blum or Marco Bühler came on board to give the juniors some personal coaching.

Broad commitment

While some students play ice hockey without professional ambitions, others dream of a professional career. And that's exactly what PostFinance wants to achieve with its sponsorship. "What this is about is inspiring young people with enthusiasm for ice hockey," says Thomas Zimmermann, Head of Brand Management & Sponsoring. "And the more children discover the joys of ice hockey, the bigger the chance of finding a champion."

It's already nine years since main sponsor PostFinance founded the biggest and most popular national ice hockey schools tournament – together with the Swiss Ice Hockey Federation, a partner with a long-standing and multi-faceted history of collaboration.



The promotion of young talent is at the center of our commitment.

Thomas Zimmermann
Head of Brand Management
& Sponsoring

Crowdfunding

PostFinance believes in recreational sport

The synchronized figure skaters from Huttwil want to finance the rental of ice rinks; four canoe polo athletes want to go to the World Cup; the young talent at Pentathlon Suisse, the modern pentathlon, need to get the money together to pay their coach. In 2016, all portrayed their objectives with commitment and funny videos on the crowdfunding platform "I believe in you" (ibelieveinyou.ch). With a great deal of success: they reached their financing targets within the defined period and received the funding raised. Here again, PostFinance Boost contributed to this success: as soon as 50 percent of the financing is in place, PostFinance, the main partner of the innovative sports promotion platform, supports the project with 10 percent of the target amount (up to a maximum of 200 francs). In 2016, this benefited 293 projects in 79 different sports.

Top Scorer: sustainable success

The PostFinance Top Scorer project is another hallmark of continuity, where the top scorers in the National League teams are awarded one point for each goal and the first and second assist. In the NLA, that is equivalent to 200 francs for the junior division, and 100 francs in the NLB. And at the end of the qualification, PostFinance doubles this total and invests the same amount in the Swiss Ice Hockey Federation's fund for the promotion of young talent. With its commitment to Top Scorer, PostFinance has invested around 4.8 million francs in junior Swiss ice hockey since 2002.

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.

Board of Directors

Composition

The Board of Directors has seven members, with a majority of seats representing Swiss Post Ltd. Three of its members 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 (2007–2012), Chairman of the Board of Directors (2012–2014); Zurich Insurance Group, Member (2002–2014); Syngenta Ltd, Member (2000–2012); Bär & Karrer, Board of Directors and Executive Board (1999–2008); Cablecom Holding AG, Chairman of the Board of Directors (2003–2008); Forbo Holding Ltd, Vice-Chairman (1999–2005); Feldschlösschen Beverages Ltd, Member (2001–2004); Centerpulse, Vice-Chairman (2002–2003)

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 Member 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); Piguët 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; 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 Management Ltd (Member of the Board of Directors); Swiss Post pension fund (Member of the Foundation Board)



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

Key posts: Post CH Ltd (Chair of the Board of Directors); Post Real Estate Ltd (Chair of the Board of Directors); PostBus Management Ltd (Chair of the Board of Directors); International Post Corporation (IPC) (Member of the Board)



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/IIIC ("compenswiss") (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)

Changes in the year under review

Alex Glanzmann was voted in as a new member of the Board of Directors during an Extraordinary General Meeting held on 18 August 2016. He replaces the previous member, Thomas Egger, who was appointed Head of Finance in the PostLogistics Group unit and, for this reason, stood down from the Board of Directors in mid-August.

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 objectives, and the means required to achieve those objectives. It also ensures that the company meets the obligations assigned to it by Swiss Post Ltd to provide a universal service with services for payment transactions.

Meetings and attendance rates

2016	Number	Attendance rate %
Board of Directors' Meetings	10	94.3
Board of Directors' Committee Meetings		
Organization, Nomination & Remuneration	8	100
Audit & Compliance	8	92.3
Risk	7	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

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' CBT Committee

For the duration of the Core Banking Transformation (CBT) 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 CBT 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 eight 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: TWINT Ltd (Member of the Board of Directors); Swiss Post pension fund (Member of the Foundation Board and Chairman of the Investment Committee)



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 Information Technology, 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 Corporate Center, 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), PricewaterhouseCoopers (Assistant Manager), Zurich Financial Services (Cash Manager)

Key posts: esisuisse (Board member); Finform Ltd (Member of the Board of Directors)



Peter Lacher

Head of Operations, member since 2013, Switzerland, 1968, business school graduate, Master of Advanced Studies in Bank Management at Lucerne University of Applied Sciences and Arts

Professional background: PostFinance Ltd (Programmer/Analyst, Production Controller, Project Manager of the Futuro programme, Finance unit, Head of Process Management Processing)

Key posts: Finform Ltd (Chairman of the Board of Directors); TeCo ep2 (Chairman); CAS Banking Operations (Member of the Specialist Advisory Board); Swiss Post Personnel Fund (Member of the Foundation Board)



Sylvie Meyer

Head of Distribution, member since 2013, 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: PostFinance conciliation office (Member of the Foundation Board)



Valérie Schelker

Head of Working Environment, member since 2014, Switzerland, 1972, lic. rer. pol. University of Bern, CAS "Certified Strategy Professional" at University of St. Gallen

Professional background: PostFinance Ltd (Head of Market Research, Head of HR Strategy & Development)

Key posts: Pensimo Management AG (Member of the Board of Directors)

Changes in the year under review

Armin Brun left PostFinance Ltd at the end of November 2016 and was replaced on an interim basis by Nicole Walker as Head of Marketing on 1 December 2016.

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. 10 meetings were held in 2016.

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 defense" 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

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. Remuneration of the Board of Directors is determined by the General Meeting.

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

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 (2016: 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.

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

Consideration of risk

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.

2016 remuneration

Human resources

PostFinance Ltd paid a total of 381 million francs in salaries to its staff in 2016. This sum consists of fixed salaries of 363 million francs and variable components of 18 million francs for 2015, which were paid in 2016. Remuneration of 23.9 million francs for 2016 will not be paid until subsequent years.

In 2016 PostFinance recognized payments in profit or loss of 18 million francs for previous financial years.

PostFinance employed 4,053 staff at the end of 2016. This corresponds to 3,557 full-time equivalents.

Board of Directors

The members of the Board of Directors (including the Chairman) received remuneration of 771,970 francs (fees and fringe benefits). The fringe benefits amounted to 211,970 francs. The Chairman of the Board's fee totalled 200,000 francs, and fringe benefits amounted to 25,970 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 3,708,660 francs (base salaries, fringe benefits, variable remuneration and one-off payments). The fringe benefits amounted to 192,664 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 2017, which is based on attainment of targets in 2015 and 2016, and, for several Executive Board members on the first payment from the account for variable remuneration, amounts to 832,587 francs.

From 1 April 2016, the base salary of the CEO stood at 550,000 francs, and the variable remuneration amounted to 225,729 francs, of which 65,216 francs were paid from the account for variable remuneration.

PostFinance Ltd | Remuneration

CHF	2015	2016
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	5,970
Total remuneration	225,970	225,970
Other members of the Board of Directors (6)¹		
Fees	355,000	360,000
Fringe benefits		
Expenses and representation allowances	39,300	38,200
Additional fringe benefits	138,800	147,800
Total remuneration	533,100	546,000
Entire Board of Directors (7)¹		
Fees	555,000	560,000
Fringe benefits	204,070	211,970
Total remuneration	759,070	771,970
Chief Executive Officer		
Fixed base salary	478,000	532,000
Variable remuneration (payable the following year)		
Variable salary component	138,552	160,513
Outpayment from account for variable remuneration ²	57,696	65,216
Fringe benefits		
Expenses and representation allowances	19,200	19,200
Additional fringe benefits ³	33,337	33,056
Total remuneration	726,785	809,985
Other members of the Executive Board (7)		
Fixed base salary	1,845,500	1,927,062
Variable remuneration (payable the following year)		
Variable salary component	412,011	606,858
Outpayment from account for variable remuneration ⁴	120,185	207,765
Fringe benefits		
Expenses and representation allowances	105,000	105,000
Additional fringe benefits ³	74,833	45,990
Additional payments ⁵	0	6,000
Total remuneration	2,557,529	2,898,675
All members of the Executive Board (8)		
Fixed base salary and variable remuneration	3,051,944	3,499,414
Fringe benefits	232,370	209,246
Total remuneration	3,284,314	3,708,660

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 2016, 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 For the financial year 2016, the seven other members of the Executive Board receive an outpayment from their accounts for variable remuneration.

⁵ Loyalty bonus for Peter Lacher as per Swiss Post Ltd regulations on employment conditions for top management (25 years of service).

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. 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. In the year under review PostFinance Ltd paid KPMG a total of 1,611,900 francs in auditing and consultancy fees.

Information policy

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

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 media and makes an active contribution to shaping dialogue on Facebook, Twitter, LinkedIn, Xing and YouTube.

Management report

PostFinance is one of Switzerland's leading financial institutions and, as the number one for payment transactions, ensures a seamless daily flow of liquidity. The billion mark was exceeded once again, with 1,044 million payment transactions processed.

Almost 3 million customers put their trust in PostFinance.

PostFinance employed 4,100 staff in 2016. This corresponds to 3,599 full-time equivalents.

PostFinance ended the financial year with total assets of 120 billion francs, recorded an operating profit (EBIT) of 575 million francs and generated earnings before tax (EBT) of 542 million francs.

Customer deposits were up by around 4.5 billion francs.

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 financial institutions. We are the ideal partner for all customers who want to manage their own finances. 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 2.7 million private customers and 301,000 business customers put their trust in PostFinance. Our range of services is straightforward and user-friendly, enabling our customers to manage their own finances at all times. We are there for them whenever they need advice: in our branches and post offices, 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 been a private limited company since 2013.

Since 2013, PostFinance has been 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. In the summer of 2015, the Swiss National Bank (SNB) declared PostFinance to be a systemically important bank. In this regard, FINMA sets out specific requirements to be met by PostFinance.

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. Solutions that offer security and comfort are required.

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 are attempting to gain a foothold in payment transactions and retail banking.

Economy

After displaying positive development over several quarters, Switzerland's GDP nearly stagnated in the third quarter of 2016. However, preliminary indicators now point to a renewed pick-up in growth, and the global economy is expected to continue generating momentum. The Confederation's Expert Group therefore maintains its previous assessment and anticipates GDP growth of 1.5 percent for 2016. Overall, economic indicators point to a continuation of the moderate economic recovery in Switzerland.

In accordance with its monetary policy assessment of December 2016, the SNB is leaving its expansive monetary policy unchanged. Interest on sight deposits at the National Bank remains at -0.75 percent, and the target range for the three-month Libor is unchanged at between -1.25 and -0.25 percent.

Regulation

Regulatory requirements are increasing within banking. 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.

PostFinance makes handling money as easy as possible.

Strategy

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 private and business customers who manage their own finances, anytime and anywhere. We provide solutions that make it easier for them to manage their financial affairs and offer added value. For our individual 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 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 2016, PostFinance generated earnings before tax (EBT) as per Group IFRS guidelines of 542 million francs. This represents a decline of 33 million francs or 5.7 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 interest operations. Unlike in the previous year, portfolio reversals of impairment on financial investments fell and the impairment charges needed on individual items rose, also impacting the result. A rise in long-term expenses for strategic projects and property maintenance led to an increase in operating costs. The decline in profit was nevertheless moderate, due primarily to one-off income from the sale of a participation and a block of shares. PostFinance is legally prohibited from accessing the credit and mortgage markets. Due to a lack of investment alternatives in the current negative interest rate environment, we have continued to park a large share of our customer deposits at the SNB.

PostFinance Ltd | Key figures

2016 with previous year for comparison

		2015	2016
Balance sheet			
Total assets as per IFRS	CHF million	114,468	119,503
Capital ratio as per guidelines for systemically important banks	%	19.5	17.1
ARB leverage ratio	%	4.6	4.5
Income statement (as per Group IFRS guidelines)			
Operating income	CHF million	1,633	1,675
Operating profit (EBIT)	CHF million	577	575
Earnings before tax (EBT)	CHF million	575	542
Return on equity ¹	%	10.7	9.7
Cost-income ratio	%	64.7	65.6
Customer assets and loans			
Customer assets ⁴	CHF million monthly avg.	114,866	119,436
Funds, securities and life insurance ²	CHF million monthly avg.	7,772	8,246
Customer deposits	CHF million monthly avg.	107,094	111,190
Development of customer deposits	CHF million	-2,766	4,479
Managed assets as per provisions of Circ. 2015/1 ⁴	CHF million	40,889	45,845
Inflow of new money as managed assets ³	CHF million	-	197
Loans to business customers (taken up)	CHF million	9,063	9,894
Mortgages ²	CHF million	5,089	5,361
Market and employee key figures			
Customers	In thousands	2,951	2,952
Private customers	In thousands	2,645	2,651
Business customers (incl. banks and agencies)	In thousands	306	301
E-finance users	In thousands	1,683	1,743
Accounts – private customers	In thousands	4,432	4,449
Accounts – business customers	In thousands	403	396
Customer satisfaction – private customers	Index	80	80
Customer satisfaction – business customers	Index	79	78
Average headcount	Full-time equivalents	3,571	3,599
Employee satisfaction	Index	78	79
Transactions			
Transactions	In millions	1,020	1,044

¹ Return on equity = earnings before tax (EBT) as per Group IFRS guidelines/average eligible equity capital as per ARB.

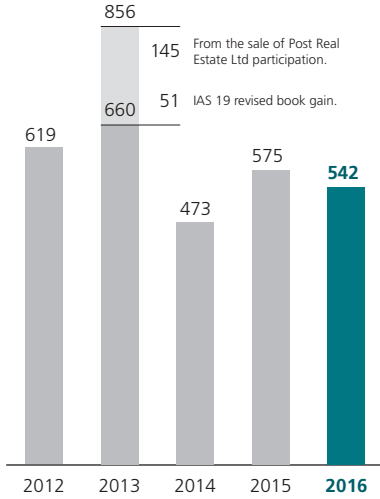
² Commission business in cooperation with financial partners.

³ The figure for 2015 has not yet been reported.

⁴ 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.

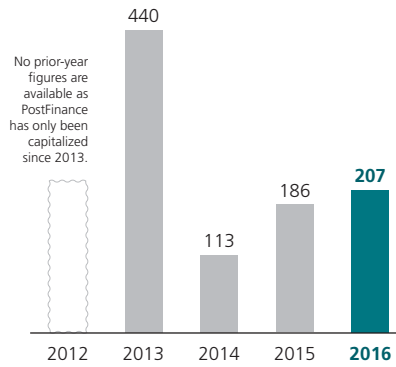
Earnings before tax (EBT)

2012 to 2016
CHF million



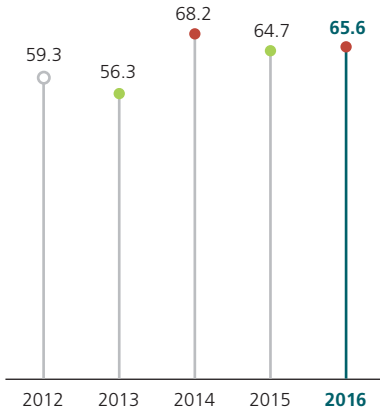
Economic value added

2012 to 2016
CHF million



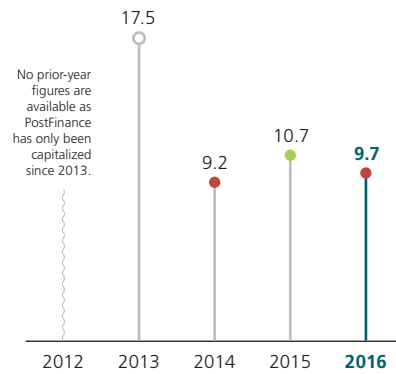
Cost-income ratio

2012 to 2016
Percent



Return on equity ¹

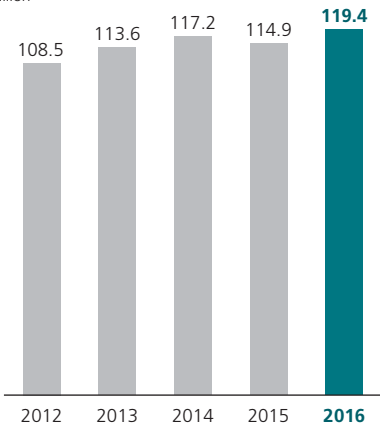
2012 to 2016
Percent



¹ Return-on-equity = earnings before tax (EBT) as per Group IFRS guidelines/ average eligible equity capital as per ARB.

Average customer assets

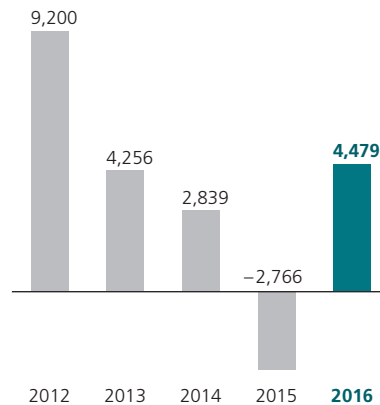
2012 to 2016¹
CHF billion



¹ New definition from 2013 on the basis of calculation with average monthly figures. 2012 restatement.

Development of customer deposits

2012 to 2016¹
CHF million



¹ New definition from 2013 on the basis of calculation with average monthly figures. 2012 restatement.

General developments

In the past few months, the monetary environment has been marked both by political events and by economic developments. Since the presidential election in the US, long-term interest rates have increased across the globe, the US dollar has risen in value and the stock markets in the US have reached new record highs. The economic policy measures anticipated from the new US government are likely to boost prices, and expectations in terms of inflation have risen as a result. The prospect of a diverging monetary policy between the major currency areas has also played a key role in the most recent movements on the financial markets. Against the backdrop of rising inflation combined with positive economic and employment trends, the US Federal Reserve announced an increase in the base rate in December 2016.

Provided that no major economic surprises occur, the SECO forecasts a further increase in the base rate in the US, while the expansive policy is expected to be maintained in Europe and Japan. Until such time as the ECB initiates a normalization of monetary policy, the expansive policy is likely to continue unabated in Switzerland as well.

The Governing Council of the European Central Bank (ECB) kept the base rate at a record low of 0 percent in January, in line with expectations. Banks which park excess cash at the ECB must continue to pay penalty interest of 0.4 percent. The ECB has extended its bond purchase programme at least until the end of 2017. From April, the monthly volumes will however be reduced from 80 to 60 billion euros. According to the ECB, deflationary risks have largely been averted. As far as inflation is concerned, the ECB is aiming for a rate of just under 2.0 percent for the single currency area in the medium term. This objective requires an ongoing expansive monetary policy.

In accordance with its monetary policy assessment of December 2016, the SNB is leaving its expansive monetary policy unchanged. Interest on sight deposits at the National Bank remains at -0.75 percent, and the target range for the three-month Libor is unchanged at between -1.25 and -0.25 percent.

The National Bank also continues to play an active role on the currency market where necessary, taking the overall currency situation into account. The expansive monetary policy implemented by the National Bank aims to stabilize price trends and support economic activity. Negative interest rates and the willingness of the National Bank to intervene in the currency market make investments in Swiss francs less attractive, thereby reducing pressure on the franc. The franc nevertheless remains considerably overvalued.

The SNB's conditional inflation forecast for 2016 is -0.4 percent. For 2017, it has predicted inflation of 0.1 percent. The National Bank anticipates inflation of 0.5 percent for 2018. The conditional inflation forecast is based on the assumption that the three-month Libor will remain at -0.75 percent during the forecast period.

Assets and financial situation

In the year under review, total assets rose by 5.0 billion francs. Customer deposits were up by around 4.5 billion francs, with most of the growth attributable to private customer sight deposits. Fees on credit balances over a certain exemption limit had to be maintained for selected business customers due to the negative interest rates on sight deposit balances at the SNB. The growth registered for business customers was therefore more moderate than that seen in the private customer segment.

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 Swiss National Bank (SNB) as at 31 December 2016.

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 2016, the real estate portfolio of 21 properties had a market value of 1.1 billion francs. PostFinance invested around 76 million francs in developing and preserving the value of its own portfolio in 2016.

The ground-breaking ceremony for the construction and renovation of the main post office in Frauenfeld took place at the beginning of March 2016. A special type of residential and office building is being created in the heart of Frauenfeld: a new five-storey building will be added on to the historic post office building dating back to 1898 which is being completely renovated as part of the same construction project.

The PostParc, the new, lively center at the western end of Berne station, was inaugurated and put into operation on 23 June 2016. The rental properties achieved a high absorption rate on the market.

On 1 September 2016, PostFinance exercised its purchase right for the property at Funkenstrasse 10 in Zofingen, where it operates one of two identical data centers to provide disaster-tolerant IT services.

Balance sheet

PostFinance Ltd | Balance sheet as per Group IFRS guidelines

CHF million	31.12.2015	31.12.2016
Assets		
Cash and cash equivalents	1,373	1,845
Amounts due from banks	38,035	35,936
Interest-bearing amounts due from customers	563	405
Trade accounts receivable	25	21
Other receivables	795	774
Inventories	3	4
Financial investments	72,385	79,166
Participations	40	56
Tangible fixed assets	484	486
Investment property	217	236
Intangible assets	96	167
Deferred tax assets	452	407
Total assets	114,468	119,503
Liabilities		
Customer deposits	108,165	111,299
Other financial liabilities	376	1,839
Trade accounts payable	100	83
Other liabilities	128	144
Income tax liabilities	6	0
Provisions	413	396
Deferred tax liabilities	47	82
Equity	4,803	5,242
Profit for the year	430	418
Total liabilities	114,468	119,503

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

Profit situation

Restatement of operating income from 2015

PostFinance changed the recognition method for credit cards in the area of processing and service delivery in the second quarter of 2016. Commission income from the credit card business is now split into three components: commission, foreign exchange and interest income. The aim of this change is to take the ordinary course of business into account more closely in disclosures. The prior-year figures were restated accordingly.

Operating 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 net interest income. PostFinance recognized portfolio reversals of impairment on financial investments once again in the 2016 financial year, albeit to a lesser extent than in the previous year (–18 million francs). In addition, higher impairment charges were needed on individual items (+11 million francs). Net interest income, net of impairment, was therefore 77 million francs (–7.5 percent) down on the previous year. Income from services rose year-on-year thanks to higher sales volumes, more intensive use of products and adjustments to fees (+44 million francs).

After a prior year marked by the lifting of the euro minimum exchange rate, PostFinance once again registered high customer trading volumes and international payment transactions. These high volumes are principally due to the Brexit referendum in the United Kingdom.

Net income from financial investments was up 73 million francs year-on-year due to one-off profit from the targeted sale of a participation and an equity portfolio.

Other income was 6 million francs (+3 percent) up on the previous year as a result of higher rental interest income.

Operating expenses

Personnel expenses rose by 22 million francs year-on-year due to higher premium expenses and the increase in headcount – growth in personnel in connection with strategic projects to upgrade the core banking systems. Two one-off IAS19 book gains with a net value of 4 million francs were also recognized in personnel expenses in 2015. Pension expenses included a book loss of 5 million francs arising from the adjustment of the technical interest rate at the Swiss Post pension fund. This was offset by a book gain of 9 million francs due to lower obligations in relation to wages and salaries.

General and administrative expenses (+ 3 million francs) were affected by higher property maintenance expenses.

Earnings before tax (EBT)

PostFinance recorded earnings before tax of 542 million francs (–33 million francs year-on-year). The fact that the decline in profit was only moderate despite extremely difficult conditions on the financial markets is primarily due to non-recurring revenue from the sale of equity holdings and a participation. The operating result was therefore down significantly year-on-year.

Economic value added of 207 million francs was generated in 2016 (+ 21 million francs year-on-year). At 9.7 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 up 25 million francs year-on-year due to the higher statutory result in 2016 (result in accordance with the Accounting rules for banks (ARB)). Expenses for deferred taxes decreased by 46 million francs year-on-year. Deferred tax assets had been reduced in the previous year following a reassessment of the relevant tax rate resulting in higher deferred tax expenses.

Profit for the year

PostFinance achieved profit for the year of 418 million francs, down only slightly 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 and takes the adjustment of one-off items into account in the previous year (normalized result). 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	2015	2016
Segment operating profit (EBIT) prior to fees and net cost compensation, normalized	459	542
Expenses from management fees, licence fees and excess costs, as well as income from net cost compensation	99	14
Normalization (profit adjusted for one-off items) ¹	4	–
Segment operating profit (EBIT) after fees and net cost compensation	562	556
Financial expenses – PostFinance Ltd	–3	–4
Investment income from subsidiaries and associates	1	1
Operating profit from subsidiaries	15	19
Loss from the sale of subsidiaries	–	–30
Earnings before tax (EBT)	575	542
Expenses for current taxes	–53	–78
Expenses for deferred taxes	–92	–46
Profit for the year	430	418

¹ 2015: Net change in book value of 4 million francs resulting from adjustment in actuarial interest rate at the Swiss Post pension fund and from provisions for wages and salaries.

Income statement

PostFinance Ltd | Income statement as per Group IFRS guidelines

CHF million	2015	2016
Net interest income, net of impairment	1,028	951
Net income from services	123	167
Net commission income	58	54
Net trading income	200	200
Net income from financial assets	26	99
Other net income	198	204
Operating income	1,633	1,675
Personnel expenses	-485	-507
General and administrative expenses	-524	-527
Operating expenses	-1,009	-1,034
Gross profit (EBDIT)	624	641
Depreciation of fixed assets	-47	-66
Operating profit (EBIT)	577	575
Net financial income	-2	-33
Earnings before tax (EBT)	575	542
Expenses for current taxes	-53	-78
Expenses for deferred taxes	-92	-46
Income taxes	-145	-124
Profit for the year	430	418

Non-financial results of a material nature

Customer satisfaction

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

On a scale of 0 to 100, customer satisfaction reached 80 points among private customers, and 78 points among business customers. Customer satisfaction among both private and business customers was therefore more or less on a par with the previous year. 95 percent of private customers, and 93 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 89 percent of PostFinance staff responding. The figures are the same or better than in the previous year across all areas, and paint a positive picture overall. The top score for commitment and good marks for employees' satisfaction with their work situation are very encouraging, and show that PostFinance is on the right track.

Commitment (identification, fluctuation and motivation) represents the central element of the survey and, at 88 points, surpasses last year's record by one point. Positive changes in all three categories are the main factors behind this improvement. This shows that employees identify with the goals and the strategy and are fully committed to their work.

With 78 points, the work situation was also rated one point higher than the previous year. Workload remained on a solid level, with 76 points, and the score given to work content improved by a further point (new score: 82 points). Both topics have a considerable impact on commitment. The score awarded to unit fitness, which includes strategic topics, was a significant one point higher (74 points) than the previous year. Staff satisfaction levels are reflected in the score given to employee satisfaction. This aspect was rated one point higher than the previous year and now stands at 79 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

PostFinance received 600 million francs of deposits from business customers, and a further build-up of excess liquidity was countered by the extension of fees on customer credit balances exceeding a certain threshold.

PostFinance recorded an inflow of 3.9 billion francs of private customer assets in the past year – despite a drop in interest rates on savings products in August. The decision was made not to pass negative interest rates on to private customers in 2016. Further adjustments were made to customer interest rates in the fourth quarter – particularly in the savings and retirement planning segments, although the changes will not take effect until 2017. In addition, a fee on the credit balance of private customers with assets exceeding one million francs will be introduced from 1 February 2017. The aim of both measures is to reduce excess liquidity.

The billion mark was exceeded once again, with 1,044 million payment transactions processed. Overall, our customers carried out transactions representing a total volume of some 1,800 billion francs. These figures illustrate the major importance of PostFinance in the Swiss financial services market.

Although inpayments in post offices are declining further as electronic processing in e-finance gains ground, trading activities (EFT/POS) and international payment transactions are continuing to rise. In the commission business, sales volumes for credit cards, funds, e-trading, life insurance and mortgages saw further growth. PostFinance offers these products in cooperation with partners.

Innovation and projects

PostFinance has recognized the opportunities arising from the current changes in the banking sector, and strengthened its innovation management as a result. Innovation activities focus on new banking, disruptive payment solutions, self-organizing networks and growth in neighbouring sectors. In addition to its proven and established innovation process, in 2016 PostFinance created the PostFinance Lab (PF Lab), where new projects can be developed quickly and easily. Spaces have been set aside for employees to develop and push ahead with their projects. Over 1,200 people have visited the PF Lab, and added value has been created for more than 24 projects. At the same time, PostFinance has set up a corporate venture capital team which takes advantage of targeted investment opportunities in young, innovative or highly specialized growth companies whose operations are relevant to PostFinance's core business. Thanks to corporate venture capital, PostFinance identifies promising products, technologies and business models early on, and offers start-ups the option of a financial participation.

One-off events in 2016

New e-trading service

PostFinance introduced its new e-trading platform in cooperation with Swissquote in October 2015. PostFinance acts as a client dealer and custodian bank. As well as taking on the role of global broker and central custodian, Swissquote provides services that include operation and maintenance of the e-platform. The project reached another milestone in mid-May 2016. In addition to all the customer data, more than 60,000 custody accounts, over 200,000 accounts and around 180,000 securities positions were migrated smoothly from our previous partner, Banque Cantonale Vaudoise BCV, to PostFinance / our outsourcing partner Swissquote.

Corporate venturing

Because of the lending prohibition, PostFinance is not allowed to issue its own loans and mortgages. In the current market environment with low and in some cases negative interest rates, this is a major competitive disadvantage. To guarantee PostFinance's long-term profitability, it is therefore essential for us to diversify our income structure and to tap into new sources of income that do not depend on interest rate levels. We see potential in investment business and also in the medium term in corporate venturing, by which we mean equity investment in start-up companies.

Membership of the Swiss Bankers Association

In May, we became a member of the Swiss Bankers Association (SBA). We are convinced that, in an extremely challenging economic, political and regulatory environment, joint representation of interests for Swiss banks is in the best interests of the entire Swiss financial center. By joining the SBA, we are now also affiliated with the Swiss Banking Ombudsman institution.

Outlook

The Swiss National Bank (SNB) expects the moderate pace of global growth to continue in 2017. The baseline scenario for the world economy is still subject to considerable risks, however. Structural problems in a number of advanced economies could negatively affect the outlook. Added to this are a multitude of political uncertainties which are particularly associated with the future course of economic policy in the US, upcoming elections in several countries in the euro area as well as the complex and arduous exit negotiations between the UK and the EU.

Modest acceleration of GDP growth is expected for 2017 and 2018, driven by both domestic demand and foreign trade. Overall, economic indicators point to a continuation of the moderate economic recovery in Switzerland.

In the past few months, the monetary environment has been marked both by political events and by economic developments. Since the presidential election in the US, long-term interest rates have increased across the globe. The economic policy measures anticipated from the new US government are likely to boost prices, and expectations in terms of inflation have risen as a result.

Provided that no major economic surprises occur, the SECO forecasts a further increase in the base rate in the US, while the expansive policy is expected to be maintained in Europe and Japan. Until such time as the ECB initiates a normalization of monetary policy, the expansive policy is likely to continue unabated in Switzerland as well. In accordance with its monetary policy assessment of December 2016, the SNB is leaving its expansive monetary policy unchanged. Interest on sight deposits at the National Bank remains at -0.75 percent, and the target range for the three-month Libor is unchanged at between -1.25 and -0.25 percent.

The SNB's conditional inflation forecast for 2016 is -0.4 percent. Inflation of 0.1 percent is forecast for 2017. The National Bank anticipates inflation of 0.5 percent for 2018. 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 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 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 in the future as we pave the way to becoming a "digital powerhouse": We position ourselves as a retail bank and offer our customers a straightforward range of services in the digital world.

We focus on the retail and corporate markets. In the retail market, we manage independent private and corporate customers, offering them modular and above all digital standard products in the areas of payments, savings and financing. 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.

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		31.12.2015	31.12.2016
Total assets	as per Group IFRS guidelines	114,468	119,503
Assets			
Amounts due from customers	Value adjustment for loans – Debtors Service Ltd	–3	–
Financial investments	Revaluation of financial investments held to maturity	69	25
	Principle of the lower of cost or market value for shares as per ARB	–91	–82
	OCI ¹ bonds/shares/funds in financial investments	–139	–327
Participations	Amortization of Debtors Service Ltd participation in ARB financial statements	–1	–
	Amortization of equity securities	–2	–3
Tangible fixed assets	Revaluation of real estate	378	370
Other assets	Goodwill adjustment in ARB less amortization	1,400	1,200
	Deferred tax assets (assets)	–452	–407
	Compensation account (assets)	2	56
	Hedge fair value compensation account	–	44
Items in other amounts due to customers	PostFinance's own postal accounts (Finance/Real Estate)	–3	0
Items in other liabilities	Hedge fair value interest rate swaps	63	–
Difference in assets	ARB – Group IFRS guidelines	1,221	876
Liabilities			
Other amounts due to customers	PostFinance's own postal accounts (Finance/Real Estate)	–3	0
Other liabilities	Compensation account (liabilities)	5	56
	Employee benefit obligations	–179	–247
	Deferred tax liabilities (liabilities)	–63	–18
	OCI ¹ equity interest transfer	9	47
	Hedge fair value interest swaps	63	–
Statutory capital reserve	Capital reserves (from revaluations)	1,655	1,446
	Retained earnings reserve under IFRS	188	188
Profit for the year	Difference in profit as per Group IFRS guidelines – ARB	–209	–107
Items in financial investments	OCI ¹ bonds/shares/funds in financial investments	–139	–327
	Hedge fair value compensation account	–	44
OCI ¹ as per Group IFRS guidelines only	OCI ¹ from shares and participations	–106	–206
Difference in liabilities	ARB – Group IFRS guidelines	1,221	876
Total assets	as per ARB	115,689	120,379

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		2015	2016
Profit for the year (as per Group IFRS guidelines)		430	418
Interest and dividend income from financial investments	Amortization of revalued held-to-maturity financial investments	-65	-44
Various items of net income	Valuation differences for financial investments as per ARB	-28	78
Changes in value adjustments for default risks and losses from interest operations	Reversal of impairment on/impairment of loans	-3	3
Result from the disposal of financial investments	Realized gains from (earlier than scheduled) sales	-9	-5
Personnel expenses	Valuation differences between IAS 19 and Swiss GAAP ARR 16	16	22
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets	Revalued real estate	-2	-4
	Individual impairment charge due to lower fair value	-2	-4
	Goodwill	-200	-200
Various income statement items	Valuation differences for participations as per ARB	-6	0
Extraordinary income / extraordinary expenses	Realized gains from participations	-	1
Taxes	Deferred tax income as per Group IFRS guidelines	90	46
Profit for the year as per ARB		221	311

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 311 million francs. Total assets rose to 120 billion francs in 2016. With a capital ratio of 17.13 percent, PostFinance exceeds the minimum capital requirements of Basel III.

Balance sheet

PostFinance Ltd | Balance sheet as per ARB

CHF million	Notes	31.12.2015	31.12.2016
Assets			
Liquid assets		38,882	37,453
Amounts due from banks		4,471	4,397
Amounts due from securities financing transactions	5	311	84
Amounts due from customers	6	10,993	13,169
Mortgage loans	6	0	0
Trading portfolio assets		–	–
Positive replacement values of derivative financial instruments	7	61	65
Other financial instruments at fair value		–	–
Financial investments	8	57,395	61,742
Accrued income and prepaid expenses		653	598
Participations	9, 10	59	101
Tangible fixed assets	11	1,175	1,259
Intangible assets	12	1,400	1,200
Other assets	13	289	311
Total assets		115,689	120,379
Total subordinated claims		–	1
of which subject to mandatory conversion and/or debt waiver		–	–
Liabilities			
Amounts due to banks		1,220	2,406
Liabilities from securities financing transactions	5	108	723
Amounts due in respect of customer deposits		106,966	109,709
Trading portfolio liabilities		–	–
Negative replacement values of derivative financial instruments	7	210	268
Liabilities from other financial instruments at fair value		–	–
Cash bonds		134	114
Bond issues and central mortgage institution loans		–	–
Accrued expenses and deferred income		118	138
Other liabilities	13	17	8
Provisions	16	13	20
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		221	311
Total liabilities		115,689	120,379
Total subordinated liabilities		–	–
of which subject to mandatory conversion and/or debt waiver		–	–

PostFinance Ltd | Off-balance sheet transactions

CHF million	31.12.2015	31.12.2016
Contingent liabilities	1	0
Irrevocable commitments	676	709
Obligations to pay up shares and make further contributions	–	–
Credit commitments	–	–

Income statement

PostFinance Ltd | Income statement as per ARB

CHF million	Notes	2015	2016
Interest and discount income		196	175
Interest and dividend income from trading portfolios		–	–
Interest and dividend income from financial investments		852	790
Interest expense		–95	–44
Gross result from interest operations		953	921
Changes in value adjustments for default risks and losses from interest operations		13	21
Net result from interest operations		966	942
Commission income from securities trading and investment activities		42	40
Commission income from lending activities		14	16
Commission income from other services		639	633
Commission expense		–497	–462
Result from commission business and services		198	227
Result from trading activities and the fair value option	27	188	211
Result from the disposal of financial investments		34	28
Income from participations		1	2
Result from real estate		56	68
Other ordinary income		142	158
Other ordinary expenses		–50	–
Other result from ordinary activities		183	256
Operating income		1,535	1,636
Personnel expenses	29	–473	–488
General and administrative expenses	30	–518	–516
Operating expenses		–991	–1,004
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets		–258	–275
Changes to provisions and other value adjustments, and losses		–10	–8
Operating result		276	349
Extraordinary income	31	4	74
Extraordinary expenses	31	–	–29
Changes in reserves for general banking risks		–	–
Taxes	32	–59	–83
Profit		221	311

Appropriation of profit

PostFinance Ltd | Distributable profit

CHF million	31.12.2015	31.12.2016
Profit for the year	221	311
Profit carried forward	-	-
Total distributable profit	221	311

At the General Meeting on 7 April 2017, the Board of Directors of PostFinance will propose the following appropriation of profit (previous year: 8 April 2016):

PostFinance Ltd | Appropriation of profit

CHF million	31.12.2015	31.12.2016
Allocation to other reserves	-	-
Dividend distributions	221	311
Profit carried forward to new account	-	-
Total distributable profit	221	311

Cash flow statement

PostFinance Ltd | Cash flow statement as per ARB

CHF million	Cash inflow 2015	Cash outflow 2015	Cash inflow 2016	Cash outflow 2016
Cash flow from operating activities (internal financing)				
Profit for the year	221	–	311	–
Value adjustments on participations, depreciation and amortization of tangible fixed assets and intangible assets	257	–	275	–
Provisions and other value adjustments	1	–	7	–
Change in value adjustments for default risks and losses	–	13	–	5
Accrued income and prepaid expenses	29	–	54	–
Accrued expenses and deferred income	–	4	20	–
Other items	65	–	44	–
Previous year's dividend	–	192	–	221
Subtotal	364	–	485	–
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	–	15	–	43
Real estate	3	121	11	86
Other tangible fixed assets	–	82	–	83
Intangible assets	–	–	–	–
Subtotal	–	215	–	201
Cash flow from banking operations				
Amounts due to banks	–	1,568	1,186	–
Liabilities from securities financing transactions	108	–	615	–
Amounts due in respect of customer deposits	–	3,145	2,743	–
Cash bonds	–	22	–	19
Negative replacement values of derivative financial instruments	37	–	58	–
Other liabilities	–	16	–	10
Amounts due from banks	–	523	74	–
Amounts due from securities financing transactions	997	–	227	–
Amounts due from customers	–	289	–	2,183
Mortgage loans	0	–	0	–
Positive replacement values of derivative financial instruments	–	56	–	4
Financial investments	1,608	–	–	4,378
Other accounts receivable	–	144	–	22
Subtotal	–	3,013	–	1,713
Liquidity				
Liquid assets	2,864	–	1,429	–
Subtotal	2,864	–	1,429	–
Total	3,228	3,228	1,914	1,914

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 01.01.2016	2,000	4,682	–	–	221	–	6,903
Dividends	–	–	–	–	–221	–	–221
Profit	–	–	–	–	–	311	311
Equity as at 31.12.2016	2,000	4,682	0	0	0	311	6,993

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

	31.12.2015	31.12.2016
EUR	1.0810	1.0753
USD	0.9900	1.0227
GBP	1.4685	1.2554
JPY	0.0082	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 2016, 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 by applying hedge accounting.

PostFinance invests in foreign currency bonds in order to diversify its investment universe. In order to hedge the currency risks, foreign currency bonds refinanced in Swiss francs are transformed into synthetic Swiss franc bonds via currency swaps, and the foreign currency risks are fully mitigated.

Rolling foreign exchange forward contracts are used to hedge the foreign currency risks arising from equity mandates. Most foreign currency risks (> 80 percent) are mitigated as a result.

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. 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 2016 which would have to be disclosed in the financial statements and/or in the notes.

3 | Risk management

PostFinance operates an appropriate risk management system in accordance with banking regulation requirements. The specific business risks faced by PostFinance, namely interest rate, liquidity, credit and market risks, as well as strategic and operational risks, are managed using industry-standard tools and methods.

Organization

PostFinance's Board of Directors conducts an annual risk assessment. Supported by the Board of Directors' Audit & Compliance and Risk committees, it sets out the primary guidelines and basic principles on managing financial, strategic and operational risks, approves the risk policy, and sets conditions 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-bearing capacity of PostFinance and the risk appetite of the Board of Directors. 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 establishing limits in individual risk categories and by defining requirements for risk monitoring reports. The Executive Board is informed of the risk measurement results and the extent to which limits are used in weekly and monthly reports. This enables it to decide on the necessary control measures, if any. The Risk Management department at PostFinance provides support to the Executive Board and to the Asset & Liability Committee 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 Control department defines appropriate instruments to identify, measure, evaluate and control the risks entered into by PostFinance in the non-financial area. 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.

Financial risk measurement methods

The methods of measuring and monitoring risks are applied at the level of both the individual PostFinance portfolio and the overall PostFinance balance sheet. Risks are limited and monitored by means of a multi-level limit system.

A variety of methods of differing degrees of complexity are used to measure financial risks. The principal aim of risk measurement is to allow the supervisory bodies to control risks adequately at all times.

The methods applied at PostFinance to measure risks include measurement methods based on 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).

Financial risk management at PostFinance

The following financial risks are constantly taken, measured, controlled and monitored 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 Executive Board notifies the Treasury department of the maturities of money and capital market investments on the basis of the target present value sensitivity, and defines the maturity transformation strategy as a result. 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.

As at 31 December 2016, the absolute change in the present value of equity with a parallel shift in the yield curve of +100 basis points amounted to –158 million francs (previous year: –410 million francs with a shift in interest of –100 basis points). Unlike in the previous year, PostFinance currently uses a positive maturity transformation. The switch from a negative to a positive maturity transformation is principally due to the higher interest sensitivity on the asset side.

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 according to 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.

Credit risks

The term “credit risk” refers to the risk that a counterparty will no longer be able to fulfil its obligations, thereby causing the other party 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.

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.

The credit risks associated with the Treasury department’s investments in the money and capital markets are limited through investment regulations and prescribed limits. Limits apply at counterparty and rating structure level as well as for controlling country risks. Investments are only permitted if the debtor has a rating and its creditworthiness is classed as investment grade.

Specifications and investment restrictions are based on publicly accessible ratings by recognized rating agencies and qualified banks, and are constantly updated to reflect changes in a counterparty’s creditworthiness. Compliance with prescribed limits is monitored on an ongoing basis and is verified before the closing of each transaction.

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 2016, the Liquidity Coverage Ratio stood at 204 percent (previous year: 217 percent).

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.

Foreign currency risks

The term "foreign currency risk" refers to the risk that the value of a financial instrument may change as a result of fluctuations in exchange rates. Such risks arise at PostFinance as a result of international payment transactions, products in foreign currencies and foreign currency investments.

Currency swaps and interest rate swaps as well as foreign exchange forward contracts are used to hedge against the impact of changes in foreign currency market interest rates or exchange rate changes on the fair values and earnings of fixed-interest bonds.

Foreign currency risks are measured and limited in the overall balance sheet using the value-at-risk indicator. All asset and liability transactions with an effect on the currency balance are taken into account in the measurement. The historic simulation method is applied with a conservative confidence level of 99 percent and an assumed holding period of one day. Historic simulation takes into account changes in risk factors over the past 500 trading days.

As at 31 December 2016, value-at-risk arising from foreign currency risks stood at 1.4 million francs (previous year: 0.7 million francs).

Other market risks

PostFinance invests in shares and fund investments in its banking book in order to tap into additional sources of revenue. To measure the market risks arising from these transactions, the risk factors that have an impact on the present value of the relevant position are assigned to each position. These risk factors include interest, currency, credit spread and share price risks. Index proxies are also used to measure the credit risk of fund investments. To determine other market risks, changes in present value are modelled according to the change in the assigned risk factors before being measured and limited using the value-at-risk indicator. The historic simulation method is applied with a conservative confidence level of 95 percent and an assumed holding period of 250 days. Value-at-risk is calculated for 250 days by scaling the one-day value-at-risk using the root T rule. Historic simulation takes into account changes in risk factors over the past 500 trading days.

As at 31 December 2016, value-at-risk arising from other market risks stood at 487 million francs (previous year: 329 million francs). The increase was mainly due to fixed-interest investments that had been recognized as available-for-sale in order to offer greater flexibility in terms of balance sheet controlling under IFRS, and are therefore also included in the market risk analysis.

A loss reporting threshold is established for measuring and controlling the accounting effects of changes in fair value. This threshold refers to losses in fair value during the calendar year that are recognized in the income statement. Measures must be taken by the Executive Board if the loss in fair value exceeds the reporting threshold.

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.

Organization

PostFinance operates an operational risk management system that is controlled from a central specialist unit. This defines the risk management process for the entire area and ensures regular and transparent identification, measurement, monitoring and reporting on all material operational risks. The specialist unit also provides the necessary tools and instruments and acts as the interface between line management and the Executive Board Committee for Internal Control (GLA IK), which is responsible for the effective and efficient implementation of the operational risk management policy.

Each department and team functions as its own decentralized operational risk controller, gathering the relevant information in its role as coordinator for its organizational unit, carrying out risk identification and assessment, and assuming responsibility for recording losses.

A decentralized operational risk manager is responsible for each of the largest operational risks at PostFinance (2016: nine top risks; 2017: nine top risks). These risk managers are responsible for the regular assessment and monitoring of the top risk assigned to them and report to the OpRisk Technical Committee on a quarterly basis.

Tools

PostFinance has various industry-standard tools with which to actively manage operational risk. Firstly, loss data across the entire company is collected together, enabling past operational losses to be analysed, common trends to be identified and measures to be taken based on the findings. Secondly, 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 Committee for Internal Control (GLA IK) to obtain a good overview of the company's entire risk situation.

In addition, the measures decided upon by the Executive Board Committee for Internal Control (GLA IK) to mitigate operational risks are monitored centrally. Early risk warning indicators are used, in particular, by the decentralized units to promptly identify any change in the risk situation.

Reporting

The Executive Board Committee for Internal Control (GLA IK) receives quarterly reports on the current top risks and, if necessary, introduces measures to mitigate the risks. Based on this information, Swiss Post's Board of Directors is notified of PostFinance's risk situation on a regular basis via the Board of Directors' PostFinance Committee.

4 | Capital adequacy disclosure in accordance with the guidelines for systemically important banks

According to the decree issued by the Swiss National Bank 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 a new ruling has not yet been issued to PostFinance Ltd, it continues to meet the requirements of the previous ruling. The terminology has however already been adapted to the new CAO. The requirements will be explained in detail by means of footnotes.

The disclosure for systemically important banks is a parallel calculation which supplements the "Disclosure of equity requirements as at 31 December 2016". The different requirements result in deviations, particularly with regard to eligible equity and capital ratios.

Minimum capital ratios for risk-weighted and unweighted capital requirements

in %	Ratio
Requirement for risk-weighted capital ratios¹	
Minimum required capital	8.00%
Capital buffer	2.75%
Additional capital ²	3.65%
Total requirement	14.40%
of which, to be held in common equity tier 1 (CET1) with a minimum of	10.00%
of which, to be held in conversion capital with high trigger with a maximum of	3.00%
of which, to be held in conversion capital with low trigger with a maximum of	1.40%
Countercyclical buffer	0.00%
Extended countercyclical buffer	0.01%
Total requirement (incl. countercyclical and extended countercyclical buffer)	14.41%
Requirement for unweighted capital ratios – leverage ratio³	
Minimum required capital	3.00%
Capital buffer	0.00%
Additional capital ⁴	0.46%
Total requirement	3.46%

1 As per CAO Art. 130 and 131 (minimum requirements) as well as CAO 148c (transitory provisions).

2 Corresponds to the difference between the requirement as per the transitory provisions under CAO Art. 148c and the decreed total requirement of 14.4%.

3 As per CAO Art. 130 and 131 (minimum requirements) as well as CAO 148c (transitory provisions).

4 Corresponds to the difference between the requirement as per the transitory provisions under CAO Art. 148c and the decreed total requirement of 3.46%.

Regulatory eligible capital as per definition for systemically important banks

in CHF million	31.12.2015	31.12.2016
Common equity tier 1 (before adjustments)	6,682	6,682
Adjustment in relation to common equity tier 1	-1,400	-1,200
Reclassification of common equity tier 1	-	-
Common equity tier 1 (CET1) as per definition for systemically important banks	5,282	5,482
Conversion capital with high trigger	-	-
Conversion capital with low trigger	-	-
Total eligible capital	5,282	5,482
Total risk-weighted assets (RWA)	27,100	31,969
Capital ratios as per definition for systemically important banks		
Common equity tier 1 ratio (CET1 ratio)	19.49%	17.13%
Ratio for conversion capital with high trigger	0.00%	0.00%
Ratio for conversion capital with low trigger	0.00%	0.00%
Total capital ratio	19.49%	17.13%

Coverage of risk-weighted capital requirement as at 31.12.2016

in CHF million	Requirement ratio	Capital requirement	Capital ratio	Existing capital
Minimum required capital	8.00%	2,557	8.00%	2,557
of which, covered by common equity tier 1	8.00%	2,557	8.00%	2,557
of which, conversion capital with high trigger	0.00%	-	0.00%	-
Capital buffer¹	2.75%	879	5.50%	1,758
of which, covered by common equity tier 1	2.75%	879	5.50%	1,758
of which, conversion capital with high trigger	0.00%	-	0.00%	-
Additional capital	3.65%	1,167	3.65%	1,167
of which, covered by common equity tier 1	0.00%	-	3.65%	1,167
of which, conversion capital with high trigger	0.00%	-	0.00%	-
of which, conversion capital with low trigger	0.00%	-	0.00%	-
Total	14.40%	4,603	17.15%	5,482
Surplus			2.75%	879
Countercyclical buffer	0.00%	0	0.00%	0
Extended countercyclical buffer	0.01%	4	0.01%	4
Total (incl. buffer)	14.41%	4,608	17.13%	5,478
Surplus (after coverage of buffer requirements)			2.73%	874
Total risk-weighted assets				31,969

¹ Attained capital ratio as well as existing capital incl. surplus after coverage of total requirement without buffers.

Leverage ratio based on unweighted positions

in CHF million	31.12.2015	31.12.2016
Total assets	115,689	120,379
Assets which must be deducted in determining eligible tier 1 capital	-1,400	-1,200
Adjustments for derivatives	188	447
Adjustments for securities financing transactions	2	0
Adjustments for off-balance sheet transactions	1,026	1,055
Other adjustments	-	-
Total commitment for leverage ratio	115,505	120,680
Tier 1	5,282	5,482
Leverage ratio	4.57%	4.54%

Leverage ratio as at 31.12.2016

in CHF million	Requirement ratio	Capital requirement	Capital ratio	Existing capital
Minimum required capital	3.00%	3,620	3.00%	3,620
of which, covered by common equity tier 1	3.00%	3,620	3.00%	3,620
of which, conversion capital with high trigger	0.00%	-	0.00%	-
Capital buffer¹	0.00%	-	1.08%	1,306
of which, covered by common equity tier 1	0.00%	-	1.08%	1,306
of which, conversion capital with high trigger	0.00%	-	0.00%	-
Additional capital	0.46%	555	0.46%	555
of which, covered by common equity tier 1	0.46%	555	0.46%	555
of which, conversion capital with high trigger	0.00%	-	0.00%	-
of which, conversion capital with low trigger	0.00%	-	0.00%	-
Total	3.46%	4,176	4.54%	5,482
Surplus			1.08%	1,306
Total overall commitment for leverage ratio				120,680

¹ Attained capital ratio as well as existing capital incl. surplus after coverage of total requirement.

Additional information in accordance with FINMA Circular 2008/22, margin no. 51:

Details of equity requirements are published at www.postfinance.ch.

Information on the balance sheet

5 | Securities financing transactions

Breakdown of securities financing transactions (assets and liabilities)

CHF million	31.12.2015	31.12.2016
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	311	84
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	108	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	2,107	3,251
with unrestricted right to resell or pledge	1,996	2,528
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	2,434	2,906

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

Presentation of collateral for loans/receivables

as at 31.12.2016 CHF million	Type of collateral			Total
	Secured by mortgage	Other collateral	Unsecured	
Loans (before netting with value adjustments)				
Amounts due from customers ¹	–	–	13,210	13,210
Mortgage loans	0	–	–	0
Residential property	0	–	–	0
Total loans (before netting with value adjustments) 31.12.2016	0	–	13,210	13,210
31.12.2015	0	–	11,029	11,029
Total loans (after netting with value adjustments) 31.12.2016	0	–	13,169	13,169
31.12.2015	–	–	10,993	10,993

¹ Loans to municipalities, cities and cantons. These loans all have a rating issued by a rating agency recognized by FINMA.

Presentation of collateral
for off-balance-sheet transactions

as at 31.12.2016 CHF million	Type of collateral			Total
	Secured by mortgage	Other collateral	Unsecured	
Off-balance sheet				
Contingent liabilities	–	–	0	0
Irrevocable commitments	–	–	709	709
Total off-balance sheet				
31.12.2016	–	–	709	709
31.12.2015	–	–	677	677

Impaired loans/receivables

CHF million	31.12.2015	31.12.2016
Gross debt amount ¹	34	1
Net debt amount	34	1
Individual value adjustments	34	1

¹ Expired bond and its individual value adjustment were reclassified from financial investments to amounts due from banks.

7 | Derivative financial instruments

Presentation of derivative financial
instruments (assets and liabilities)

as at 31.12.2016 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						
Swaps	–	–	–	–	133	3,055
Foreign exchange / precious metals						
Forward contracts	4	5	779	3	50	1,520
SWAPS CCIRS	–	–	–	58	79	5,704
Total before netting agreements as at 31.12.2016	4	5	779	61	263	10,278
of which, determined using a valuation model	4	5		61	263	
31.12.2015	3	6	576	57	204	7,003
of which, determined using a valuation model	3	6		57	204	
Total after netting agreements as at 31.12.2016	4	5	779	61	263	10,278
31.12.2015	3	6	576	57	204	7,003

Breakdown by counterparty

as at 31.12.2016 CHF million	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	–	62	3

8 | Financial investments

Breakdown of financial investments CHF million	Book value		Fair value	
	31.12.2015	31.12.2016	31.12.2015	31.12.2016
Debt securities	55,757	60,118	58,403	62,374
of which, intended to be held to maturity	55,757	60,118	58,403	62,374
Equity securities	1,638	1,624	1,729	1,706
Total	57,395	61,742	60,132	64,080
of which, securities eligible for repo transactions in accordance with liquidity requirements	48,387	47,097	–	–

Breakdown of counterparties by rating¹

CHF million	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	Below B–	Unrated
Debt securities: book values	44,581	9,431	4,191	30	0	1,884

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 31.12.2015	2016						
				Reclassifications	Additions	Disposals	Value adjustments	Depreciation reversals	Book value 31.12.2016	Market value 31.12.2016
Participations										
with market value	28	–8	20	–	17	1	–1	–	37	37
without market value	40	–1	39	–	25	0	–	–	64	–
Total participations	68	–9	59	–	42	1	–1	–	101	37

10 | Significant participations

Significant investments

CHF or EUR, percent	Business activities	Currency	Company capital	Share of capital and of votes ¹	
				31.12.2015	31.12.2016
Finform Ltd, Berne, Switzerland	Fintech and regtech	CHF	100,000	–	50.00%
TWINT Ltd, Zurich, Switzerland	Mobile payment	CHF	10,200,000	100.00%	33.33%
TWINT Acquiring Ltd, Zurich, Switzerland	Acquiring for payment transactions	CHF	100,000	–	33.33%
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%
Lendico Schweiz AG, Zurich, Switzerland	Crowdlending platform	CHF	100,000	–	24.44%
moneymeets community GmbH, Cologne, Germany	Online financial services	EUR	81,000	–	20.39%
moneymeets GmbH, Cologne, Germany	Infrastructure for online financial services	EUR	81,000	–	20.39%
Debtors Service Ltd, Berne, Switzerland	Accounts receivable management	CHF	1,000,000	100.00%	–

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 reduce total assets by 6 million francs (previous year: 4 million francs) and profit for the year by 3 million francs (previous year: 11 million francs).

11 | Tangible fixed assets

Presentation of
tangible fixed assets

CHF million	Acquisition cost	Accumulated depreciation	Book value 31.12.2015	2016					Book value 31.12.2016
				Reclassifications	Additions	Disposals	Depreciation	Reversals	
Bank buildings	193	-23	170	-	6	-2	-10	-	164
Other real estate	947	-81	866	-	80	-9	-47	-	890
Proprietary or separately acquired software	99	-3	96	0	76	-	-5	-	167
Other tangible fixed assets	88	-45	43	0	7	-	-12	-	38
Total tangible fixed assets	1,327	-152	1,175	-	169	-11	-74	-	1,259

Future lease obligations under operating leases

CHF million	2017	2018	2019	2020	2021	2022	Total
Future lease payments	19	18	2	1	0	0	40
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 31.12.2015	2016			Book value 31.12.2016
				Additions	Disposals	Amortization	
Goodwill	2,000	-600	1,400	-	-	-200	1,200
Total intangible assets	2,000	-600	1,400	-	-	-200	1,200

13 | Other assets and other liabilities

Breakdown of other assets
and other liabilities

CHF million	31.12.2015	31.12.2016	31.12.2015	31.12.2016
	Other assets	Other assets	Other liabilities	Other liabilities
Compensation account	144	172	-	-
Indirect taxes	142	134	15	6
Other assets and liabilities	3	4	2	1
Total other assets and other liabilities	289	310	17	7

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 ownership¹

CHF million	31.12.2015	31.12.2016
Book value of assets pledged and assigned as collateral	0	50

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 pension 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 42,894 active insured people and 29,612 pensioners (as at 31 December 2016), the Swiss Post pension fund had total assets of 15,837 million francs as at 31 December 2016 (previous year: 15,641 million francs). The level of cover calculated according to the accounting principles applicable to the Swiss Post pension fund stands at just under 101.2 percent (previous year: 100 percent). As the Swiss Post pension fund value fluctuation reserves have not yet reached the set regulatory level, there is no overfunding available. The Swiss Post pension fund has employer contribution reserves of 561 million francs, of which 550 million francs with a waiver of use (previous year: 1,056 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 2010) 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 2016. 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	
		31.12.2015	31.12.2016			2015	2016
CHF million	31.12.2016	31.12.2015	31.12.2016	2016	2016	31.12.2015	31.12.2016
Swiss Post pension fund	25	0	0	0	36	34	36
Staff vouchers	-7	-6	-7	1	0	1	1
Disability pensions	0	-1	0	-1	0	0	-1
Total ARR 16	18	-7	-7	0	36	35	36

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	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	
CHF million	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	
Swiss Post pension fund	34	29	-33	29	1	0	28	
Total ARR 16	34	29	-33	29	1	0	28	

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	As at 31.12.2015	Use in conformity with designated purpose ¹	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at 31.12.2016
Provisions for pension benefit obligations	7	-	-	-	0	-	7
Provisions for restructuring	-	-1	-	-	1	0	0
Other provisions	6	-3	-	-	10	-1	12
Total provisions	13	-4	-	-	11	-1	19
Reserves for general banking risks	-	-	-	-	-	-	-
Value adjustments for default and country risks	262	-	-	-	-	-46	216
of which, value adjustments for default risks in respect of impaired loans/receivables	111	-	-	-	-	-41	70
of which, value adjustments for latent risks	151	-	-	-	-	-5	146

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 CHF million, number in million	31.12.2015			31.12.2016		
	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 CHF million	Amounts due from		Amounts due to	
	31.12.2015	31.12.2016	31.12.2015	31.12.2016
Holders of qualified participations	1,630	1,664	635	565
Group companies	13	–	7	–
Linked companies	9	17	831	795
Transactions with members of governing bodies	0	0	3	5

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 CHF million	31.12.2015		31.12.2016	
	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)

CHF million, as at 31.12.2016	Due							Total	
	At sight	Cancellable	Within 3 months	Within 3 to 12 months	Within 12 months to 5 years	After 5 years	No maturity		
Liquid assets	37,453	–	–	–	–	–	–	37,453	
Amounts due from banks	242	–	135	580	1,344	2,096	–	4,397	
Amounts due from securities financing transactions	–	–	84	–	–	–	–	84	
Amounts due from customers	430	3	1,970	927	3,893	5,946	–	13,169	
Mortgage loans	–	–	0	–	–	–	–	0	
Positive replacement values of derivative financial instruments	65	–	–	–	–	–	–	65	
Financial investments	1,519	–	2,135	6,181	29,850	22,056	–	61,742	
Total	31.12.2016	39,709	3	4,324	7,688	35,087	30,098	–	116,910
	31.12.2015	40,967	6	3,886	7,282	38,063	21,908	–	112,113

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

CHF million, as at 31.12.2016	Due							Total	
	At sight	Cancellable	Within 3 months	Within 3 to 12 months	Within 12 months to 5 years	After 5 years	No maturity		
Amounts due to banks	2,406	–	–	–	–	–	–	2,406	
Liabilities from securities financing transactions	–	–	723	–	–	–	–	723	
Amounts due in respect of customer deposits	66,843	42,865	–	–	–	–	–	109,709	
Negative replacement values of derivative financial instruments	268	–	–	–	–	–	–	268	
Cash bonds	–	–	11	11	85	8	–	114	
Total	31.12.2016	69,517	42,865	734	11	85	8	–	113,220
	31.12.2015	65,570	42,826	111	16	102	13	–	108,638

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

CHF million	31.12.2015		31.12.2016	
	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	38,879	3	37,441	12
Amounts due from banks	4,432	39	4,337	60
Amounts due from securities financing transactions	281	30	12	72
Amounts due from customers	10,991	2	13,167	2
Mortgage loans	0	–	0	–
Positive replacement values of derivative financial instruments	13	48	6	59
Financial investments	29,572	27,823	31,042	30,700
Accrued income and prepaid expenses	389	264	351	247
Participations	54	5	69	32
Tangible fixed assets	1,175	–	1,259	–
Intangible assets	1,400	–	1,200	–
Other assets	287	2	309	2
Total assets	87,473	28,216	89,193	31,186
Liabilities				
Amounts due to banks	1,151	69	2,360	46
Liabilities from securities financing transactions	–	108	723	–
Amounts due in respect of customer deposits	103,406	3,560	105,846	3,863
Negative replacement values of derivative financial instruments	162	48	181	87
Cash bonds	131	3	113	1
Accrued expenses and deferred income	118	0	137	1
Other liabilities	17	0	7	1
Provisions	13	–	20	–
Bank's capital	2,000	–	2,000	–
Statutory capital reserve	4,682	–	4,682	–
Profit carried forward	–	–	–	–
Profit	221	–	311	–
Total liabilities	111,901	3,788	116,380	3,999

22 | Assets by country / group of countries

Breakdown of total assets by country or group of countries (domicile principle)	31.12.2015		31.12.2016	
	Absolute	Share as %	Absolute	Share as %
CHF million, percent				
Assets				
Switzerland	87,474	75.61	89,193	74.09
Europe	21,547	18.62	19,690	16.36
North America	4,194	3.63	6,038	5.02
Other countries	2,474	2.14	5,458	4.53
Total assets	115,689	100.00	120,379	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 31.12.2015		Net foreign exposure 31.12.2016	
	Absolute	Share as %	Absolute	Share as %
CHF million, percent				
Rating (Moody's)				
Aaa	18,470	64.80	15,947	51.40
Aa	8,375	29.39	12,273	39.55
A	481	1.69	1,608	5.18
Baa	909	3.19	426	1.37
Ba	137	0.48	217	0.70
B	0	0.00	170	0.55
Caa	100	0.35	269	0.87
No rating	29	0.10	118	0.38
Total	28,501	100.00	31,028	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 31.12.2016
CHF million

	CHF	EUR	USD	GBP	JPY	Other	Total
Assets							
Liquid assets	37,318	135	–	–	–	–	37,453
Amounts due from banks	4,366	10	7	2	8	4	4,397
Amounts due from securities financing transactions	8	43	33	–	–	–	84
Amounts due from customers	13,154	15	0	0	0	0	13,169
Mortgage loans	0	–	–	–	–	–	0
Positive replacement values of derivative financial instruments	65	–	–	–	–	–	65
Financial investments	52,157	6,691	2,715	48	29	102	61,742
Accrued income and prepaid expenses	533	57	8	0	0	0	598
Participations	69	13	19	–	–	0	101
Tangible fixed assets	1,259	–	–	–	–	–	1,259
Intangible assets	1,200	–	–	–	–	–	1,200
Other assets	308	1	0	1	0	1	311
Total assets shown in balance sheet	110,437	6,965	2,782	51	37	107	120,379
Delivery entitlements from spot exchange, forward forex and forex options transactions	7,475	299	136	47	0	45	8,002
Total assets	117,912	7,264	2,918	98	37	152	128,381
Liabilities							
Amounts due to banks	2,399	7	0	0	0	0	2,406
Liabilities from securities financing transactions	723	–	–	–	–	–	723
Amounts due in respect of customer deposits	106,753	2,459	409	43	8	37	109,709
Negative replacement values of derivative financial instruments	268	–	–	–	–	–	268
Cash bonds	111	3	–	–	–	–	114
Accrued expenses and deferred income	138	0	0	–	–	–	138
Other liabilities	8	0	0	–	–	0	8
Provisions	20	–	–	–	–	–	20
Bank's capital	2,000	–	–	–	–	–	2,000
Statutory capital reserve	4,682	–	–	–	–	–	4,682
Profit	311	–	–	–	–	–	311
Total liabilities shown in the balance sheet	117,413	2,469	409	43	8	37	120,379
Delivery obligations from spot exchange, forward forex and forex options transactions	616	4,731	2,496	48	28	101	8,020
Total liabilities	118,029	7,200	2,905	91	36	138	128,399
Net position per currency 31.12.2016	–117	64	13	7	1	14	–18
Net position per currency 31.12.2015	–16	38	–28	7	–9	20	12

Information on off-balance sheet transactions

25 | Irrevocable commitments, contingent liabilities and assets

PostFinance discloses payment obligations for depositor protection in irrevocable commitments together with contingent liabilities from pending legal cases. 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. There are no other material off-balance-sheet transactions in accordance with FINMA Circular 2015/1, Annexes 5-28 to 5-31.

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	31.12.2015	31.12.2016
Type of managed assets:		
Other managed assets	40,889	45,845
Total managed assets¹	40,889	45,845
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 schemes 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
Total managed assets (including double counting) at beginning	40,889
+/- net new money inflow or net new money outflow ¹	197
+/- price gains/losses, interest, dividends and currency gains/losses	223
+/- other effects ²	4,536
Total managed assets (including double counting) at end	45,845

¹ Net new money inflow or net new money outflow is calculated based on the overall change in managed assets, less price, interest and currency gains/losses, dividend distributions and other effects.

² "Other effects" includes the migration of customer custody accounts which were transferred from Banque Cantonale Vaudoise to PostFinance Ltd.

PostFinance Ltd is a category 2 institution in accordance with the Annex to FINMA Circular 11/2, and was rated as a systemically important bank in accordance with Art. 7 of the Banking Act by the Swiss National Bank in 2016. From the 2016 financial year, FINMA therefore requires detailed information on managed assets, even if the threshold set out in FINMA Circular 15/1, margin no. 229, is not exceeded. The development of managed assets was not disclosed for the financial year 2015.

Information on the income statement

27 | Result from trading activities and the fair value option

Breakdown by business area

CHF million	2015	2016
Payment transactions and financial investments	195	212
Hedge accounting	6	-3
Proprietary trading	-14	2
Total result from trading activities	188	211

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

CHF million	2015	2016
Result from trading activities from:		
Interest rate instruments	0	0
Equity securities	-	1
Foreign currencies	188	210
Total result from trading activities	188	211

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. The situation has intensified for PostFinance in the past few months. Due to a further increase in customer deposits, the sight deposit balance at the SNB now exceeds the exemption limit virtually without interruption. The expenses resulting from these measures amount to 24 million francs for the 2016 financial year, while income stands at 12 million francs. Both are recognized in the result from interest operations. Since 1 February 2017, PostFinance has therefore also charged a 1 percent fee on the credit balance of private customers that exceeds the threshold value of one million francs. In the 2015 financial year the impact of negative interest was not material in nature.

29 | Personnel expenses

Breakdown of personnel expenses

CHF million	2015	2016
Salaries (meeting attendance fees and fixed compensation to members of the bank's governing bodies, salaries and benefits)	381	393
Social insurance benefits	72	75
Changes in book value for economic benefits and obligations arising from pension schemes	0	0
Other personnel expenses	19	20
Total personnel expenses	472	488

30 | General and administrative expenses

Breakdown of general and administrative expenses

CHF million	2015	2016
Office space expenses	48	47
Expenses for information and communications technology	186	178
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	22	40
Fees of audit firm(s) (Art. 961a no. 2 CO)	2	1
of which, for financial and regulatory audits	1	1
of which, for other services	1	0
Other operating expenses	260	250
Total general and administrative expenses	518	516

31 | Extraordinary expenses and income

Extraordinary expenses

CHF million	2015	2016
Losses from disposal of participations	–	29
Total extraordinary expenses	–	29

Extraordinary income

CHF million	2015	2016
Reversals of impairment	4	2
Gains from disposal of participations	–	72
Total extraordinary income	4	74

32 | Taxes

Tax expenses for corporate income tax and taxes on capital stood at 83 million francs (previous year: 58 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	2015	2016
Expenses for current capital and income taxes	58	83
Creation/release of deferred taxes	1	–
Total taxes	59	83

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 93) for the year ended 31 December 2016.

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 2016 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, 24 February 2017

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- Swiss Post Ltd Annual Report
- Swiss Post Ltd Financial Report
(management report, corporate governance, annual financial statements)
- PostFinance Ltd Annual Report
- PostBus Switzerland Ltd Performance Report

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