For all your daily financial needs
Annual Report 2018

PostFinance

Company profile

About us

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

Our customers

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

Our services

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

Our performance

PostFinance Ltd | Key figures

2018 with previous year for comparison		2017	2018
Balance sheet			
Total assets as per IFRS	CHF million	120,848	118,173
Capital ratio as per guidelines for systemically important banks	%	17.1	17.6
ARB leverage ratio	%	4.67	4.98
Income statement (as per Group IFRS guidelines)			
Operating profit (EBIT)	CHF million	543	229
Earnings before tax (EBT)	CHF million	463	187
Return on equity [1]	%	8.3	3.2
Cost-income ratio	%	68.0	82.7
Customer assets and loans			
Development of customer deposits	CHF million	–611	–822
Customer assets	CHF million monthly avg.	119,797	118,943
Market and employee key figures			
Customers	In thousands	2,890	2,857
E-finance users	In thousands	1,756	1,775
Accounts	In thousands	4,809	4,503
Customer satisfaction – private customers	Index	80	79
Customer satisfaction – business customers	Index	76	77
Average headcount	Full-time equivalents	3,474	3,325
Employee satisfaction	Index	78	75
Transactions			
Transactions	In millions	1,072	1,145

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

Our conviction

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

Our legal form and management

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

Our accounting

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

Our organization

Board of Directors
Chairman: Rolf Watter
Members: Jürg Brun, Marco Durrer, Giulia Fitzpatrick, Alex Glanzmann, Hans Lauber, Michaela Troyanov

Secretary of the Board of Directors Markus Schumacher	**Internal Auditing** Robert Thommen

Chief Executive Officer
Hansruedi Köng*

Secretariat of CEO and Board of Directors Andrea Bezzola	**Communication** Ursula Käser Aebi

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

* Member of Executive Board

PostFinance at a glance

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

More than 1.8 million customers have access to e-finance. This makes PostFinance the ideal partner for everyone who wants to manage their own finances as easily as possible.

187 million
francs in earnings before tax (EBT). That is 276 million francs less than in the previous year.

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

1.8 million
customers have access to e-finance.

1.1 billion
transactions were processed by PostFinance at home and abroad in 2018.

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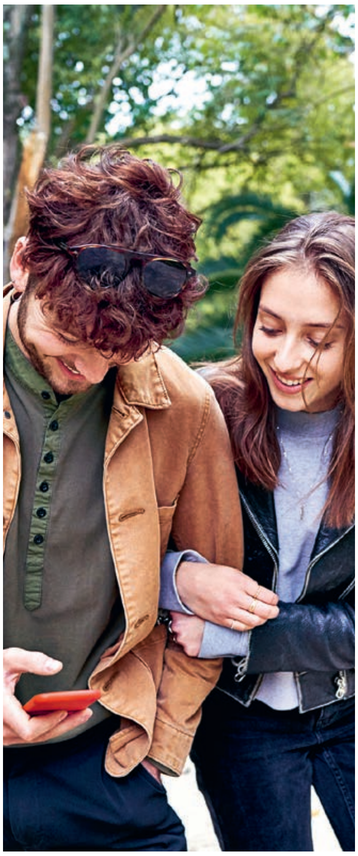

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Foreword

Rolf Watter
Chairman of the Board of Directors

Hansruedi Köng
Chief Executive Officer

Dear Reader

In the financial year 2018, PostFinance generated earnings before tax (EBT) as per Group IFRS guidelines of 187 million francs. The fall of 276 million francs year-on-year was due in part to the 164 million franc decline in the result from the interest differential business. In addition, a one-off gain from the sale of two equity portfolios amounting to 109 million francs had a positive effect in the prior-year period.

In the commission business, we generated a 17 million franc improvement in results. This was mainly thanks to higher revenues in the fund business. Net trading income was down by 59 million francs, primarily due to market fluctuations in investment funds. Personnel expenses fell by 20 million francs.

The decline in the result is in line with our expectations due to the persistently low interest rates on the financial markets combined with the prohibition on the issuing of loans and mortgages imposed on us (lending prohibition). This negative trend looks set to continue in the coming years as current high interest-bearing bonds from earlier investments reach maturity, but can only be reinvested for very low returns.

Lifting of the lending prohibition
At its meeting on 5 September 2018, the Federal Council called for the prohibition on lending to be lifted and for PostFinance to be partially privatized. A working group consisting of representatives from DETEC and the FDF was instructed to draw up a consultation draft. If both the National Council and the Council of States then give the go-ahead, the lending prohibition will be lifted and the issue of partial privatization can be addressed.

Notwithstanding the fact that the time frame has yet to be precisely defined and its political feasibility is still unclear, we expressly welcome this policy decision by the Federal Council. In recent years, we have repeatedly advised political authorities and decision-makers that the lending prohibition is a significant competitive disadvantage which wipes out value, and that it should therefore be removed. In that respect, the Federal Council's policy decision is a milestone for us. It would improve our competitiveness significantly, as we would finally be on a level playing field with our competitors. Even if partial privatization were required, the positive impact on PostFinance's future prospects would enable us to better support Swiss Post in the long-term provision of the universal service.

The Federal Council's policy decision does not have any impact on our transformation into a digital powerhouse. This evolution is essential if we are to remain relevant for our customers in an increasingly digital world. Given our profit situation and the negative outlook, we cannot afford to wait until Parliament takes its final decision on our future. Firstly, it is not yet clear when Parliament will decide on the draft act or whether its decision will go in our favour. Secondly, even in the event of a favourable outcome, it will take several years until the lifting of the lending prohibition has a positive impact on our result.

Digital banking – easy and for everyone
We want to become the number one digital retail bank in Switzerland. On Easter weekend 2018, we modernized our core banking software to lay the foundation for the digital powerhouse. This gives us the technical infrastructure required to enable our customers to benefit from modern digital products and services more rapidly in future. In September, we launched the "self-service hub" in the PostFinance App, which our customers can use to manage their PostFinance Card completely digitally or change an address on their smartphones. A new login procedure for e-finance and other exciting innovations will follow this year. Ultimately, everything we do has one goal: we want to be the bank that helps its customers make the transition from the analogue to the digital world. Or, to put it another way: we want digital banking that's easy and for everyone.

Changes in the Board of Directors
Giulia Fitzpatrick and Jürg Brun have been named as new members of the PostFinance Ltd Board of Directors. They succeed Susanne Ruoff and Adriano P. Vassalli, who left the Board last summer. We are pleased that the appointment of Giulia Fitzpatrick and Jürg Brun provides the Board of Directors with the support of two new individuals who are experts in Swiss banking and have extensive knowledge of IT, risk management and auditing. At the same time, we would like to thank Adriano P. Vassalli and Susanne Ruoff for their consistently constructive work on our committees.

Thank you
We would like to thank our employees for their great commitment in the past few months. In particular, the introduction of the new banking software and the high volume of orders before and after the migration were major challenges for us. There is also the issue of the planned reduction in staff numbers which has been communicated and already partially implemented, a decision resulting from the modified sales model and efficiency improvement measures. We understand that this may cause fear and uncertainty. Especially in such difficult times, we want to be an employer that assumes its social responsibility towards its employees. We do this by providing our staff with close support, helping them to identify new prospects and seeking socially acceptable solutions.

Finally, we would also like to thank all our customers for their trust in us. As a result of the significant decline in profits, we were forced to introduce fees for various products and services or cancel previously granted fee exemptions with effect from 1 January 2019. This move is unpopular. Under the current market conditions, however, we can no longer afford to provide products and services free of charge or at prices which fall well short of covering our costs. Even after the fee increases, we are still one of the least expensive providers.

Rolf Watter
Chairman of the
Board of Directors

Hansruedi Köng
Chief
Executive Officer

We want to become the number one digital retail bank in Switzerland

Interview

with **Hansruedi Köng**
Chief Executive Officer

Hansruedi Köng, how was the result in the past financial year?
In 2018, we generated earnings before tax of 187 million francs. This represents a decline of 276 million francs or 60 percent year-on-year.

Why did profit fall so dramatically?
Firstly, the result from the interest differential business fell by 164 million francs compared to 2017. Secondly, a one-off gain from the sale of two equity portfolios amounting to 109 million francs had a positive effect in the prior-year period.

So, what you have been forecasting for several years has now happened?
Yes, unfortunately, the decline in earnings is in line with our expectations. There are two reasons for this: the persistently low interest rates on the financial markets and the prohibition on lending. The latter prevents us from issuing our own loans and mortgages. This forces us to invest our customer deposits on the financial markets at very low yields. The lending prohibition has always been a competitive disadvantage for us compared to the other banks. Since the advent of the negative interest rate regime, however, this disadvantage has again been compounded.

Were there also positive developments in last year's business result?
In the commission business, we generated a 17 million franc improvement in results, primarily due to higher revenues from funds. And on the expense side, staff costs fell by 20 million francs. The measures we have taken to develop new sources of non-interest income and improve efficiency are bearing fruit.

Does this mean the turnaround has started?
No, the negative trend will continue. In the next two years, bonds from earlier investments yielding good interest rates and worth around 20 billion francs will reach maturity, and we will only be able to reinvest them at very low returns.

What does that mean in numbers?
In the current low interest rate environment, we may still be able to make new investments at half of one percent. This means that by the end of 2020, we will again lose well over 200 million francs in net interest income. That puts tremendous pressure on our interest margin, and we cannot compensate for this decline in the interest differential business with efficiency improvements alone.

The Federal Council has now rushed to your aid with its proposal to lift the lending prohibition.
I was pleased to hear of the Federal Council's policy decision. We presented the Council with various scenarios to advise them of the options available to PostFinance. If the lending prohibition remains in place, our profits will continue to decline. This will not only further reduce the value of PostFinance as a company, it will also threaten hundreds of jobs and, ultimately, a key pillar for the financing of the universal service provided by Swiss Post.

Are you not painting a somewhat black picture?
That, unfortunately, is the reality. However, the decision will not be taken by the Federal Council, but by the National Council and the Council of States. I therefore appeal to Parliament's responsibility towards the entrepreneurial freedom of PostFinance. We are talking here about a systemically important bank that belongs to every single citizen of this country. Step by step, the lending prohibition is destroying this national wealth, and it should therefore be lifted quickly.

Critics argue that the mortgage market in Switzerland works as it is, and that there is no need for another player – certainly not a state player.
This is of course a position that can be taken. But if you advocate for a liberal market order, you should not deny market entry to a new competitor.

What do you think are the chances that the lending prohibition will one day be lifted?
A lot of persuasion is still required. However, I am confident that the strength of our arguments will ultimately prevail among members of Parliament.

When do you expect a decision?
The Federal Administration is currently drawing up a consultation draft. On this basis, the Federal Council will send draft legislation and its report to Parliament. If Parliament approves the amendment, the bill could enter into force in 2021. In the event that a referendum is required, it would probably take a year longer.

What are you doing until then to keep PostFinance on track?
We have a clear strategic goal: we want to become the number one digital retail bank in Switzerland. To ensure that we are technically ready for digitization, we modernized our core banking system over Easter weekend 2018. This was a Herculean task that we were able to master thanks to great commitment from our employees and partners. Equally importantly, the modernization enabled us to prove that we have the ability to implement major, highly complex projects with pinpoint accuracy. That is a significant strength, given the demands placed on us by the accelerating pace of global change.

The strategy has been defined, the technical foundation has been laid. What specifically is next for PostFinance?
We have already implemented numerous measures in our operational business to make PostFinance fit for the future. On the income side, we are reducing our dependence on interest operations by investing in new business areas such as digital investment and platform business. On the expense side, we are systematically harnessing savings potential and reducing our costs through measures such as automating and digitizing processes.

What do these cost reduction measures mean for employees?
In the middle of last year, we announced that up to 500 full-time positions would be lost by the end of 2020. Most of these can be absorbed by natural staff turnover. Nevertheless, we will not be able to avoid additional redundancies. This is a painful decision, but it is unavoidable if we are to ensure the long-term competitiveness and successful continuity of PostFinance. This is clear from the major decline in the result in the past financial year. At the same time, however, we are pushing ahead with innovations and building up staff in new areas.

The lending prohibition is destroying national wealth, and it should therefore be lifted quickly.

Hansruedi Köng

You mentioned the platform business. Is that one of the new areas you would like to see grow?

Yes, we see great potential in the platform business. That is why we launched Valuu at the end of January 2019. Valuu is the first fully digital brokerage, comparison and sign-up platform for mortgages. We are confident that mortgage brokering meets a genuine demand and is therefore also relevant to potential mortgage customers.

What is innovative about Valuu?

There are already comparison platforms for mortgages, but they either rely on a physical branch or agency model, or compare only interest rates. Valuu is the only platform which guides mortgage seekers through the entire process end-to-end in a digital channel, including the option of taking out mortgages online.

What makes PostFinance qualified to operate a comparison platform of this kind for mortgages?

Our market analysis has revealed that mortgage customers associate financing solutions with banks. We have built on this finding. Other banks in Switzerland have little interest in operating this kind of platform as it would cannibalize their own mortgage business. By contrast, PostFinance possesses all of the required expertise, but does not have any significant mortgage business due to the lending prohibition. This makes us the only bank in Switzerland that can operate such a platform without a conflict of interest.

Why is PostFinance investing in new technologies of this kind?

The digital trend indicates that new and different business models will become established on the market in future. Take the music industry, for example. In the past, we all bought CDs. Now, we use streaming services. Similar changes can also be seen in the banking sector. We want to play an active role in shaping digitization in the banking sector and launch development opportunities and potential disruptions under our own initiative, instead of adopting a wait-and-see approach.

And what digital innovations can your customers look forward to?

All of our innovations are designed to make it as easy as possible for our customers to manage their money and their financial affairs in general. Last autumn, we launched the “self-service hub” in the PostFinance App. This allows our customers to manage their PostFinance Card completely digitally with their smartphones. This year, we will be introducing a new login procedure for e-finance that works with facial recognition or fingerprints.

We see great potential in the platform business.

Hansruedi Köng

Business performance

In 2018, PostFinance generated earnings before tax (EBT) of 187 million francs (previous year: 463 million). The marked decline in profits shows that the bank's current business model is under threat. PostFinance is therefore transforming itself from a traditional financial institution into a digital powerhouse, with a view to becoming the number one digital retail bank in Switzerland. To ensure that its technical infrastructure is as well prepared as possible for this change, PostFinance modernized its core banking system last year.

118 billion
francs in total assets as per IFRS.

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

17.6 percent
capital ratio as per guidelines for systemically important banks with a comfortable safety margin.

3.2 percent
return on equity shows that at present, PostFinance is no longer generating a return in line with the market.

82.7 percent
The cost-income ratio deteriorated significantly year-on-year.

PostFinance is changing

The current negative interest rate environment and the ongoing process of digitization are having an impact on PostFinance's traditional business model. It is therefore focusing its strategy more heavily on digitization, promoting innovation and transforming itself from a traditional financial service provider into a digital powerhouse. PostFinance is tapping into new sources of non-interest income by strengthening its existing core business and building up additional business.

Key figures

229 million
francs in operating profit (EBIT)

187 million
francs in earnings before tax (EBT)

82.7 percent
cost-income ratio

119 billion
francs in customer assets

Strategy

Digital banking – easy and for everyone

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

Digitization is a social trend that does not stop at the world of banking. As a result of technological progress, PostFinance customers are becoming increasingly well connected and more and more of them want to manage their finances independently, whenever and wherever it suits them. There is a demand for simple solutions that offer security and comfort, and hence a positive customer experience. PostFinance has recognized this trend and is increasingly investing in the development of digital products and services.

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

Focusing on customers
Among retail customers, PostFinance wants to keep its leading position in payment transactions and establish itself as the preferred partner for digital investments. Its customers are provided with simple, modular standard products.

In the corporates sector, PostFinance strives to position itself as a supplier of tailor-made, comprehensive and integrated solutions, with a focus on financial and finance-related services for payments and working capital management. PostFinance helps corporate customers to optimize their value chain by offering personal support and comprehensive specialist advice.

Systematically promoting and using innovation
On the road to becoming a digital powerhouse, innovation management plays a key role. It enables promising products, technologies and business models to be identified early and used accordingly. With the launch of Valuu, for example, PostFinance has entered the digital mortgage brokerage business. At the same time, PostFinance is intensifying its corporate venturing activities and investing selectively in young, innovative or highly specialized growth companies that complement its portfolio.

Providing the best customer experience
For PostFinance, the aim of digitization is to satisfy customers' expectations and provide them with the best and simplest customer experience. PostFinance wants to make it as easy as possible for customers to manage their money and their financial affairs in general, and help them make the transition from the analogue to the digital world. Or, to put it another way: PostFinance wants to facilitate digital banking that's easy and for everyone.

> For PostFinance, the aim of digitization is to satisfy customers' expectations and provide them with the best and simplest customer experience.

Beat Jaccottet
Head of Business Development

Lending prohibition

Federal Council supports lifting prohibition on lending by PostFinance

In the future, PostFinance should be allowed to issue its own loans and mortgages. To this end, the Federal Council has instructed DETEC and the FDF to draw up a consultation draft on a partial revision of the Postal Organization Act.

The interest differential business is the key source of revenue for PostFinance. Unlike other banks, however, it is not allowed to issue its own loans and mortgages to third parties. This is set out in the Postal Organization Act. PostFinance has therefore invested a large share of the customer deposits entrusted to it in fixed-interest securities on the national and international financial markets. In the next two years alone, bonds from earlier investments yielding good interest rates and worth around 20 billion francs will expire from this investment portfolio. These can only be reinvested at significantly lower interest rates. PostFinance's operating result is therefore likely to again decline significantly by 2021, despite the numerous countermeasures that have been implemented in recent years.

Strategic goals set by the Federal Council will not be met

This decline in profits reduces both the value of the company and PostFinance's ability to build up equity or distribute dividends. It also makes it more difficult to finance the universal service. This trend runs counter to the strategic objectives defined by the Federal Council for Swiss Post and PostFinance. The Federal Council has therefore concluded that in the long term, no promising business model is possible for PostFinance without access to the domestic loan and mortgage market.

According to the Federal Council, PostFinance's entry into the loan and mortgage market is also to be welcomed from a consumer point of view, as it will stimulate competition. Since PostFinance would enter the market in small steps over several years, the Federal Council also sees no additional risk to the stability of the financial market.

Build-up of additional equity

The new Capital Adequacy Ordinance entered into force on 1 January 2019. It provides for increased capital requirements for the possible financial recovery and resolution of systemically important domestic banks, of which PostFinance is one. This means that PostFinance will have to build up additional equity of around 2 to 2.5 billion francs over the next seven years.

The Federal Council has argued that the gone-concern capital at PostFinance should be built up primarily by means of equity. Given the gloomy profit outlook, this is a major challenge and involves greater risks and limitations for business activities. PostFinance will have to credit future profits in full to equity and therefore may not be able to pay a dividend to Swiss Post in the coming years. Ultimately, this may also mean that PostFinance will have to implement further price increases, restrictions on its product range and cost-cutting measures.

38 percent
collapse in interest income since 2014.

2 to 2.5 billion
francs in additional equity will have to be built up by PostFinance over the next seven years.

> The lifting of the lending prohibition is the key factor in ensuring PostFinance's long-term profitability and competitiveness.

Felicia Kölliker
Head of Risk, Legal & Compliance

Interview

“The lending prohibition is a significant competitive disadvantage”

PostFinance has been fighting for years for the lifting of the lending prohibition. Felicia Kölliker, Head of Risk, Legal & Compliance and Member of the PostFinance Executive Board, gives her view of the Federal Council’s policy decision.

What went through your mind when the Federal Council published its policy decision?
I was delighted. For the Federal Council to come out in favour of lifting the lending prohibition is a milestone for PostFinance. At the same time, I am realistic. This is a policy decision that requires a change in the law. And in such matters, Parliament has the last word. A great deal of persuasion will therefore still be required.

The negative interest rates affect the entire financial sector. To what extent is the lending prohibition a competitive disadvantage for PostFinance?
With the prohibition on lending, the legislature has, so to speak, amputated one of our legs. The other banks have largely been able to stabilize their interest margins despite negative interest rates, as they can still generate good margins in the mortgage business. Because we have to invest our customer deposits in the financial markets, we do not have this option. This means that the effect of negative interest rates hits us much harder. Our interest margin has been dwindling for years and our interest income is collapsing. The lifting of the lending prohibition would eliminate this disadvantage over time.

It is likely to take several more years before this is actually the case. Can PostFinance afford to wait that long?
No. That is why we are already doing everything in our power to make PostFinance fit for the future. We are focusing our strategy more heavily on digitization and tapping into new sources of non-interest income. At the same time, we are reducing our costs through efficiency measures. But this will not be enough to compensate for our declining income from interest operations. The lifting of the lending prohibition is therefore the key factor in ensuring PostFinance’s long-term profitability and competitiveness.

In addition to the lifting of the lending prohibition, there is also discussion of partial privatization. How do you feel about that?
The lending prohibition is very damaging economically, and we are fighting to have it lifted. If the price we have to pay for this is partial privatization or stock market flotation, then that is definitely the road we should take. Partial privatization could also support the growth of the emergency capital required by law.

What would be the consequences if the lending prohibition were to remain in place?
First of all, I would be very disappointed if our opponents, with their mostly disingenuous arguments, were to find a majority in Parliament. It is very obvious that they are opposing the proposal solely out of self-interest – in other words, to prevent a new competitor from emerging. For us, it would mean that our entrepreneurial freedom would continue to be severely restricted and that long-term positive corporate development would hardly be possible. We would then have to implement additional, even more radical cost-cutting measures and tap into further alternative sources of income, with new and potentially higher risks.

Core banking system

PostFinance lays the foundation for the digital future

After adapting more than 60 applications and hundreds of interfaces, simulating tens of thousands of test cases over many months and rehearsing the go-live around the clock several times, the moment of truth finally arrived at Easter 2018 – PostFinance introduced its new core banking system.

Thanks to our committed team and careful planning, the implementation was extremely successful.

Beat Jaccottet
Head of Business Development

In 2018, PostFinance completed the largest project it has ever undertaken: the replacement of its core banking system. This means that an important foundation stone for the digital future is now in place. In the age of digitization, ongoing development of IT infrastructure is key to every company. For this reason, PostFinance decided some years ago to replace its tried-and-tested – albeit ageing – core banking system with state-of-the-art standard software.

The financial institution is thus investing specifically in its capacity for performance and innovation and has established the framework that will allow its customers to benefit more quickly from digital products and services in the future.

Open-heart surgery

For a financial institution, a replacement of the core banking system during ongoing operations is like open-heart surgery: all functions must continue to run seamlessly, and the changeover should go completely unnoticed by customers. PostFinance chose Easter weekend 2018 for the changeover because it fell at the end of a quarter and because, with four days free of transactions, it also had enough time to put the new solution into operation securely, stably and with the necessary reserves.

Meticulously prepared

More than 60 applications and 450 interfaces had to be adapted, and more than one billion data records had to be migrated correctly. To ensure the smoothest possible operation for its customers, the teams responsible at PostFinance prepared meticulously for the changeover in the months leading up to implementation. They simulated more than 50,000 test cases and rehearsed the changeover four times in real time in the preceding months. More than 3,000 employees were trained on the new systems, undergoing intensive, practice-oriented training cycles. On the evening of Maundy Thursday came the moment of truth: working around the clock over the next four days, some 400 employees completed 3,000 tasks in a well-defined sequence.

To ensure that it was well prepared for the first weeks of operation, PostFinance also established an "Early Life Support" team with the capacity to respond quickly to any errors occurring after implementation.

Thanks to careful planning, a highly motivated team, professional work on the part of everyone involved and clear support from top management, PostFinance implemented the major project at Easter 2018 within budget and on time, marking the successful completion of the largest project the bank has ever undertaken. An achievement that PostFinance can be proud of.

Interview

"PostFinance is increasingly becoming a technology company"

During the modernization of the core banking system, Business Development and IT worked hand in hand. Beat Jaccottet and Markus Fuhrer, the heads of these two units, take stock.

Beat Jaccottet
Head of Business Development

Markus Fuhrer
Head of Delivery Factory IT & Operations

What were the success factors in the introduction of the new core banking system?
Beat Jaccottet: The key element was the team, which needed experienced employees who could rely on each other. Everyone knew what they had to do and focused on their tasks. The CEO and top management created the operating framework we required by setting clear priorities and giving a high level of attention to the project – and by demonstrating a great deal of trust in the project team. Professional project management, with realistic planning and the will to adhere to milestones, is of course also an essential factor for success.

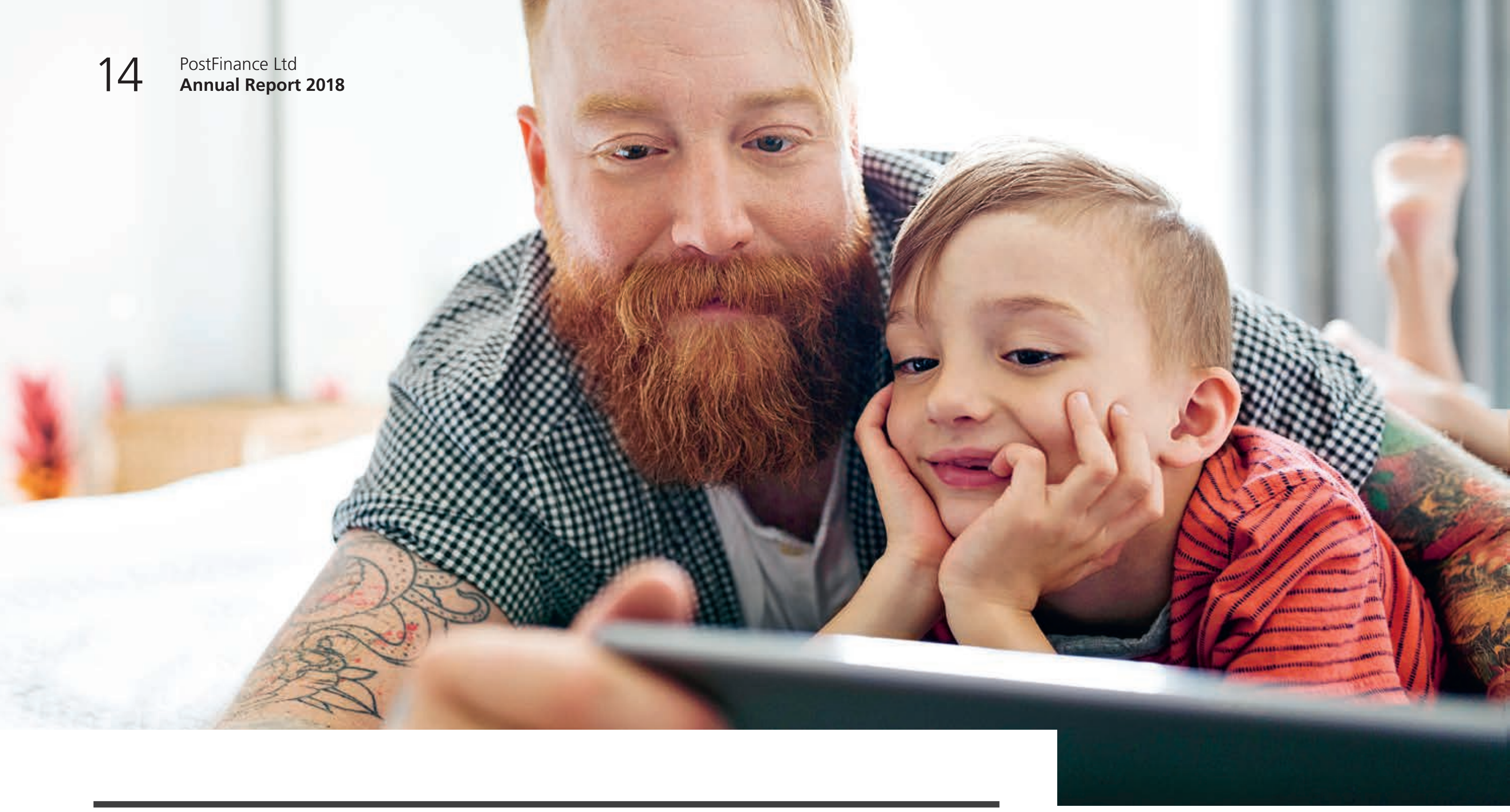
Where did you encounter the biggest challenges?
Beat Jaccottet: At the same time as introducing the new core banking system, PostFinance also converted its payment transactions to the new ISO 20022 financial center formats. By coordinating the two projects and closely supporting and assisting our customers, we were able to carry out these challenging migrations on time and to a high level of quality. Because things can go wrong with major projects, it was important for us to anticipate difficulties. We prepared meticulously for the introduction, put our heart and soul into it, tested it intensively and simulated the start of operations several times with military precision, because we wanted the changeover to run as smoothly as possible for our customers.

What are the benefits of the new core banking system?
Markus Fuhrer: At the end of March 2018, we replaced a system with outdated technologies and a heterogeneous application landscape. With the new core banking system, we are at the cutting edge in terms of technology and architecture. This allows for a flexible expansion of new products and services and lays the foundation for PostFinance's transformation into a digital powerhouse. The system has been running very well since the stabilization phase – immediately after its introduction – and it copes easily with our retail banking business as the number one in payment transactions in Switzerland.

How do you see the role of IT in PostFinance's transformation?
Markus Fuhrer: IT is an important technology and development partner for new products and services. It is therefore crucial for the success of the company that it can rely on IT's ability to deliver. To achieve our goal of becoming the leading digital bank, we use the latest technologies, which are particularly exciting for young IT professionals. PostFinance is increasingly becoming a technology company. As part of this transformation, we are converting the company into an agile, project-based operation. Our IT unit is a driving force behind this trend. Employees at IT are therefore playing a major role in shaping the future of digital banking in Switzerland.

With the new core banking system, we are at the cutting edge in terms of technology and architecture.

Markus Fuhrer
Head of Delivery Factory IT & Operations



Financial investment

No one is too small to be an investor

Anyone looking to save money over the medium and long term is well served by the funds on offer from PostFinance. They allow private individuals to become investors, even with relatively small amounts of money. PostFinance offers around 50 products which it has selected itself and reviews carefully on a regular basis, sometimes in conjunction with external partners.

Marc is enjoying a day at home with his son Leon. Together, they are looking at photos of Leon as a baby and talking about his birth. Even then, it was important to Marc to provide proper security for his offspring, including in financial matters. To give Leon a little starting capital on the road to independence later in life, he opted for a funds saving plan from PostFinance. Every three months, he pays in 100 francs. When Leon is of age, he will be able to use the money to take his driving test, and will no doubt have enough left for some travelling.

This example illustrates that investing is not rocket science and that you don't need a fortune to do it. "The funds saving plan is a good solution for anyone who wants to build up their assets in the medium to long term by putting money aside on a regular basis," says Daniel Mewes, Head of Investment Solutions. But why funds, rather than anything else? A fund invests money in different shares, bonds or real estate. Every financial investment is subject to fluctuations in value. If you invest in a pooled pot of different securities, the likelihood of you losing your savings is much lower.

How do you find the right product?
There are thousands of funds. Trying to understand them and choosing the best product is time-consuming and difficult. In addition to its own strategy and equity funds, PostFinance also offers funds from other financial service providers. PostFinance has worked with external partners to compile an initial selection of around 50 different funds. The range on offer from PostFinance covers various investment options, including funds which allow investors to choose a focus – such as sector, region, sustainability, index, real estate, commodities or bonds and convertibles. Investments can be tailored to individual requirements and wishes, depending on whether the investor is conservative in outlook or more willing to take risks, wants to make a one-off or regular investment, or wishes to invest particularly sustainably.

Fund units at PostFinance are easy to purchase and manage using online banking. Anyone interested can also arrange a personal consultation at any time. A good way to prepare for this is to determine your personal investor profile using an online tool available on the PostFinance website.

> As a rule, you can achieve better returns in the long term with funds than with your savings account.
>
> **Daniel Mewes**
> Head of Investment Solutions

People and the environment

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

3,746
employees strive to achieve PostFinance's objectives each day.

42
different nationalities ensure a diverse corporate culture at PostFinance.

63 percent
is the increase in CO_2 efficiency compared to the base year 2010.

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

6 million
francs were added by the PostFinance Top Scorers to the fund for young ice hockey players in the last 17 years.

Assuming responsibility

PostFinance assumes responsibility for people, the environment and society. As an excellent training company with diverse training profiles, it enables young people to get off to an ideal start in their professional life. Even in difficult economic times, PostFinance lives up to its social responsibility towards its employees. It provides support and assistance to its customers in their transition from traditional to digital banking, offering modern products, free training and new consulting models.

Key figures

32 apprentices
are currently completing their training at the CCYP

4 occupational profiles
can be chosen by apprentices at the CCYP

100 percent
of IT apprentices were retained after their training

Excellent training company

PostFinance is one of the best training companies in Switzerland

In August 2018, PostFinance’s Competence Center for Young Professionals (CCYP) was presented with the “Great Place to Start” award, identifying it as one of the best apprenticeship providers in Switzerland for 2018.

The “Great Place to Start” award recognizes companies with an exemplary workplace culture for apprentices. The company training scheme and an anonymous survey conducted amongst apprentices carry equal weighting in the certification procedure.

The report by Great Place to Work® concluded that CCYP apprentices are very satisfied with their jobs, enjoy their work and have confidence in their training provider. In particular, they appreciate the constructive approach to mistakes, the strong team spirit and opportunity to work independently.

The award is a testament to the work put in daily by the entire CCYP management and apprenticeship team. The training given to apprentices places great emphasis on individual responsibility and creativity. The apprentices organize their work independently using agile working methods and are able to take on responsibility at an early stage.

The CCYP is a breeding ground for the ICT (information and communications technology) professions at PostFinance, providing a continual supply of qualified specialists. Adopting an interdisciplinary approach, the apprenticeship center trains the professionals of the future in the fields of IT, mediamatics, interactive media design and commercial apprenticeships.

Great Place to Work® is a consultancy firm which operates in over 50 countries. Its ranking of the best employers is the world’s best-known and largest initiative aimed at improving workplace culture, with around 10,000 companies surveyed each year. Great Place to Work® Switzerland was founded in Zurich in 2008. The national benchmark competition “Switzerland’s best employer” – which companies of all sizes and from all sectors and regions take part in – has been held annually since 2009.

Our apprentices particularly appreciate the constructive approach to mistakes, the team spirit and opportunity to work independently.

Stephan Rohrbach
Head of CCYP

move2digital

A team with a common approach

PostFinance is transforming itself into a digital powerhouse. Its employees play a key role in this. To prepare themselves as best they can for the upcoming challenges, they are acquiring new skills or continuing to develop existing skills. The move2digital project supports them in this.

"In the summer of 2018, we launched the "creating ONE" initiative, which guides us in the ongoing development of our culture and skills," says Helene Müller. She heads the move2digital project and is responsible for cultural development at PostFinance. ONE stands for "OPEN", "NETWORK" and "ENGAGE". In various workshops, employees defined what these three terms mean to them in their day-to-day work and how they are contributing to the digital powerhouse transformation. "Our new motto is now our bedrock. It describes the mindset we need to have, now and in the future, to achieve our ambitious goals." This mindset includes agile and feedback-driven work practices, a joined-up approach to thinking and acting, and a willingness to take initiative, with the latter meaning that employees make bold and confident decisions, prioritize and adapt to new situations.

Fans of their own services

ONE is the basis for a whole range of other measures and analyses. "OPEN", for example, also means that employees are open to new forms of work, engaging with co-creation in cultural workshops, or actively contributing to internal communication by writing blog posts. The procedure and the goal are always the same: people work together across hierarchies and teams to develop corporate culture and, ultimately, PostFinance itself. And there is another, completely different factor that is crucial to success and must not be forgotten. "For our customers to become fans of PostFinance," says Helene Müller, "we have to be fans of our products ourselves." That's another part of what move2digital is all about.

Our employees must be fans of our products.

Helene Müller
Head of the move2digital project

Transformation

Harnessing savings potential, generating new income

To counteract margin erosion and the decline in revenues associated with it, PostFinance is planning measures to improve efficiency and reduce costs. But PostFinance is also investing in new business areas.

PostFinance takes its social responsibility seriously.

Gabriela Länger
Head of Working Environment

As a result of the automation and digitization of processes, the realignment of revenue operations and the outsourcing of business activities, PostFinance will have lost a total of up to 500 full-time equivalents by the end of 2020. Around two thirds of this total reduction in numbers can be absorbed by natural staff turnover, expiry of temporary employment contracts and (early) retirement. However, there will also be terminations. This is a painful decision, but it is unavoidable if the long-term competitiveness of PostFinance is to be ensured.

Great social responsibility
PostFinance understands that the upcoming changes may cause uncertainty and fear. It is also aware that as a company, it has a great deal of social responsibility in such times. PostFinance takes both of these things seriously. As not all employees are affected by the changes to the same extent, different types of individual support have been offered to members of staff. For employees who are directly affected, there is a social plan in place, and they will be given every assistance by Human Resources.

Transformation into a digital powerhouse
PostFinance is undergoing fundamental change. It is therefore not only reducing staff numbers in the coming years, but also investing in new business areas. The goal is clear: PostFinance wants to become the number one digital retail bank in Switzerland. To this end, it is expanding digital investment and developing a new core business through the mortgage brokerage and comparison platform Valuu. New jobs will be created in these areas in the future, and whenever possible, they will be filled by current employees.

Digital banking

PostFinance supports its customers

Many customers still carry out their banking transactions non-digitally. PostFinance wants to reduce the share of these customers and support them in their transition from the analogue to the digital world. The goal is “digital banking – easy and for everyone”.

For many people, digitization is a major challenge, because it turns old habits inside out. In some cases, these are lifelong habits, which is why PostFinance wants to help and support its customers in their transition from traditional to digital banking.

Unique design concept and pop-up stores

In the customer zones in its branches, PostFinance has implemented a unique design concept that allows customers to gain first-hand experience with digital services such as e-finance, mobile banking and mobile-to-mobile payments. PostFinance also has an increasingly flexible presence at highly frequented locations and operates three pop-up stores in addition to its branch network. These mobile branches can be found in train stations or shopping centers for a typical stay of around a fortnight. Employees interact with visitors directly – for example, they might install the PostFinance App on a customer’s smartphone and explain the most important functions to them.

Training at branches

As part of the “go digital” initiative, PostFinance also offers free short training courses for its customers at its branches. In the “Getting started” course, customers take their first steps into mobile banking by installing the PostFinance App, checking their account balance and viewing their account transactions. In “Applying knowledge”, they learn how to manage their accounts, pay (e-) bills and set up standing orders. The “Consolidation” course gives customers an overview of free additional functions such as push messages, and the opportunity to familiarize themselves with mobile payment solutions like the PostFinance TWINT App.

PostFinance covers financial damages

In addition to the numerous advantages of online banking, there are also hurdles that prevent customers from making the switch to digital – such as the fear of becoming victims of cybercrime. This is where PostFinance’s new performance pledge comes in: it is the first bank in Switzerland to actively pledge to its customers that it will fully cover any financial damages they suffer in e-finance and the PostFinance App as a result of phishing or malware attacks, up to a sum of 100,000 francs per case.

> We give our customers a sense of security when managing their online banking.
>
> **Sylvie Meyer**
> Head of Retail

Blockchain

Simple and efficient electricity billing

PostFinance is following the development of blockchain technology with great interest. In 2018, together with Energie Wasser Bern (ewb), it launched the blockchain-based pilot project "B4U" for simple and efficient electricity billing.

Innovation is more important than ever in the banking business.

Matthias Egli
Strategy Manager

PostFinance's innovation lab, which was founded in 2015 and now has eight employees, develops projects that support the digital transformation – sometimes outside its core business. Blockchain technology is one of the focal points: how can it be harnessed for novel business models? How can it be used profitably in the accounting of goods and services? This is where the pilot project "Blockchain for Utility" (or "B4U"), developed in cooperation with Energie Wasser Bern (ewb), comes in. The goal is to simplify energy billing for customers, such as homeowners with solar generators.

Decentralized, efficient and secure

"Until now, electricity could only be billed by the central energy provider," says PostFinance project manager Matthias Egli, explaining the background to the project. "Due to the energy act that came into force in 2018, homeowners with photovoltaic systems are now allowed to use the electricity they produce themselves directly, and to charge their tenants for it. To make billing economically viable and efficient, an automated process is required."

Working with ewb, PostFinance developed a solution that enables simple and efficient billing. It links intelligent electricity meters in households to the blockchain, automatically records consumption and production data and uses it for billing. "It allows us to provide our customers with a secure, efficient tool that can also be easily linked to their PostFinance account," says Egli.

Investigating other uses

For PostFinance, the "B4U" pilot project launched in 2018 is an opportunity to partner with additional energy providers, gain experience with blockchain-based payment and billing solutions, and look for other opportunities for use outside the energy sector.

Esports

The PostFinance Esports Experiment

Five gamers are spending a year training their skills in the online strategy game League of Legends: this is Esports Experiment, launched by PostFinance in summer 2018. PostFinance is looking to use its commitment to digital sports to gather valuable experience in an exciting market.

5 gamers
are training full-time for a year in the online game League of Legends.

826 applications
for the team were received by PostFinance.

100 million people
watched the livestreams of the final of the League of Legends World Championship 2018.

From more than 800 applications, PostFinance has recruited the five most promising talents for its team. The gamers will train their skills in League of Legends for one year full-time and take part in tournaments. PostFinance pays the players a monthly salary of 2,500 francs. They train in a fully equipped training room in the PostParc building in Berne and are supported in a professional environment by an internationally experienced coach and a range of advisors. The aim is for the “PostFinance Helix” team to prove itself on the European stage and become the best of the best in Europe. The whole project will be documented and will show e-gamers how to progress from amateurs to professionals.

New ways of appealing to customers

PostFinance wants to become the number one digital retail bank in Switzerland. Esports are among the world’s fastest-growing sports and are now a billion-dollar business. PostFinance wants to use this digital experiment to gain valuable experience in this exciting market, which remains a niche in Switzerland, and appeal to young, digitally adept customers.

Positioning in the labour market

Experience from other countries shows that qualified university graduates are more interested in a company when they can see commitments to esports. This increases PostFinance’s chances of finding employees who have precisely the qualifications that will become increasingly important for the financial institution in the future.

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) and the Ordinance on Executive Pay issued by the Federal Council.

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

Basic principles

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

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

Corporate structure and shareholders

Legal form and ownership

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

Capital structure

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

Structure of the financial group PostFinance Ltd

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

Board of Directors

Composition

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

Susanne Ruoff and Adriano P. Vassalli left the Board of Directors in summer 2018. Giulia Fitzpatrick and Jürg Brun were appointed as new members.

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 [1]

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

Key posts:
CEVA Logistics Ltd (Chairman of the Board of Directors); 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); Chairman or Member of the Foundation Board of two charitable foundations

1 The Board of Directors' Core Banking Transformation Committee was dissolved in 2018.

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, Chairman of the Board of Directors' Organization, Nomination & Remuneration Committee); Picard Angst Ltd (Member of the Board of Directors); DGM Immobilien AG (Chairman of the Board of Directors); Comunus SICAV (Vice-Chairman of the Board of Directors); Terra Foncier SA (Chairman of the Board of Directors); Investment commission of the Lucerne compensation office (Member)

Jürg Brun

Member of the Board of Directors, member since 2018, Switzerland, 1954,
FH degree in business economics, certified public accountant

Committees:
Audit & Compliance

Professional background:
Brun Advisory GmbH (independent consultant); Ernst & Young AG (various positions in Switzerland and abroad); Organisation Zoller SA, Ingénieurs Conseils (IT consulting)

Key posts:
J.P. Morgan Bank Luxembourg SA (Member of the Board of Directors, Chairman of the Audit Committee); Banque Pictet & Cie SA (Member of the Board of Directors)

Giulia Fitzpatrick

Member of the Board of Directors, member since 2018, United States and Italy, 1959,
Bachelor's degree in German Literature, University of California, San Diego, MBA in Finance, The Wharton School, Master's degree in International Relations, University of Pennsylvania

Committees:
–

Professional background:
UBS AG (Managing Director in Global Technology); Bunge Limited (Business Risk and Finance Transformation); Merrill Lynch (various positions); Instinet (Risk Management); National Securities Clearing Corporation (Risk Management); Bankers Trust (Strategy and Product Development)

Key posts:
Worldline S.A. (Member 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, University of St. Gallen

Committees:
Risk

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

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

Hans Lauber

Member of the Board of Directors, member since 2015, Switzerland, 1962, lic. rer. pol. (Business Administration and Economics, University of Basel), CEFA (Certified European Financial Analyst)

Committees:
Risk (Chair); Audit & Compliance

Professional background:
Member of the Board of Directors and entrepreneur; 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 AG, Coutts Bank and Credit Suisse

Key posts:
Fisch Asset Management Ltd (Member of the Board of Directors); Wagner AG Informatik Dienstleistungen (Chairman of the Board of Directors and owner); HFL Invest AG (Member of the Board of Directors and owner); AXA Insurance Ltd (Member of the Board of Directors (from April 2019))

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 (Chair)

Professional background:
Wealth & Legal Strategies (founder and owner); 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 OASI/II/IC (“compenswiss”) (Member of the Board of Directors); Bank SYZ AG (Member of the Board of Directors)

Internal organization

Board of Directors' role and working method

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

Meetings and attendance rates

2018	Number	Attendance rate %
Board of Directors' Meetings	11	97.2
Board of Directors' Committee Meetings		
Organization, Nomination & Remuneration	9	95.5
Audit & Compliance	8	95.5
Risk	8	100
Core Banking Transformation (CBT)	2	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)
- Rolf Watter

Susanne Ruoff left the Board of Directors' Organization, Nomination & Remuneration Committee in summer 2018. Alex Glanzmann joined as a new member on 1 January 2019.

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 the tasks relating to the management and control of non-financial risks, as well as compliance. It is responsible for liaising with the external auditors and for supervising Internal Auditing. It makes proposals to the Board of Directors regarding the appointment and dismissal of the Head of Internal Auditing. Its members are:

– Michaela Troyanov (Chair)
– Jürg Brun
– Hans Lauber

The majority of committee members are independent of Swiss Post Ltd. Adriano P. Vassalli (Chairman) left the Board of Directors’ Audit & Compliance Committee in summer 2018. Michaela Troyanov took over as Chair. Jürg Brun joined as a new member in December 2018 and become the new Chairman on 1 January 2019.

Board of Directors’ Risk Committee

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

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

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

Board of Directors’ Core Banking Transformation Committee

The Board of Directors’ Core Banking Transformation Committee was dissolved in 2018.

Executive Board

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

Hansruedi Köng

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

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

Key posts:
None

Kurt Fuchs

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

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

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

Markus Fuhrer

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

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

Key posts:
Finform Ltd (Chairman of the Board of Directors)

Patrick Graf

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

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

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

Beat Jaccottet

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

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

Key posts:
None

Felicia Kölliker

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

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

Key posts:
None

Gabriela Länger

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

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

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

Daniel Mewes

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

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

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

Sylvie Meyer

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

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

Key posts:
TWINT Ltd (Vice-Chair of the Board of Directors)

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, Security and Corporate Development. 11 meetings were held in 2018.

The Executive Board receives regular reports from the following units: Internal Auditing, Finance, Risk Control, Compliance, Governance, Security and Corporate Development. 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 monitoring process and entire internal control system comply with the eight-level COSO II framework and "three lines of defence" concept, and with the control requirements defined by the FINMA regulations.

Effective internal control requires control measures that have been integrated into work processes, risk management and risk control 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 appoints Internal Auditing Management based on a proposal from the Board of Directors' Audit & Compliance Committee. Internal Auditing Management 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) and the Ordinance on Executive Pay issued by the Federal Council.

Remuneration policy

Board of Directors

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

The amount of the fees paid to members of the Board of Directors is based on their function and the demands placed upon them. Expenses are reimbursed. The chairing of committees and any extraordinary efforts conducted outside the range of normal Board activities are remunerated additionally. Remuneration of the Board of Directors is determined by the General Meeting.

Executive Board

Corporate risk, scope of responsibility and the Confederation's Ordinance on Executive Pay are taken into account by the Board of Directors when setting the remuneration due to members of the Executive Board.

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 component are insured for members of the Executive Board: occupational pension provision is handled by the Swiss Post pension fund in accordance with the basic plan and supplementary plan 1 for salary components up to twelve times the maximum Swiss Old Age and Survivors' Insurance (OASI) retirement pension (338,400 francs in 2018). Any income in excess of this amount is covered by an external comprehensive insurance solution. Contributions to occupational pension provision are divided in line with the regulatory provisions applicable to the Swiss Post pension fund. Employment contracts are based on the Swiss Code of Obligations. Severance payments can be paid in justified cases up to a maximum of half the gross annual salary. The notice period for members of the Executive Board is six months.

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

Consideration of risk

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

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

Remuneration in 2018

Human resources

PostFinance Ltd paid a total of 369 million francs in salaries to its staff in 2018. This sum consists of fixed salaries of 341 million francs and variable components of 26 million francs for 2017, which were paid in 2018. Remuneration of 25 million francs for 2018 will not be paid until subsequent years.

PostFinance employed 3,746 staff on average in 2018. This corresponds to 3,325 full-time equivalents.

Board of Directors

The members of the Board of Directors (including the Chairman) received remuneration of 713,400 francs (fees and fringe benefits). The fringe benefits amounted to 196,400 francs. The Chairman of the Board’s fee totalled 200,000 francs, and fringe benefits amounted to 26,300 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 (including the Chief Executive Officer) received base salaries of 2,812,000 francs. The fringe benefits amounted to 224,721 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 2019, which is based on attainment of targets in 2017 and 2018, amounts to 644,532 francs. In addition, a total of 215,824 francs was paid to several members of the Executive Board from the account for variable remuneration.

The base salary of the CEO stood at 550,000 francs. The performance-related component paid out amounted to 154,309 francs In addition, 72,507 francs was paid out from the account for variable remuneration.

PostFinance Ltd | Remuneration

CHF	2017	2018
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	6,135	6,300
Total remuneration	**226,135**	**226,300**
Other members of the Board of Directors (6) [1, 2]		
Fees	360,000	317,000
Fringe benefits		
Expenses and representation allowances	36,600	27,800
Additional fringe benefits	174,800	142,300
Total remuneration	**571,400**	**487,100**
Entire Board of Directors (7) [1, 2]		
Fees	560,000	517,000
Fringe benefits	237,535	196,400
Total remuneration	**797,535**	**713,400**
Chief Executive Officer		
Fixed base salary	550,000	550,000
Variable remuneration		
Variable salary component (paid out the following year)	161,239	154,309
Variable salary component (paid into account for variable remuneration) [3]	80,620	77,154
Fringe benefits		
Expenses and representation allowances	19,200	19,200
Additional fringe benefits [4]	32,961	32,961
Total remuneration	**844,020**	**833,624**
Other members of the Executive Board (8) [5]		
Fixed base salary	1,754,500	2,262,000
Variable remuneration		
Variable salary component (paid out the following year)	384,103	490,223
Variable salary component (paid into account for variable remuneration) [6]	192,052	245,111
Additional payments [7]	15,700	75,000
Fringe benefits		
Expenses and representation allowances	96,250	120,000
Additional fringe benefits [8]	43,095	52,560
Total remuneration	**2,485,700**	**3,244,894**
All members of the Executive Board (9) [5]		
Fixed base salary and variable remuneration	3,122,514	3,853,797
Fringe benefits	207,206	224,721
Total remuneration	**3,329,720**	**4,078,518**

1 Remuneration for the members of the Board of Directors who also held an Executive Management position at Swiss Post was paid directly to Swiss Post Group.
2 Two members of the Board of Directors stepped down in summer 2018. Their successors were appointed in November 2018.
3 Amount paid out from the account for variable remuneration in 2019: CHF 72,507.
4 Other fringe benefits include: first-class GA travelcard, company car, mobile phone and premiums for risk insurance policies.
5 In 2017, not all Executive Board positions were occupied for the entire year.
6 Amount paid out from the account for variable remuneration in 2019: CHF 143,317.
7 Top bonuses for selected members of the Executive Board.
8 Other fringe benefits include: first-class GA travelcard, company car and mobile phone.

Management contracts

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

Auditor

According to the provisions of the Swiss Code of Obligations on the subject of corporate law, the auditors are to be appointed by the General Meeting. According to the Banking Act and Stock Exchange Act, this is the responsibility of the Board of Directors. Each term of office is one year. KPMG have been appointed as the auditors (accounting and regulatory audit) in accordance with the Swiss Code of Obligations as well as the Banking Act and Stock Exchange Act. Their work is carried out by two separate audit teams. The term of office for the head auditor in each case is one year. The mandate for the auditors in accordance with the Banking Act and Stock Exchange Act was awarded to KPMG and the current head auditor was engaged for the first time in 2013. In accordance with the provisions of the Swiss Code of Obligations, the head auditor may exercise his mandate for a maximum of seven years. In the year under review, the expense for PostFinance Ltd for auditing and consultancy fees from KPMG stood at a total of 2,061,169 francs, of which 524,054 francs were due for the accounting audit and 1,537,115 francs for the regulatory audit. The auditors may provide the overall management body with information in the form of reports during their accounting and regulatory audits, as well as with extraordinary reports in the course of their activities. They may also attend meetings held by the Board of Directors or its Committees.

Information policy

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

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

PostFinance examines current topics related to money and investments in a range of informative publications for its private customers. Topics for business customers are addressed in the “Business Hub”. PostFinance is also present on social networks and makes an active contribution to shaping dialogue on Facebook, Twitter, Instagram, LinkedIn and YouTube.

Management report

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

As number one on the Swiss payment transactions market, PostFinance ensures a seamless daily flow of liquidity. It processed 1,145 million transactions in 2018.

PostFinance employed 3,746 staff in 2018. This corresponds to 3,325 full-time equivalents.

In 2018 PostFinance recorded an operating profit (EBIT) of 229 million francs and generated earnings before tax (EBT) of 187 million francs. Total assets stood at 118 billion francs.

Customer deposits were down by 822 million francs, with a growing trend towards transferring assets from postal and savings accounts to investment products such as funds and shares.

The situation on the domestic and international financial and capital markets, which has been uncertain for a number of years with low and in some cases negative interest rates, continued to represent a challenge for PostFinance in 2018 and will remain a major concern in the future.

Business activities

Markets

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

Customers

Almost 2.6 million private customers and 0.3 million business customers put their trust in PostFinance. Its range of services is straightforward and user-friendly, enabling its customers to manage their own finances, anytime and anywhere. PostFinance is there for them whenever they need advice: in branches operated by PostFinance or Swiss Post, or online and by phone in the Contact Center. PostFinance also advises business customers in person at their premises.

Regulatory framework

Legal framework

PostFinance has had a banking licence since 2013.

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

Developments

Customers

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

Competition

PostFinance operates in a dynamic market environment with ever greater competition. 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. PostFinance is therefore focusing its strategy even more closely on the digital world and developing from a traditional financial service provider into a "digital powerhouse".

Economy

The Swiss National Bank (SNB) is maintaining its expansionary monetary policy, thereby stabilizing price developments and supporting economic activity. Interest on sight deposits at the SNB 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 reaffirms that it will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration.

The global economic situation remains favourable overall. However, economic indicators at the end of 2018 were more mixed than they were at the beginning of last year. Global growth lost momentum somewhat in the third quarter of 2018, this being largely attributable to temporary factors in the euro area and Japan. Economic expansion in the US and China remained robust. In Switzerland, the SNB anticipates GDP growth of around 2.5 percent for 2018 as a whole. A slowdown in GDP momentum was to be expected at the end of the year after several very strong quarters. The favourable development on the labour market continued. The unemployment rate declined again through to November to stand at 2.4 percent.

Regulation

Regulatory requirements are increasing within the banking sector. Due to developments in the European Union and the OECD, in particular, new regulatory provisions are being applied in Switzerland or giving rise to an equivalent Swiss solution. FinSA and FinIA, which are part of the new financial market architecture expected to come into force at the beginning of 2020, are of major significance in this respect. The main focus is on offering greater transparency and on meeting the growing information requirements of customers, authorities and the public. Increasing regulation is leading to considerably higher costs, which are likely to have a substantial impact on margins.

Strategy

PostFinance makes handling money as easy as possible.

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

Positioning

PostFinance is the first choice for retail customers who would like to manage their own finances, anytime and anywhere. It provides solutions that make it easier for them to manage their financial affairs and give them added value. PostFinance is the ideal partner for its Corporates customers, providing a tailor-made service that fits in perfectly with their value chain.

Digital powerhouse

PostFinance wants to become the number one retail bank in Switzerland and support its customers in their transition from the analogue to the digital world.

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

Commentary on business performance

Key figures

In the financial year 2018, PostFinance generated earnings before tax (EBT) as per Group IFRS guidelines of 187 million francs. That is 276 million francs less than in the previous year.

The interest differential business remains the most important source of revenue for PostFinance. There was a huge fall in interest income due to persistently low interest rates and expiring old capital instruments. Income from the interest differential business has been declining for a number of years, while it is virtually impossible to further reduce costs. Consequently, net interest income is collapsing – and the trend looks set to continue in the coming years. One-off gains from the sale of two equity portfolios and portfolio reversals of impairment on financial investments were recorded in the previous year. In addition, higher non-interest related revenue from the commission business and services and lower personnel expenses and amortization had a positive impact on earnings before tax.

The sales and transactions figures confirm the emphasis placed on customers who manage their own finances and use our simple, attractive products. The customer asset fee introduced the previous year failed to stop growth in customer deposits. To stem the inflow, PostFinance had to reduce the exemption limits as at 1 October 2018; these limits continue to be defined individually for major customers, while for private customers a limit of 500,000 francs has now been set. These measures resulted in a marginal outflow of customer deposits and partly in a transfer of assets to funds and securities investments.

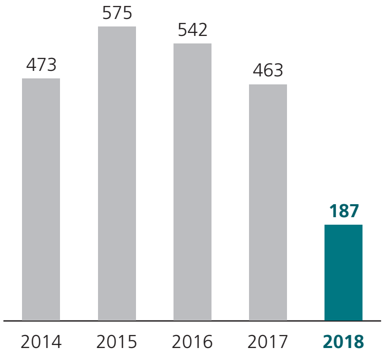
PostFinance Ltd | Key figures

2018 with previous year for comparison		2017	2018
Balance sheet			
Total assets as per IFRS	CHF million	120,848	118,173
Capital ratio as per guidelines for systemically important banks	%	17.1	17.6
ARB leverage ratio	%	4.67	4.98
Income statement (as per Group IFRS guidelines)			
Operating income	CHF million	1,693	1,321
Operating profit (EBIT)	CHF million	543	229
Earnings before tax (EBT)	CHF million	463	187
Return on equity [1]	%	8.3	3.2
Cost-income ratio	%	68.0	82.7
Customer assets and loans			
Customer assets [3]	CHF million monthly avg.	119,797	118,943
Funds, securities and life insurance [2]	CHF million monthly avg.	9,968	10,074
Customer deposits	CHF million monthly avg.	109,829	108,869
Development of customer deposits	CHF million	–611	–822
Managed assets as per provisions of Circ. 2015/1 [3]	CHF million	46,305	43,656
Inflow of new money as managed assets	CHF million	–714	–2,024
Loans to business customers (taken up)	CHF million	10,185	9,880
Mortgages [2]	CHF million	5,650	5,816
Market and employee key figures			
Customers	In thousands	2,890	2,857
Private customers	In thousands	2,594	2,567
Business customers (incl. banks and agencies)	In thousands	296	290
E-finance users	In thousands	1,756	1,775
Accounts – private customers	In thousands	4,418	4,128
Accounts – business customers	In thousands	391	375
Customer satisfaction – private customers	Index	80	79
Customer satisfaction – business customers	Index	76	77
Average headcount	Full-time equivalents	3,474	3,325
Employee satisfaction	Index	78	75
Transactions			
Transactions	In millions	1,072	1,145

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 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.

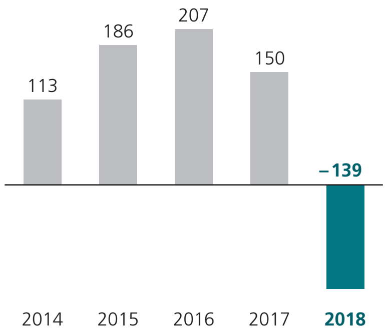
Earnings before tax (EBT)

2014 to 2018
CHF million



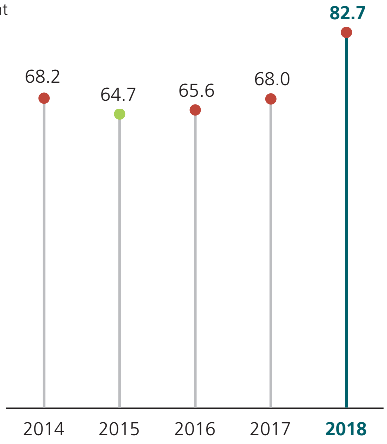
Economic value added

2014 to 2018
CHF million



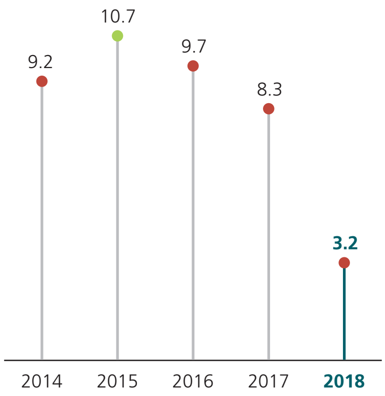
Cost-income ratio

2014 to 2018
Percent



Return on equity [1]

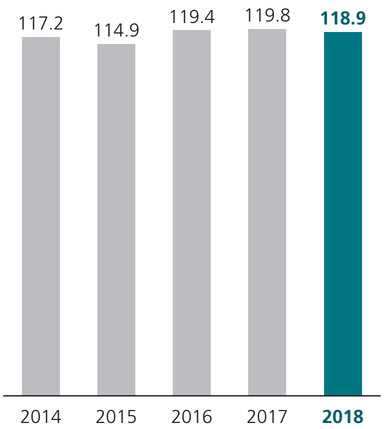
2014 to 2018
Percent



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

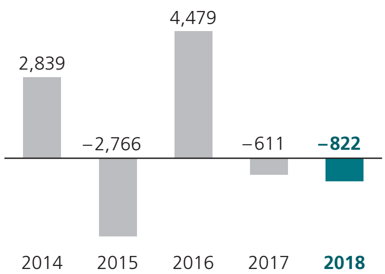
Average customer assets (monthly avg.)

2014 to 2018
CHF billion



Development of customer deposits

2014 to 2018
CHF million



General developments

There has been a further rise in divergence between the monetary policy stances of major currency areas. The US Federal Reserve increased key rates four times in 2018. The Swiss National Bank (SNB), the European Central Bank (ECB), the Bank of England and the Bank of Japan on the other hand maintained their highly expansionary monetary policy. Their key rates remain historically low, and unconventional measures such as interventions in the currency market, bond purchases or control of long-term interest rates remain integral parts of their monetary policy instruments. This international divergence in monetary policy is rooted in discrepancies between progress in the business cycle and the inflation situation.

After almost four years, Europe's currency custodians are applying the brakes to their billion-euro bond purchases. In December 2018 the ECB spent further billions on the purchase of securities for the last time for the foreseeable future. The decision was made by the Governing Council of the ECB at the beginning of December 2018, despite the fact that the economic outlook has deteriorated. There is currently no sign of a rise in interest rates for savers, however. The anti-crisis mode will nonetheless not come to an abrupt end, stressed ECB President Mario Draghi, as the central bank will reinvest the money from maturing national and corporate securities – and will continue to do so beyond the date of the first rise in interest rates, which the Governing Council of the ECB has forecasted for autumn 2019 at the earliest.

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

Although the Swiss franc further weakened slightly towards the end of 2018, in the SNB's view, it remains "highly valued", and the situation on the foreign exchange market continues to be fragile, primarily due to the strengthening of the US dollar. The franc is virtually unchanged against the euro. The inflation forecast for 2018 has fallen to 0.9 percent due to the drop in oil prices. The medium-term inflation forecast is also slightly lower owing to more moderate growth prospects. In its baseline scenario for global economic developments, the SNB anticipates solid growth in the coming quarters.

The world economy is benefiting from the clear improvement in the labour market situation and the ongoing expansionary monetary policy in the advanced economies. Nevertheless, there are significant risks to this positive baseline scenario, primarily in connection with political uncertainties and protectionist tendencies. These factors have had an increasingly negative effect on both business and financial market sentiment in recent months. Stronger turbulence could jeopardize global economic growth and have an impact on monetary policy.

The SNB anticipates GDP growth of around 2.5 percent for 2018. As in other countries, economic momentum in Switzerland is likely to weaken somewhat in 2019. Risks are to the downside, as is the case with the global economy. In particular, a sharp slowdown internationally would quickly spread to Switzerland.

Assets and financial situation

In the year under review, total assets declined by around 2.7 billion francs. Customer deposits were down by 822 million francs. A decline in customer deposits was recorded in sight deposits of retail business customers. Customer asset fees on credit balances over a certain exemption limit held by selected Corporates customers had to be maintained due to the negative interest rates on sight deposit balances at the SNB. Growth was nonetheless recorded in sight deposits of Corporates customers overall. In October 2018, the customer asset fee had to be extended to include private customers with assets of over half a million francs. This measure concerns only a very small number of customers, and had only a marginal impact on the sight deposits of private customers, which rose overall. A significant transfer was noted in the case of savings accounts: to e-savings accounts managed in e-finance. An outflow of savings was recorded overall.

PostFinance provides services in the commission business such as funds, e-trading, life insurance and credit cards in cooperation with partners. Average customer assets in investment products stand at around 10 billion francs.

PostFinance continues to invest a large proportion of its assets in long-term fixed-interest financial investments in Switzerland and abroad. A very large amount of liquidity was still held at the SNB as at 31 December 2018.

Investments

In the year under review, PostFinance once again invested in the modernization of the core banking system. Some of these expenses were capitalized and have been systematically amortized following roll-out over the 2018 Easter weekend.

At the end of 2018, the real estate portfolio of 21 properties had a market value of 1.2 billion francs. PostFinance invested around 31 million francs in developing and preserving the value of its own portfolio in 2018.

The “Cupola” residential and commercial development in Frauenfeld was opened at the end of 2018. In total, PostFinance invested 41 million francs between 2014 and 2018 (12 million francs overall in 2018) in the conversion of the historic old building and the construction of the adjacent new building.

The construction project in Zurich-Oerlikon will be implemented in two stages. The basic fit-out of the newly built business premises on Franklinstrasse has been completed. Work on the commercial and residential development in Baumackerstrasse will start in 2019. PostFinance invested 7 million francs in project development in 2018.

In 2018 PostFinance also invested 6 million francs in renovation measures in the Geneva 2 property located immediately next to the railway station.

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

Balance sheet

PostFinance Ltd | Balance sheet as per Group IFRS guidelines

CHF million	31.12.2017	31.12.2018
Assets		
Cash and cash equivalents [1]	2,113	1,958
Amounts due from banks	37,105	35,677
Interest-bearing amounts due from customers	360	543
Trade accounts receivable	23	14
Other receivables	704	591
Inventories	4	4
Non-current assets held for sale	–	4
Financial investments	79,309	78,215
Participations	19	21
Tangible fixed assets	420	402
Investment property	261	269
Intangible assets	181	175
Deferred tax assets	349	300
Total assets [1]	**120,848**	**118,173**
Liabilities		
Customer deposits [1]	113,720	111,520
Other financial liabilities	843	552
Trade accounts payable	106	83
Other liabilities	101	97
Income tax liabilities	11	0
Provisions	263	277
Deferred tax liabilities	82	19
Equity	5,343	5,475
Net annual result	379	150
Total liabilities [1]	**120,848**	**118,173**

1 Change in recognition method for the credit card business (restatement 2017).

Profit situation

Operating income

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

The interest differential business remains the most important source of revenue for PostFinance. The persistently low interest rate situation led to a significant decline in interest income during the financial year 2018 (–202 million francs year-on-year). In addition, portfolio reversals of impairment on financial investments had a positive impact on interest income in the previous year. Income from the interest differential business has been declining for a number of years due to the low, and in some cases even negative, interest rates on the international financial markets, and the reduction in profitable investment options, while it is virtually impossible to further reduce costs. This situation is and remains a major challenge, particularly as PostFinance is not allowed to issue its own loans and mortgages. PostFinance therefore welcomes the policy decision taken by the Federal Council to lift the lending prohibition.

Non-interest income in the service and commission business improved (+20 million francs), while net trading income decreased by 59 million francs. Operating income in the previous year benefited from one-off capital gains of 109 million francs from the sale of two equity portfolios in January 2017 as part of the revision of the investment strategy.

Operating expenses

Headcount decreased by 149 full-time equivalents year-on-year to an average of 3,325 full-time equivalents. As part of its new strategic focus, PostFinance is placing an emphasis on the simplification and digitization of its services and processes. Vacant positions were therefore only partly filled. PostFinance also outsourced paper-based payment transactions to Swiss Post Solutions on 1 June 2018. The affected employees were taken on by Swiss Post Solutions. Consequently, personnel expenses were 20 million francs lower than in the previous year.

General and administrative expenses rose slightly year-on-year (+3 million francs). High expenses were once again incurred for strategic projects in the financial year 2018.

One-off amortization in connection with strategic projects for the modernization of the core banking systems and real estate had been recorded in the previous year. These expense items declined accordingly by 40 million francs in the financial year 2018.

Earnings before tax (EBT)

PostFinance recorded earnings before tax of 187 million francs (–276 million francs year-on-year). This decline in profit is primarily due to the significant fall in revenue from interest operations and one-off gains from the sale of two equity portfolios recorded in the previous year. The decline in the result is in line with its expectations due to the persistently low interest rates on the financial markets combined with the prohibition on the issuing of loans and mortgages imposed on it (lending prohibition).

The significant decrease in earnings before tax is also reflected in the key figures. Consequently, no economic value added was generated in the financial year 2018. Return on equity stood at 3.2 percent and the cost-income ratio rose slightly, despite a consistent focus on costs.

Income taxes

Expenses for current taxes were down 38 million francs year-on-year due to the lower statutory result in 2018 (result in accordance with the Accounting rules for banks).

Net annual result

PostFinance's net annual result for 2018 amounted to 150 million francs. This represents a decline of 229 million francs year-on-year.

Reconciliation of the income statement from the Group segment disclosure with the PostFinance net annual result

Swiss Post includes the financial services market segment in its reporting. It indicates transfers of individual income and expense items from PostFinance to other Group units from a Group perspective. It also contains fully consolidated participations. The following table reconciles the financial services market segment result with the PostFinance net annual result in accordance with Group IFRS guidelines.

PostFinance Ltd | Reconciliation of income statement
Segment disclosure on PostFinance's net annual result
as per Group IFRS guidelines

CHF million	2017	2018
Segment operating profit (EBIT) prior to fees and net cost compensation	**549**	**220**
Expenses from management fees, licence fees and excess costs, as well as income from net cost compensation	–5	7
Segment operating profit (EBIT) after fees and net cost compensation	**544**	**227**
Operating profit from subsidiaries	–1	2
Operating profit (EBIT)	**543**	**229**
Financial expenses – PostFinance Ltd	–78	–44
Investment income from subsidiaries and associates	1	2
Losses from the sale of subsidiaries and associates	–3	0
Earnings before tax (EBT)	**463**	**187**
Expenses for current taxes	–35	3
Expenses for deferred taxes	–49	–40
Net annual result	**379**	**150**

Income statement

PostFinance Ltd | Income statement as per Group IFRS guidelines

CHF million	2017	2018
Net interest income, net of impairment	923	721
Net income from services	169 [1]	172
Net commission income	92 [1]	109
Net trading income	236	177
Net income from financial assets	85	–16
Other net income	188	159
Operating income	**1,693**	**1,322**
Personnel expenses	–507	–488
General and administrative expenses	–534	–537
Operating expenses	**–1,041**	**–1,025**
Gross profit (EBDIT)	**652**	**297**
Depreciation of fixed assets	–109	–68
Operating profit (EBIT)	**543**	**229**
Net financial income	–80	–42
Earnings before tax (EBT)	**463**	**187**
Expenses for current taxes	–35	3
Expenses for deferred taxes	–49	–40
Income taxes	**–84**	**–37**
Net annual result	**379**	**150**

1 The disclosure of expenses and income from trading with digital goods has been modified. These items are now shown on a net basis in the result from commission business instead of in net income from services. This modification has no effect on the result.

Non-financial results of a material nature

Customer satisfaction

It's good to feel secure in the digital world too.

PostFinance's private customers remain satisfied, awarding PostFinance 79 points on a scale of 0 to 100 for customer satisfaction, despite a downward trend of 1 point. Customer satisfaction increased slightly among business customers and now stands at 77 points. 95 percent of the private customers surveyed and 91 percent of business customers describe themselves as satisfied, very satisfied or delighted. The survey was carried out in the first quarter of 2018.

One of the main factors that influences customer satisfaction is the positive image of PostFinance as a trustworthy bank: both private and business customers give this aspect a very positive rating, with 86 points out of 100. PostFinance is also perceived as very secure, receiving 85 points from private customers and 86 points from business customers in this area. The slight rise in satisfaction among business customers can be explained partly by the intensive support provided with regard to the harmonization of payment transactions. Furthermore, customers appreciate the simple, reliable services, but still see potential for improvement for the e-finance login. PostFinance is planning to introduce a new procedure via facial recognition or fingerprint in the spring/summer of 2019.

As a result of increasing digitization, customers are changing or being forced to change their behaviour. We need to show that PostFinance services are equally easy to use and secure in the digital world. It is also important to continue to offer customers a personal channel for contacting PostFinance in connection with complex topics, critical financial decisions or doubts, to reassure them and give them added security.

Staff motivation

At 84.7 percent, a high employee participation rate was once again noted in this year's employee survey. The survey was conducted just under a year after the reorganization in 2017, but before the announcement of further changes. Employees are satisfied with their work and with cooperation in teams (work situation index). The feeling of belonging to PostFinance (commitment) has declined, however.

Commitment (consisting of identification, fluctuation and motivation) remains at a very high level, but decreased by two points (from 86 to 84 points). The decline in the score is due to a lower identification rate and a drop in motivation, as well as a greater intention to change jobs. Despite this, staff motivation levels are still very high.

The work situation was rated slightly less positively in 2018 than in 2017 (77 points compared to 78 points in the previous year). Direct line managers, team interaction and work content received the highest scores in this area. Above all, the survey points to an increase in workload, and indicates that a more critical view is taken of work processes.

Unit fitness received a positive rating overall, despite a drop of three points to 71 points. The most noticeable aspect here is the lower score given to strategy and management.

Employee satisfaction also dropped by three points in relation to the previous year (75 points), but still remains high.

Risk assessment

The current negative interest rate environment presents PostFinance with particular challenges. One key aspect to note is 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. Despite the difficult situation, PostFinance continues to apply a cautious credit risk policy and is currently avoiding any expansion of capital market investments in the lower investment grade area. 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 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. 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 a large fixed income portfolio.

Customer transaction volumes

In the year under review, total assets declined by around 2.7 billion francs. Customer deposits were down by 822 million francs. A decline in customer deposits was recorded in sight deposits of retail business customers. Customer asset fees on credit balances over a certain exemption limit held by selected Corporates customers had to be maintained due to the negative interest rates on sight deposit balances at the SNB. Growth was nonetheless recorded in sight deposits of Corporates customers overall. In October 2018, the customer asset fee had to be extended to include private customers with assets of over half a million francs. This measure concerns only a very small number of customers, and had only a marginal impact on the sight deposits of private customers, which rose overall. A significant transfer was noted in the case of savings accounts: to e-savings accounts managed in e-finance. An outflow of savings was recorded overall.

In October we had to announce an increase in fees in various areas as at 1 January 2019. This move is unpopular. Under the current market conditions, however, we can no longer afford to provide products and services at prices which fall well short of covering our costs. As expected, this announcement resulted in a consolidation of several account relationships.

The topic of investment is becoming of greater strategic importance at PostFinance. PostFinance wants to increase awareness of its investment products, and is organizing successful campaigns on the subject. Our retirement funds attracted considerable interest in the financial year 2018, and we launched a number of new products including a new fund: the PostFinance Fonds Swiss Small Caps, which actively invests 70 percent in small-capitalized Swiss companies.

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

PostFinance processed 1,145 million payment transactions, representing a significant increase of 6.8 percent year-on-year. Overall, our customers carried out transactions representing a total volume of some 1,700 billion francs. These figures illustrate the major importance of PostFinance in the Swiss financial services market. Inpayments at Swiss Post branches declined further as electronic processing gained ground. Particular growth is being seen in transaction volumes in the interbank sector and in trading activities (EFT / POS) as well as in e-finance.

2018 milestones

Digital powerhouse

PostFinance wants to become Switzerland's leading digital bank. We want to be the bank that helps its customers make the transition from the analogue to the digital world. Or, to put it another way: we want digital banking – easy and for everyone. In 2020, PostFinance customers should be able to carry out their banking transactions predominantly via online and mobile channels – faster, more easily and more securely than with our competitors. This creates a direct benefit for our customers – and helps us to design our internal processes more efficiently.

PostFinance successfully introduced its new core banking system over the 2018 Easter weekend. This represented an important milestone, and the technical requirements for becoming a digital powerhouse are now in place.

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

In September 2018, we launched the "self-service hub" in e-finance and in the PostFinance App, which our customers can use to manage their PostFinance Card completely digitally or change an address on their smartphones.

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

Policy decision made by the Federal Council

The PostFinance result remains heavily influenced by the ongoing difficult situation due to the ban on issuing its own loans and mortgages in the current low interest rate environment. In September 2018, the Federal Council called for the prohibition on loans and mortgage lending (lending prohibition) to be lifted for PostFinance and instructed DETEC to draw up a corresponding consultation draft in association with the Federal Department of Finance. PostFinance welcomes the Federal Council's policy decision and the political process initiated as a result.

Innovation

PostFinance's PFLab innovation lab can look back on three years of existence. Today, the innovation process at the PFLab involves discovering new tendencies and trends, experimenting with future-oriented topics and conducting pilot projects on the market in relation to these topics. The process makes it possible to experiment rapidly with future-related topics and to collect and substantiate the findings for PostFinance. In 2018 two pilot projects arose from these findings: the www.shrog.ch platform, which enables users, including non-PostFinance customers, to purchase digital credit from a range of providers, and B4U, PostFinance's pilot project with Energie Wasser Bern, for invoicing electricity for private consumption communities via blockchain. Collaboration with universities, start-ups and companies was also encouraged. An entry channel specifically for partnerships or potential participations in start-ups was created at www.postfinance.ch/startups. Start-ups from selected areas with promising business models can apply via this channel. One of these start-ups, Tilbago, the digital debt collection platform for business and private customers, received support from the PFLab last year.

Development of products and services

Since 2018 PostFinance has offered customer advice in pop-up stores and via video consultations. Customers can now also change their own address in e-finance, block their PostFinance Card, order a replacement card, modify their geoblocking and contactless settings and arrange a consultation online.

PostFinance successfully introduced voice recognition in the fourth quarter of 2018. A voiceprint is created when a customer calls the Contact Center, provided that they give their consent. We can then authenticate the caller on the basis of this voiceprint every time they call back. This strengthens security and reduces call times.

In autumn 2017, PostFinance set up a virtual assistant on its website – the first Swiss financial institution to do so. It automatically and quickly answers questions that customers frequently ask whilst maintaining the same level of quality. The virtual assistant has also recently learned French.

The security of online banking is being increased by the introduction of damage cover of up to 100,000 francs and free Go Digital workshops.

PostFinance car insurance was added to the range of products in 2018. The PostFinance Homecheck App, which makes it easy for users to estimate the value of a property, was also launched.

A new fund was added to the range of funds: the PostFinance Fonds Swiss Small Caps, which actively invests 70 percent in small-capitalized Swiss companies.

Corporate venturing

The corporate venturing activities started in 2016, i.e. investment in start-up companies, were pursued during the financial year. At the end of 2018, the portfolio comprised eight participations in dynamic growth companies. One of the aims of corporate venturing is to create opportunities for developing PostFinance's range of products and services. In the financial year 2018, innovation projects was successfully tested with start-ups from our investment portfolio, and roadmaps were developed for the future launch.

Another objective of corporate venturing is to allow knowledge to be transferred between PostFinance and start-ups. A "Family Day" attended by members of the PostFinance Executive Board and the founders of the start-ups invested in by PostFinance was therefore also organized during the financial year. The purpose of the event was to allow direct dialogue to take place between the Executive Board and the start-up founders, to allow them to learn by sharing experience and ideas, and to identify potential linking factors. The forum was thoroughly enjoyed by all participants and will be repeated in the next financial year.

Outlook

The Swiss National Bank (SNB) expects the global economy to continue developing favourably in the short term. Economic recovery and convergence with the inflation target are most advanced in the US. This prompted the US Federal Reserve to carry out a number of interest rate adjustments and to initiate the reduction of the balance sheet in 2018. The Fed therefore plans to continue its normalization of monetary policy. In December 2018 the European Central Bank (ECB) invested further billions in the purchase of securities for the last time for the foreseeable future, despite the fact that the economic outlook has deteriorated. The anti-crisis mode will nonetheless not come to an abrupt end, stressed ECB President Mario Draghi, as the central bank will reinvest the money from maturing national and corporate securities – and will continue to do so beyond the date of the first rise in interest rates, which the Governing Council of the ECB has forecasted for autumn 2019 at the earliest. In Japan, the highly expansionary monetary policy also looks set to continue.

Nevertheless, there are significant risks to this positive baseline scenario for the economy, primarily in connection with political uncertainties and protectionist tendencies. These risks have considerable potential for damage. They could lead to turbulence on the financial markets, which could in turn jeopardize global economic growth and have an impact on monetary policy.

After two years of strong growth, the Federal Government's Expert Group anticipates that the global economic momentum will level off in 2019 and 2020. The decline is expected to be somewhat faster in the eurozone. After a strong first half of the year, above-average GDP growth of 2.6 percent is forecast for 2018. In view of the subdued demand, growth in 2019 is likely to fall to 1.5 percent before rising again slightly to 1.7 percent in 2020.

The SNB's conditional inflation forecast for 2018 is 0.9 percent. For 2019, it has predicted inflation of 0.5 percent. The National Bank anticipates inflation of 1.0 percent for 2020. This is based on the assumption that the three-month Libor will remain at –0.75 percent during the forecast period.

The SNB confirmed its expansionary monetary policy stance in its assessment of December 2018. It decided to leave the target range for the three-month Libor unchanged at between –1.25 percent and –0.25 percent. It also left unchanged, at –0.75 percent, the interest rate on sight deposits held by banks and other financial market participants at the SNB which exceed a given threshold. Furthermore, the SNB reaffirmed that it will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market serve to ease upward pressure on the Swiss franc. The SNB's monetary policy thus helps to stabilize price developments and support economic activity.

The ongoing uncertain situation on the domestic and international financial and capital markets with negative interest rates in some cases is increasingly presenting PostFinance with significant challenges. The competitive disadvantage that it faces in not being able to issue our own loans and mortgages is becoming increasingly 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: society, and with it the banking world, is rapidly becoming more and more digital. As a recognized innovator, PostFinance not only wants to keep up, but make its mark and be regarded as one of the leading financial institutions. PostFinance wants to become the number one digital retail bank in Switzerland. Its aim is to create the ideal combination of the digital and physical worlds in order to offer PostFinance customers a consistently positive customer experience.

PostFinance wants to establish the basis for its long-term development. In doing so, it is implementing measures to increase efficiency and revenue in order to boost its competitiveness and ensure the stability and efficiency of IT and Operations. PostFinance also wants to continue to guarantee security and compliance with regulatory requirements.

PostFinance wants to maintain and strengthen its current core business. It wants to become the number one digital bank in Switzerland as part of the digital transformation. Its focus is on creating the best digital customer experience for retail private and business customers with the transition from multi- to omni-channel in order to secure high market share. As far as Corporates customers are concerned, PostFinance wants to catch up with market standards in its current business areas and lay the foundations for developing corporate business.

By the end of 2020, PostFinance will be able to manage with fewer employees than today due to the automation and digitization of processes, the realignment of private and business customer advisory services, and the outsourcing of business activities. Most of these should be absorbed by natural staff turnover, the expiry of temporary employment contracts and (early) retirement. PostFinance will not be able to avoid redundancies as well.

PostFinance is undergoing fundamental change. With the new banking software introduced at Easter 2018 as the cornerstone, it is transforming itself from a traditional financial service provider into a digital powerhouse, and wants to become Switzerland's leading digital retail bank. Job cuts are not the only changes which will happen in the next few years. The company will also invest around 250 million francs per year in the redesign and development of its business. Digital investments are being expanded, for instance, and PostFinance is tapping into new sources of income that do not depend on interest rate levels. PostFinance will create new jobs in these areas in future. Wherever possible, new positions will be filled by current employees.

In 2017, the Swiss financial center provided information about the switch to the ISO 20022 standard and the new QR bill. The QR bill will replace all inpayment slips from 2020. PostFinance completed the migration to ISO 20022 at all its customers by the end of 2017. In future, all the information required for transfers and debits will be sent and received in a standard format. The internationally standardized IBAN will replace all bank and postal account numbers in future. The new QR bill will be introduced as soon as the changeover to the ISO 20022 standard is complete. It will replace all seven previously valid inpayment slips.

PostFinance will replace the yellow card reader for login in spring 2019. In future, there will be a software-based login process. The new login will function via facial recognition or fingerprint depending on the mobile phone or computer used. A separate device will no longer be required. Security remains guaranteed.

With the Valuu app, PostFinance has launched the first fully digital mortgage brokerage platform. It provides users with easy, fast access to a suitable mortgage from various providers, regardless of time or location – whether it be a new purchase or replacement. The app has been available in German for iOS and Android since January 2019. With Valuu, PostFinance has brought a brokerage, comparison and conclusion platform for mortgage holders and lenders onto the market. Using the app is child's play: as a first step, users enter the details of the desired property for the conclusion or replacement of a mortgage. They can check their financial options, receive suitable offers from lenders such as banks, pension funds and insurance companies, and then apply for a loan. Up until the conclusion of the contract with the lender, users can go through all the steps independently and conveniently in the app without a consultation appointment. This makes Valuu the first platform which enables the entire process end-to-end, including the option of taking out mortgages online. At every step in the app, users have the option of calling the Valuu competence center for technical assistance or technical information.

In January 2019, the PostFinance Esports team "PostFinance Helix" entered the battle arena. PostFinance is offering five young adults the chance to spend a year receiving professional guidance and playing the strategy game, "League of Legends" at the highest level in Europe. As such, PostFinance is launching an experimental format which will support its strategic transformation into a digital powerhouse and leading digital bank in Switzerland. E-sports are among the world's fastest-growing sports and are now a billion-dollar business. 100 million people play "League of Legends" worldwide every month and winners of international tournaments take home prize money in the millions. PostFinance wants to use a digital experiment to gain valuable experience in this exciting market, which remains a niche in Switzerland, and appeal to young, digitally adept customers.

The Federal Council supports lifting the prohibition on lending by PostFinance. At its meeting on 5 September 2018, the Federal Council held a discussion on the development of PostFinance. It instructed the Federal Department of the Environment, Transport, Energy and Communications (DETEC) to draw up a consultation draft for the partial revision of the Postal Services Organization Act in association with the Federal Department of Finance (FDF). PostFinance is to be allowed to also provide mortgages and loans. In line with this strategic focus, PostFinance must meet additional equity requirements for systemically important domestic banks, mainly by building up equity and without state guarantees. These requirements come into force from 2019.

PostFinance is operating in a challenging economic and regulatory environment. As interest rates have been low or even negative for years, its interest margin is being eroded. PostFinance therefore introduced industry-standard prices for certain products and services which no longer cover costs on 1 January 2019.

PostFinance believes that managing finances should be as easy as possible and that it should offer fair value for money. This will remain true in the future despite fee increases. PostFinance knows that customers are not enthusiastic about the new prices, and this is understandable. However, in light of the margin erosion and the significant decline in profit, PostFinance can no longer afford to provide services at prices which fall well short of covering its costs. PostFinance does offer alternatives which would allow its customers to partly avoid the new fees.

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		31.12.2017	31.12.2018
Total assets	**as per Group IFRS guidelines**	**120,848**	**118,173**
Assets			
Amounts due from customers	Credit card business restatement	–11	–
Financial investments	Revaluation of financial investments held to maturity	3	–
	Lower of cost or market value principle for shares/funds as per ARB	–17	–14
	OCI [1] bonds/shares/funds in financial investments	–378	–39
	Value adjustments on OCI [1] bonds	–	–3
Participations	Amortization of equity securities	–12	–16
	Lower of cost or market value principle for participations as per ARB	–1	–23
Tangible fixed assets	Revaluation of real estate	360	354
	Goodwill adjustment in ARB less amortization	1,000	800
Other assets	Deferred tax assets (assets)	–349	–300
	Adjustment account (assets)	165	123
	Hedge fair value compensation account	25	–
Items in other amounts due to customers	PostFinance's own postal accounts (Finance/Real Estate)	0	–
Difference in assets	**ARB – Group IFRS guidelines**	**785**	**882**
Liabilities			
Other amounts due to customers	Credit card business restatement	–11	–
	PostFinance's own postal accounts (Finance/Real Estate)	0	–
Other liabilities	Adjustment account (liabilities)	165	123
	Employee benefit obligations	–243	–250
	Deferred tax liabilities (liabilities)	–9	–4
	OCI [1] equity interest transfer	24	–
Statutory capital reserve	Capital reserves (from revaluations)	1,340	1,096
	Retained earnings reserve under IFRS	188	94
Profit for the year	Difference in profit as per Group IFRS guidelines – ARB	–244	–84
Items in financial investments	OCI [1] bonds/shares/funds in financial investments	–378	–39
Item in other assets	Hedge fair value compensation account	25	–
OCI [1] as per Group IFRS guidelines only	OCI [1] from shares and participations	–72	–51
	Value adjustments on OCI [1] bonds	–	–3
Difference in liabilities	**ARB – Group IFRS guidelines**	**785**	**882**
Total assets	**as per ARB**	**121,633**	**119,055**

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		2017	2018
Net annual result (as per Group IFRS guidelines)		**379**	**150**
Interest and dividend income from financial investments	Amortization of revalued held-to-maturity financial investments	–22	–3
Various items of net income	Valuation differences for financial investments as per ARB	–28	3
Changes in value adjustments for default risks and losses from interest operations	Reversal of impairment on / impairment of loans, financial investments and receivables	–	73
Result from the disposal of financial investments	Realized gains from (earlier than scheduled) sales	–34	0
Personnel expenses	Valuation differences between IAS 19 and Swiss GAAP ARR 16	–3	10
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets	Revalued real estate	–1	–4
	Individual impairment charge due to lower fair value	–9	–3
	Goodwill	–200	–200
Various income statement items	Valuation differences for participations as per ARB	5	0
Extraordinary income / extraordinary expenses	Realized gains from participations	–	0
Taxes	Deferred tax income as per Group IFRS guidelines	49	40
Profit for the year as per ARB		**136**	**66**

Statutory annual 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 66 million francs. Total assets decreased to 119 billion francs in 2018. With a capital ratio of 17.6 percent, PostFinance exceeds the minimum capital requirements for systemically important banks.

Balance sheet

PostFinance Ltd | Balance sheet as per ARB

CHF million	Notes	31.12.2017	31.12.2018
Assets			
Liquid assets		38,476	37,201
Amounts due from banks		4,823	4,595
Amounts due from securities financing transactions	5	24	21
Amounts due from customers	6	12,173	11,676
Mortgage loans	6	0	0
Trading portfolio assets		–	–
Positive replacement values of derivative financial instruments	7	43	102
Other financial instruments at fair value		–	–
Financial investments	8	62,819	62,547
Accrued income and prepaid expenses		556	468
Participations	9, 10	122	124
Tangible fixed assets	11	1,223	1,200
Intangible assets	12	1,000	800
Other assets	13	374	321
Total assets		**121,633**	**119,055**
Total subordinated claims		13	5
of which subject to mandatory conversion and/or debt waiver		–	–
Liabilities			
Amounts due to banks		543	1,095
Liabilities from securities financing transactions	5	–	–
Amounts due in respect of customer deposits		113,292	110,501
Trading portfolio liabilities		–	–
Negative replacement values of derivative financial instruments	7	728	478
Liabilities from other financial instruments at fair value		–	–
Cash bonds		93	80
Bond issues and central mortgage institution loans		–	–
Accrued expenses and deferred income		108	94
Other liabilities	13	6	5
Provisions	16	45	54
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		136	66
Total liabilities		**121,633**	**119,055**
Total subordinated liabilities		–	–
of which subject to mandatory conversion and/or debt waiver		–	–

PostFinance Ltd | Off-balance sheet transactions

CHF million	Notes	31.12.2017	31.12.2018
Contingent liabilities	25	33	88
Irrevocable commitments		722	723
Obligations to pay up shares and make further contributions		–	–
Credit commitments		–	–

Income statement

PostFinance Ltd | Income statement as per ARB

CHF million	Notes	2017	2018
Interest and discount income	28	171	142
Interest and dividend income from trading portfolios		–	–
Interest and dividend income from financial investments		689	563
Interest expense	28	4	14
Gross result from interest operations		**864**	**719**
Changes in value adjustments for default risks and losses from interest operations		40	88
Net result from interest operations		**904**	**807**
Commission income from securities trading and investment activities		47	59
Commission income from lending activities		20	21
Commission income from other services		626	606
Commission expense		–438	–410
Result from commission business and services		**255**	**276**
Result from trading activities and the fair value option	27	**222**	**228**
Result from the disposal of financial investments		67	0
Income from participations		2	6
Result from real estate		80	68
Other ordinary income		100	86
Other ordinary expenses		–20	–43
Other result from ordinary activities		**229**	**117**
Operating income		**1,610**	**1,428**
Personnel expenses	29	–512	–478
General and administrative expenses	30	–554	–566
Operating expenses		**–1,066**	**–1,044**
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets		–369	–287
Changes to provisions and other value adjustments, and losses		–9	–10
Operating result		**166**	**87**
Extraordinary income	31	10	0
Extraordinary expenses	31	–	0
Changes in reserves for general banking risks		–	–
Taxes	32	–40	–21
Profit		**136**	**66**

Appropriation of profit

PostFinance Ltd | Distributable profit

CHF million	31.12.2017	31.12.2018
Profit for the year	136	66
Profit carried forward	–	–
Total distributable profit	**136**	**66**

At the General Meeting on 5 April 2019, the PostFinance Board of Directors will propose the following appropriation of profit (previous year: 6 April 2018):

PostFinance Ltd | Appropriation of profit

CHF million	31.12.2017	31.12.2018
Allocation to other reserves	–	–
Dividend distributions	136	–
Profit carried forward to new account	–	66
Total distributable profit	**136**	**66**

Cash flow statement

PostFinance Ltd | Cash flow statement as per ARB

CHF million	Cash inflow 2017	Cash outflow 2017	Cash inflow 2018	Cash outflow 2018
Cash flow from operating activities (internal financing)				
Profit for the year	136	–	66	–
Value adjustments on participations, depreciation and amortization of tangible fixed assets and intangible assets	359	–	287	–
Provisions and other value adjustments	25	–	9	–
Change in value adjustments for default risks and losses	–	39	–	88
Accrued income and prepaid expenses	42	–	88	–
Accrued expenses and deferred income	–	30	–	14
Other items	23	–	3	–
Previous year's dividend	–	311	–	136
Subtotal	**205**	**–**	**215**	**–**
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	1	61	0	13
Real estate	9	45	3	34
Other tangible fixed assets	–	47	0	21
Intangible assets	–	–	–	–
Subtotal	**–**	**143**	**–**	**65**
Cash flow from banking operations				
Amounts due to banks	–	1,863	552	–
Liabilities from securities financing transactions	–	723	–	–
Amounts due in respect of customer deposits	3,651	–	–	2,791
Cash bonds	–	22	–	13
Negative replacement values of derivative financial instruments	460	–	–	250
Other liabilities	–	1	–	1
Amounts due from banks	–	425	229	–
Amounts due from securities financing transactions	59	–	3	–
Amounts due from customers	998	–	523	–
Mortgage loans	0	–	0	–
Positive replacement values of derivative financial instruments	21	–	–	59
Financial investments	–	1,062	329	–
Other accounts receivable	–	64	53	–
Subtotal	**1,029**	**–**	**–**	**1,425**
Liquidity				
Liquid assets	–	1,091	1,275	–
Subtotal	**–**	**1,091**	**1,275**	**–**
Total	**1,234**	**1,234**	**1,490**	**1,490**

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 1.1.2018	**2,000**	**4,682**	**–**	**–**	**136**	**–**	**6,818**
Dividends	–	–	–	–	– 136	–	– 136
Profit	–	–	–	–	–	66	66
Equity as at 31.12.2018	**2,000**	**4,682**	**–**	**–**	**–**	**66**	**6,748**

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	31.12.2017	31.12.2018
EUR	1.1685	1.1262
USD	0.9766	0.9851
GBP	1.3163	1.2498
JPY	0.0087	0.0089

Offsetting

As a rule, no offsetting takes place, except in the cases set out below. Receivables and payables 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. Value adjustments are deducted from the corresponding asset item.

Trade date / settlement date accounting

As a rule, 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 policies

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 and deferred default risks. 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 and deferred default risks. Any premiums and discounts related to amounts due from customers 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. 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 gains and losses from these securities are 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 instruments held for trading. 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 recognized in profit or loss. 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 gains or 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. 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.

Establishing amounts for value adjustments

Depending on the change in credit risk since acquisition, debt securities, amounts due from securities financing transactions, amounts due from customers and amounts due from banks belong to one of three levels for the calculation of value adjustments. Depending on the level, the value adjustment matches the expected loss over the next year (level 1) or the expected losses over the remaining term to maturity of an instrument (levels 2–3). The expected losses over the next year depend on the exposure of the position for the relevant year included in the default risk, on the probability of default of the instrument due to economic trends, and on an expected loss given default. The lifetime expected losses depend on the probability of default of the position due to economic trends over the remaining term to maturity, on its future exposure included in the default risk, and on an expected loss given default.

At the time of acquisition, a financial instrument with intrinsic value is allocated to level 1. A transition to level 2 takes place if there has been a significant increase in credit risk since initial recognition. There is a significant increase in credit risk if the current rating of a position is below a defined threshold. The threshold applied depends on the original rating of the position. Due to the exponential nature of the probability of default, the relative change in the probability of default must be higher, the better the rating at the time an instrument was acquired. The assigned rating corresponds to the rating issued by recognized rating agencies. If no such rating exists, the ratings of non-recognized rating agencies (e.g. ratings of qualified banks) are used. A payment delay of more than 30 days also serves as a criterion for a move to level 2. In addition, a dedicated committee assesses whether there is a significant rise in credit risk for positions under special consideration, leading to a reclassification to level 2. This affects the following positions: those that have a non investment-grade rating, those whose spread exceeds a defined value, those that are lower tier 2 positions or those that do not have an external rating. If an event of default is present on the balance sheet date, the position is allocated to level 3. An event of default is present if PostFinance assumes that there is a strong probability that the debtor will be unable to meet their payment obligations in full and as agreed, if a D rating (default) applies or if the liability is more than 90 days overdue from the counterparty. If a position has been allocated to levels 2 or 3, it can again be transferred to level 1 or 2 as soon as the criteria for that level have been satisfied.

The value adjustment of a financial instrument is measured using the following parameters: default probability, credit loss ratio and credit exposure at the time of default. As PostFinance has not recorded any bond defaults in the past and invests primarily in highly rated bonds, there are no internal default time series available in order to estimate default probabilities on this basis. For this reason, default probabilities are derived from migration matrices from external sources. These derived probabilities are adjusted periodically based on the expected economic trends. The default probabilities applied in the past financial year were slightly lower than average. The model parameters for the credit loss rate for various types of product are derived from various external sources by means of an expert opinion. A dedicated committee can override the credit loss rate of specific positions if necessary. Credit exposure at the time of default generally corresponds to amortized cost or forecasted amortized cost plus outstanding interest.

Value adjustments are calculated on amounts due from private and business accounts and associated limits on a collective basis. The portfolios used were generated on the basis of the characteristics applied in product management. Receivables are allocated to the first level on initial recognition. They are allocated to levels 2 or 3 when the overdue period defined for the relevant level has been exceeded. The default rate used to determine the calculation of expected loss is calculated using historical data for a switch to level 2 or level 3. On the balance sheet date the previously calculated default probability is verified in order to determine whether an adjustment is needed on the basis of current and forward-looking information. The value adjustment for amounts due from banks is measured based on the default risk of outstanding loans or their credit rating.

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
– Software 5–10 years
– Real estate 10–50 years

Assets associated with the purchase, installation and development of 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 profit or loss. Gains 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 holders of qualified participations 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 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 has outsourced various services to third parties (mostly to Swiss Post Group companies). Outsourcing relationships exist, notably with Post CH Ltd in payment transactions, financial and IT services and for the e-bill solution. Services in the areas of printing and sending account documents and processing paper-based payment transactions are outsourced to Swiss Post Solutions Ltd. Securities trading for customers is outsourced to Swissquote Bank Ltd.

Accounting changes year-on-year

Since the financial year 2018, the retrospective model of incurred credit loss has been replaced with a forward-looking model of expected credit loss. The new model requires an assessment of how the development of economic factors will influence the need for value adjustments. Historical and future input factors such as default probabilities, credit loss ratios and credit exposure at the time of default are taken into account in particular. An explanation of the model is given in the “Establishing amounts for value adjustments” section on pages 66 to 67. The transition to the new model led to a positive impact on the result of 92 million francs.

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

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

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

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

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

Types of hedged items and hedging transactions
PostFinance mainly uses hedge accounting in connection with bonds (hedging of interest and currency risks by means of interest rate / interest rate currency swaps).

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 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 upon its initial recognition (on a prospective basis via regression analysis).
– 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.

Ineffectiveness
If this results in an ineffective portion, this is included in the income statement for the period in question. PostFinance analyses the fair value of the hedged item to determine the ineffectiveness using the hypothetical derivative method. The terms of the hypothetical derivative match the decisive terms of the hedged item and there is a fair value of zero at the beginning of the hedging relationship.

Events after the balance sheet date

The 25 percent participation in SECB Swiss Euro Clearing Bank GmbH was sold as at 31 January 2019.

3 | Risk management

Business model and risk profile

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

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

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

Governance and reporting

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

The PostFinance Board of Directors assesses the company’s overall risk situation on a quarterly basis. Assisted by the Board of Directors’ Risk and Audit & Compliance Committees, it sets out the primary guidelines and principles on managing financial, strategic and operational risks, approves the framework for risk management throughout the institution and sets conditions for an appropriate risk and control environment and for an effective ICS which the operating units are required to observe in managing risks. These limits are based on the international standardized approach set out in the regulatory provisions and specify the highest risks that PostFinance may take, expressed in terms of “equity needed to meet regulatory requirements”. Maximum risk exposure is determined by the risk capacity of PostFinance and the risk appetite of the Board of Directors.

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

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

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

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

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

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

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

Risk measurement methods

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

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

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

Stress testing

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

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

Financial risk management at PostFinance

Interest rate risk and balance sheet structure risk

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

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

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

As at 31 December 2018, the absolute change in the present value of equity with a parallel shift in the yield curve of –100 basis points amounted to –76 million francs (previous year: –29 million francs with a shift in interest of +100 basis points).

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

Credit risks

PostFinance was granted a banking licence on 26 June 2013. Even with a banking licence, PostFinance 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.

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

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

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

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

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

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

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

Note on collateral concentration risks:

Collateral concentration risks may arise when carrying out repo transactions (financial investments in exchange for collateral) and securities lending transactions (securities lending in exchange for collateral). The collateral protects PostFinance against the counterparty default risk as it can be realized by PostFinance in the event of default by the counterparty. Concentrations of securities received (with the exception of cash collateral) are measured, monitored and reported to the Executive Board on a monthly basis. At the same time, wrong-way risks are assessed and risk control proposals submitted where concentrations have been identified. The recoverable amount of the securities resulting from securities lending transactions undergoes a quarterly stress test.

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. The LCR over the next 90 days is forecast for early warning purposes. The Executive Board must take appropriate countermeasures in the event of a foreseeable shortfall of 100 percent compared to the regulatory limit.

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

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

According to PostFinance's business model, market risks are expressed by increased volatility in the income statement in the short term. PostFinance is exposed to market risks for two reasons:
– Open foreign currency items and changes in value arising from foreign currency derivatives affect the volatility of the income statement (foreign currency risks).
– Changes in value of instruments that are recognized according to the principle of the lower of cost or market value or managed in accordance with hedge accounting (including equity positions, fund investments in the banking book, hedged items and the related hedging instruments) also have an effect on the volatility of the income statement.

Market risks are modelled according to value at risk and limited in the income statement by the Board of Directors. To measure market risks, the risk factors that have an impact on the present value of the relevant item are assigned to each item. The change in present value is modelled according to the change in the allocated risk factors. A functional correlation between the item value and the associated risk factors must also be defined. The stochasticity of all relevant risk factors over the next 250 days is determined on the basis of probability distribution assumptions. Corresponding market data time series are used to calibrate the probability distributions. The distribution of changes to the ARB income statement over a one-year period can be determined with the help of the functional correlation established between risk factors and portfolio items. Value at risk is then determined on the basis of the 95 percent quantile. The Risk Management department measures market risks on a weekly basis. It informs the Executive Board of the extent to which limits are used and submits risk control proposals where necessary.

As at 31 December 2018, ARB value at risk for the income statement stood at 58 million francs (previous year: 66 million francs).

Operational risk management at PostFinance

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

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

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

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

According to the decree issued by the SNB on 29 June 2015, PostFinance 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. In its ruling dated 23 May 2016, the Swiss Financial Market Supervisory Authority (FINMA) set out extended individual requirements based on the CAO valid until 30 June 2016. The new CAO, which also amended the requirements for systemically important banks, came into force on 1 July 2016.

As at 31 December 2018 two disclosures were published: the "Capital adequacy disclosure" and the "Capital adequacy disclosure on grounds of systemic importance". The "Capital adequacy disclosure on grounds of systemic importance" is a parallel calculation which supplements the "Capital adequacy disclosure". The different requirements result in deviations, particularly with regard to eligible equity capital and capital ratios. The specified documents are published at postfinance.ch.

Information on the balance sheet

5 | Securities financing transactions

Breakdown of securities financing transactions (assets and liabilities)

CHF million	31.12.2017	31.12.2018
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	24	21
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	–	–
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	3,046	4,394
with unrestricted right to resell or pledge	3,046	4,394
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	3,523	4,925
of which, repledged securities	–	–
of which, resold securities	–	–

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

Presentation of collateral for loans/receivables

as at 31.12.2018 CHF million		Type of collateral: Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)					
Amounts due from customers		–	33	11,655	11,688
Mortgage loans		0	–	–	0
Residential property		0	–	–	0
Total loans (before netting with value adjustments)	**31.12.2018**	**0**	**33**	**11,655**	**11,688**
	31.12.2017	0	16	12,195	12,211
Total loans (after netting with value adjustments)	**31.12.2018**	**0**	**33**	**11,643**	**11,676**
	31.12.2017	0	16	12,157	12,173

Presentation of collateral for off-balance-sheet transactions

as at 31.12.2018 CHF million		Type of collateral: Secured by mortgage	Other collateral	Unsecured	Total
Off-balance sheet					
Contingent liabilities		–	47	41	88
Irrevocable commitments		–	–	723	723
Total off-balance sheet	**31.12.2018**	**–**	**47**	**764**	**811**
	31.12.2017	–	31	724	755

PostFinance discloses payment obligations for depositor protection in irrevocable commitments.

Impaired loans/receivables

CHF million	31.12.2017	31.12.2018
Gross debt amount	1	5
Net debt amount	1	5
Individual value adjustments	1	5

7 | Derivative financial instruments and hedge accounting

Derivatives received by PostFinance on behalf of customers are disclosed as trading instruments in the overview below.

Presentation of derivative financial instruments (assets and liabilities)

as at 31.12.2018 CHF million		Trading instruments: Positive replacement values	Trading instruments: Negative replacement values	Trading instruments: Contract volume	Hedging instruments: Positive replacement values	Hedging instruments: Negative replacement values	Hedging instruments: Contract volume
Interest rate instruments							
Forward contracts including FRAs		–	–	–	0	–	13
Swaps		–	–	–	–	102	2,559
Foreign exchange / precious metals							
Forward contracts		4	5	788	30	5	3,936
Cross-currency interest rate swaps		–	–	–	68	366	8,413
Equity securities / indices							
Options (exchange-traded)		–	–	0	–	–	–
Total before netting agreements as at	**31.12.2018**	**4**	**5**	**788**	**98**	**473**	**14,921**
of which, determined using a valuation model		4	5		98	473	
	31.12.2017	4	4	559	39	724	12,967
of which, determined using a valuation model		4	4		39	724	
Total after netting agreements as at	**31.12.2018**	**4**	**5**	**788**	**98**	**473**	**14,921**
	31.12.2017	4	4	559	39	724	12,967

Breakdown by counterparty

as at 31.12.2018 CHF million	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	–	98	4

Cash flow hedges

PostFinance uses cash flow hedge accounting to hedge the volatility of cash flows from interest-bearing instruments that can be predicted with a high degree of probability. Cash flow hedge accounting is used in particular to hedge fixed income instruments in foreign currencies via cross-currency interest rate swaps (in EUR, USD, GBP and JPY).

Contract volumes of cash flow hedges

CHF million	Total	0–3 months	3 months–1 year	1–5 years	Over 5 years
		Term to maturity			
31.12.2017					
Currency risk					
Cross-currency swaps	7,831	–	–	3,049	4,782
Other					
Completed non-settled transactions	25	25	–	–	–
31.12.2018					
Currency risk [1]					
Cross-currency swaps	8,413	–	303	4,743	3,367
Other					
Completed non-settled transactions	13	13	–	–	–

The following amounts were recognized from designated hedging instruments in the balance sheet and income statement:

On 1 January 2018 the hedging reserves in other assets/liabilities stood at 165 million francs. The overall fair value changes of the hedging instruments are included in the hedging reserves directly in equity in other assets/liabilities. Subsequently, the net interest accrued and paid/received (5 million francs) and the foreign currency share (248 million francs of gains) are transferred to the income statement (recycled in the result from trading activities and the fair value option). Thus the residual fair value change of the hedging instruments remains in the hedging reserves in other assets/liabilities.

Changes in hedging instruments

CHF million	Positive fair values	Negative fair values	Change in fair value which was used for disclosure of ineffectiveness in the reporting period	Change in fair value of hedging instrument in the reporting period, recorded in other assets/liabilities	Ineffectiveness recorded in the income statement	Net amount reclassified from other assets/liabilities to the income statement [1]
31.12.2018						
Currency risk						
Cross-currency swaps	68	366	287	287	–	–244
Other						
Completed non-settled transactions	0	–	–0	–0	–	–0

1 The ineffective share from the change in the fair value of the derivative is recognized in the result from trading activities and the fair value option. Reclassifications from other assets and liabilities are carried out in the result from trading activities and the fair value option (fair value change).

In the course of the reporting period, the following effects arose from designated hedged items (item in the balance sheet: financial investments):

Effects of hedged items in cash flow hedging CHF million	Change in fair value which was used for disclosure of ineffectiveness in the reporting period	Hedging reserves in other assets/liabilities
31.12.2018		
Currency risk		
Debt securities intended to be held to maturity	–287	–123

The hedging reserves in other assets/liabilities underwent the following change in the reporting period:

Hedging reserves in other assets/liabilities CHF million	2018 Hedging reserves – unrealized gains/losses from cash flow hedge
Balance at 1 January	**–165**
Change in fair value of hedging instrument	
Currency risk	286
Other	–0
Net amount reclassified from cash flow hedging reserve to income statement	
Currency risk	–244
Balance at 31 December	**–123**

This cash flow is expected to have an effect on the income statement in the following periods:

Cash flows (not discounted)				Term to maturity
CHF million	0–3 months	3 months–1 year	1–5 years	Over 5 years
31.12.2017				
Cash inflows	12	29	153	60
Cash outflows	–37	–97	–489	–187
31.12.2018				
Cash inflows	12	30	141	36
Cash outflows	–44	–98	–468	–121

Fair value hedges

PostFinance uses fair value hedge accounting to hedge changes in value of interest-sensitive assets and assets exposed to foreign currency risks. Fair value hedge accounting is used in particular to hedge fixed income instruments via interest rate swaps. Hedging transactions are carried out for the currencies EUR, USD, GBP and JPY.

Contract volumes for fair value hedges

		Term to maturity			
CHF million	Total	0–3 months	3 months–1 year	1–5 years	Over 5 years
31.12.2017					
Currency risk					
Foreign exchange forward contracts	1,222	1,222	–	–	–
Cross-currency swaps	–	–	–	–	–
Interest rate and currency risk					
Interest rate swaps	2,125	269	–	1,466	390
31.12.2018					
Currency risk					
Foreign exchange forward contracts	–	–	–	–	–
Cross-currency swaps	–	–	–	–	–
Interest rate and currency risk					
Interest rate swaps	2,559	50	300	971	1,238

The following amounts were recognized from designated hedging instruments in the balance sheet and income statement:

Net income from fair value hedges

CHF million	2017	2018
Fair value hedges for interest rate risks		
Gain/(loss) on hedging instrument	37	–7
Gain/(loss) on hedged activities or those which are allocated to the hedged risk	–37	7
Net gain/(loss) corresponding to the ineffective share of the fair value hedges	**–**	**–**
Fair value hedges for foreign currency risks		
Gain/(loss) on hedging instrument	53	–
Gain/(loss) on hedged activities or those which are allocated to the hedged risk	–43	–
Net gain/(loss) corresponding to the ineffective share of the fair value hedges	**10**	**–**

In the course of the reporting period, the following amounts arose from designated hedged items (item in the balance sheet: financial investments, amounts due from banks, amounts due from customers):

Change in fair value hedge

CHF million	Positive fair values	Negative fair values	Change in fair value which was used for disclosure of ineffectiveness in the reporting period	Ineffectiveness recorded in income statement [1]
31.12.2018				
Currency risk				
Foreign exchange forward contracts	–	–	–	–
Interest rate and currency risk				
Interest rate swaps	–	102	–7	–

1 The ineffective share from the change in the fair value of the derivative is recognized in the result from trading activities and the fair value option.

Effects of hedged items from fair value hedging

CHF million	Book value of hedged item	Accumulated expenses or income from fair value hedge adjustments that were recorded in the book value of the hedged item	Change in fair value which was used for disclosure of ineffectiveness in the reporting period
31.12.2018			
Interest rate and currency risk			
Debt securities intended to be held to maturity	1,494	36	11
Amounts due from customers and banks	1,160	50	–4

8 | Financial investments

Breakdown of financial investments	Book value		Fair value	
CHF million	31.12.2017	31.12.2018[1]	31.12.2017	31.12.2018
Debt securities	61,614	61,454	63,238	62,268
of which, intended to be held to maturity	61,614	61,454	63,238	62,268
Equity securities	1,205	1,093	1,222	1,107
Total	**62,819**	**62,547**	**64,460**	**63,375**
of which, securities eligible for repo transactions in accordance with liquidity requirements	42,657	24,494	–	–

1 The securities eligible for repos correspond to the SNB GC Basket.

Breakdown of counterparties by rating[1] as at 31.12.2018 CHF million	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	Below B–	Unrated
Debt securities: book values	40,826	12,487	5,924	145	–	2,071

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				2018						
CHF million	Acquisition cost	Accumulated value adjustments	Book value 31.12.2017	Reclassifications	Additions	Disposals	Value adjustments	Depreciation reversals	Book value 31.12.2018	Market value 31.12.2018
Participations										
with market value	46	–	46	–	–	0	–	–	46	65
without market value	125	–49	76	–	13	0	–11	–	78	–
Total participations	**171**	**–49**	**122**	**–**	**13**	**0**	**–11**	**–**	**124**	**65**

10 | Significant participations

Non-consolidated significant participations

CHF or EUR, percent	Business activities	Currency	Company capital	Share of capital and of votes[1] 31.12.2017	Share of capital and of votes[1] 31.12.2018
Lendico Schweiz AG, Zurich, Switzerland	Crowdlending platform	CHF	100,000	100.00%	100.00%
Finform Ltd, Berne, Switzerland	Fintech and regtech	CHF	100,000	50.00%	50.00%
TWINT Ltd, Zurich, Switzerland	Mobile payment	CHF	12,750,000	33.33%	26.66%
TWINT Acquiring Ltd, Zurich, Switzerland	Acquiring for payment transactions	CHF	100,000	33.33%	26.66%
moneymeets community GmbH, Cologne, Germany	Online financial services	EUR	81,000	20.39%	26.17%
moneymeets GmbH, Cologne, Germany	Infrastructure for online financial services	EUR	81,000	20.39%	26.17%
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%
TONI Digital Insurance Solutions AG, Schlieren, Switzerland	Insurance service provider	CHF	306,493	30.01%	23.93%

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

Additional information on the true and fair view statutory single-entity financial statements in accordance with FINMA Circular 2015/1, margin no. 264: The effect of a theoretical application of the equity method with regard to these participations would be to increase total assets by 20 million francs (previous year: 26 million francs) and to reduce profit for the year by 13 million francs (previous year: 14 million francs).

11 | Tangible fixed assets

Presentation of tangible fixed assets

CHF million	Acquisition cost	Accumulated depreciation	Book value 31.12.2017	2018 Reclassifications	Additions	Disposals	Depreciation	Reversals	Book value 31.12.2018
Bank buildings	195	–39	156	34	1	0	–10	–	181
Other real estate	1,013	–158	855	–34	33	–3	–34	–	817
Proprietary or separately acquired software	217	–36	181	–	14	–	–20	–	175
Other tangible fixed assets	82	–51	31	–	7	0	–11	–	27
Total tangible fixed assets	**1,507**	**–284**	**1,223**	**–**	**55**	**–3**	**–75**	**–**	**1,200**

Future lease obligations under operating leases

CHF million	2019	2020	2021	2022	2023	2024	Total
Future lease payments	16	16	1	0	0	0	**33**
of which cancellable within a year	1	0	0	0	0	0	**1**

12 | Intangible assets

Presentation of intangible assets

CHF million	Cost value	Accumulated amortization	Book value 31.12.2017	2018 Additions	Disposals	Amortization	Book value 31.12.2018
Goodwill	2,000	–1,000	1,000	–	–	–200	800
Total intangible assets	**2,000**	**–1,000**	**1,000**	**–**	**–**	**–200**	**800**

13 | Other assets and other liabilities

Breakdown of other assets and other liabilities CHF million	31.12.2017 Other assets	31.12.2018 Other assets	31.12.2017 Other liabilities	31.12.2018 Other liabilities
Compensation account	244	208	–	–
Indirect taxes	122	106	5	4
Other assets and liabilities	8	7	1	1
Total other assets and other liabilities	**374**	**321**	**6**	**5**

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

Total amount of assets pledged or assigned to secure own commitments and of assets under reservation of ownership[1] CHF million	31.12.2017	31.12.2018
Book value of assets pledged and assigned as collateral	63	63
Effective commitments	–	–

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 40,227 active insured people and 29,968 pensioners (as at 31 October 2018), the Swiss Post pension fund had total assets of 16,083 million francs as at 31 December 2018 (previous year: 16,797 million francs). The level of cover calculated according to the accounting principles applicable to the Swiss Post pension fund stands at approximately 101.9 percent (previous year: 105.8 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 553 million francs, of which 550 million francs with a waiver of use (previous year: 1,051 million francs, of which 550 million francs with a waiver of use). A technical interest rate of 1.75 percent (previous year: 2.25 percent) and the technical basis of BVG 2015 (previous year: BVG 2015) were used to calculate pension cover. It should be noted that all data regarding the Swiss Post pension fund is based on the information available at the time of drawing up the ARR 16 financial statements. Consequently, it may differ from the actual information contained in the annual financial statements for the Swiss Post pension fund. A detailed assessment did not reveal any financial impact on the bank; according to the financial statements for the Swiss Post pension fund drawn up according to Swiss GAAP ARR 26, there were no spare funds or underfunding as at 31 December 2018. There are no employer-sponsored pension schemes.

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

Presentation of the economic benefit/obligation and the pension expenses	Overfunding/ underfunding		Economic interest of PostFinance Ltd	Change in economic interest (economic benefit/ obligation) versus previous year	Contributions paid	Pension expenses in personnel expenses	
CHF million	31.12.2018	31.12.2017	31.12.2018	2018	2018	31.12.2017	31.12.2018
Swiss Post pension fund	15	–	–	–	37	53	37
Staff vouchers	−6	−7	−6	−1	0	0	−1
Disability pensions	−1	−1	−1	0	0	1	0
Total ARR 16	**8**	**−8**	**−7**	**−1**	**37**	**54**	**36**

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

Employer contribution reserves (ECR)	Nominal value	Waiver of use		Net amount	Influence of ECR on personnel expenses	
CHF million	31.12.2018	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Swiss Post pension fund	35	−35	1	0	0	1
Total ARR 16	**35**	**−35**	**1**	**0**	**0**	**1**

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

Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year CHF million	As at 31.12.2017	Use in conformity with designated purpose [1]	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at 31.12.2018
Provisions for pension benefit obligations	8	–	–	–	–	–1	7
Provisions for restructuring	14	–3	–	–	17	–4	24
Other provisions	23	–2	–	–	4	–2	23
Total provisions	**45**	**–5**	**–**	**–**	**21**	**–7**	**54**
Reserves for general banking risks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Value adjustments for default and country risks	**206**	**–**	**–**	**–**	**15**	**–92**	**129**
of which, value adjustments for default risks in respect of impaired loans/receivables	98	–	–	–	15	–1	112
of which, value adjustments for latent risks	108	–	–	–	–	–91	17

1 There were no changes in purpose.

17 | Bank's capital

PostFinance Ltd is owned entirely by Swiss Post Ltd.

Presentation of the bank's capital			31.12.2017			31.12.2018
CHF million, number in million	Total par value	No. of shares	Capital eligible for dividend	Total par value	No. of shares	Capital eligible for dividend
Bank's capital						
Share capital	2,000	2	2,000	2,000	2	2,000
of which, paid up	2,000	2	2,000	2,000	2	2,000
Total bank's capital	**2,000**	**2**	**2,000**	**2,000**	**2**	**2,000**

18 | Amounts due from / to related parties

Disclosure of amounts due from/to related parties	Amounts due from		Amounts due to	
CHF million	31.12.2017	31.12.2018	31.12.2017	31.12.2018
Holders of qualified participations	1,474	1,110	711	779
Group companies	–	0	2	1
Linked companies	19	12	591	422
Transactions with members of governing bodies	0	0	7	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	31.12.2017		31.12.2018	
CHF million	Nominal	% of equity	Nominal	% of equity
With voting rights: Swiss Post Ltd	2,000	100	2,000	100

20 | Maturity structure of financial instruments

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

as at 31.12.2018 CHF million		At sight	Cancellable	Due Within 3 months	Within 3 to 12 months	Within 12 months to 5 years	After 5 years	No maturity	Total
Liquid assets		37,201	–	–	–	–	–	–	37,201
Amounts due from banks		414	–	100	786	1,492	1,803	–	4,595
Amounts due from securities financing transactions		–	–	21	–	–	–	–	21
Amounts due from customers		535	3	384	605	4,268	5,882	–	11,676
Mortgage loans		–	–	0	–	–	–	–	0
Positive replacement values of derivative financial instruments		102	–	–	–	–	–	–	102
Financial investments		1,093	–	1,721	6,529	29,968	23,236	–	62,547
Total	**31.12.2018**	**39,344**	**3**	**2,227**	**7,919**	**35,728**	**30,921**	**–**	**116,142**
	31.12.2017	40,713	4	3,511	7,750	34,947	31,433	–	118,358

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

as at 31.12.2018 CHF million		At sight	Cancellable	Due Within 3 months	Within 3 to 12 months	Within 12 months to 5 years	After 5 years	No maturity	Total
Amounts due to banks		1,095	–	–	–	–	–	–	1,095
Liabilities from securities financing transactions		–	–	–	–	–	–	–	–
Amounts due in respect of customer deposits		71,362	39,129	9	2	–	–	–	110,501
Negative replacement values of derivative financial instruments		478	–	–	–	–	–	–	478
Cash bonds		–	–	2	6	68	4	–	80
Total	**31.12.2018**	**72,935**	**39,129**	**11**	**8**	**68**	**4**	**–**	**112,154**
	31.12.2017	72,707	41,852	6	11	73	7	–	114,656

21 | Assets and liabilities by domestic and foreign origin

Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle	31.12.2017		31.12.2018	
CHF million	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	38,475	1	37,198	3
Amounts due from banks	4,250	573	4,281	314
Amounts due from securities financing transactions	24	–	21	–
Amounts due from customers	12,164	9	11,659	17
Mortgage loans	0	–	0	–
Positive replacement values of derivative financial instruments	9	34	38	64
Financial investments	30,865	31,954	31,498	31,049
Accrued income and prepaid expenses	331	225	282	186
Participations	95	27	101	23
Tangible fixed assets	1,223	–	1,200	–
Intangible assets	1,000	–	800	–
Other assets	374	0	321	0
Total assets	**88,810**	**32,823**	**87,399**	**31,656**
Liabilities				
Amounts due to banks	483	60	1,012	83
Liabilities from securities financing transactions	–	–	–	–
Amounts due in respect of customer deposits	109,518	3,774	106,408	4,093
Negative replacement values of derivative financial instruments	145	583	125	353
Cash bonds	92	1	79	1
Accrued expenses and deferred income	108	0	94	0
Other liabilities	6	–	5	–
Provisions	45	–	54	–
Bank’s capital	2,000	–	2,000	–
Statutory capital reserve	4,682	–	4,682	–
Profit carried forward	–	–	–	–
Profit	136	–	66	–
Total liabilities	**117,215**	**4,418**	**114,525**	**4,530**

22 | Assets by country/group of countries

Breakdown of total assets by country or group of countries (domicile principle)	31.12.2017		31.12.2018	
CHF million, percent	Absolute	Share as %	Absolute	Share as %
Assets				
Switzerland	88,810	73.01	87,399	73.41
Europe	18,100	14.88	15,181	12.75
North America	7,330	6.03	8,457	7.10
Other countries	7,393	6.08	8,018	6.74
Total assets	**121,633**	**100.00**	**119,055**	**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 31.12.2017		Net foreign exposure 31.12.2018	
CHF million, percent	Absolute	Share as %	Absolute	Share as %
Rating (Moody's)				
Aaa	16,166	48.91	15,917	50.33
Aa	11,400	34.49	10,377	32.82
A	4,282	12.96	4,227	13.37
Baa	377	1.14	283	0.89
Ba	217	0.66	116	0.37
B	200	0.60	292	0.92
Caa	319	0.97	319	1.01
No rating	91	0.27	91	0.29
Total	**33,052**	**100.00**	**31,622**	**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 31.12.2018 CHF million	CHF	EUR	USD	GBP	JPY	Other	Total
Assets							
Liquid assets	37,078	123	–	–	–	–	37,201
Amounts due from banks	4,546	31	4	0	10	4	4,595
Amounts due from securities financing transactions	–	–	–	21	–	–	21
Amounts due from customers	11,648	25	3	0	0	0	11,676
Mortgage loans	0	–	–	–	–	–	0
Positive replacement values of derivative financial instruments	102	–	–	–	–	–	102
Financial investments	47,577	10,579	4,097	–	–	294	62,547
Accrued income and prepaid expenses	370	70	25	0	0	3	468
Participations	101	5	18	–	–	0	124
Tangible fixed assets	1,200	–	–	–	–	–	1,200
Intangible assets	800	–	–	–	–	–	800
Other assets	321	0	–	–	–	0	321
Total assets shown in balance sheet	**103,743**	**10,833**	**4,147**	**21**	**10**	**301**	**119,055**
Delivery entitlements from spot exchange, forward forex and forex options transactions	12,613	346	110	31	0	37	13,137
Total assets	**116,356**	**11,179**	**4,257**	**52**	**10**	**338**	**132,192**
Liabilities							
Amounts due to banks	1,086	8	1	0	0	0	1,095
Amounts due in respect of customer deposits	107,523	2,486	398	46	10	38	110,501
Negative replacement values of derivative financial instruments	478	–	–	–	–	–	478
Cash bonds	78	2	–	–	–	–	80
Accrued expenses and deferred income	94	0	0	0	–	0	94
Other liabilities	5	0	0	–	–	0	5
Provisions	54	–	–	–	–	–	54
Bank's capital	2,000	–	–	–	–	–	2,000
Statutory capital reserve	4,682	–	–	–	–	–	4,682
Profit	66	–	–	–	–	–	66
Total liabilities shown in the balance sheet	**116,066**	**2,496**	**399**	**46**	**10**	**38**	**119,055**
Delivery obligations from spot exchange, forward forex and forex options transactions	518	8,610	3,859	6	0	296	13,289
Total liabilities	**116,584**	**11,106**	**4,258**	**52**	**10**	**334**	**132,344**
Net position per currency 31.12.2018	**–228**	**73**	**–1**	**0**	**0**	**4**	**–152**
Net position per currency 31.12.2017	–509	67	14	0	0	2	–426

Information on off-balance sheet transactions

25 | Contingent assets and liabilities

Breakdown of contingent liabilities and contingent assets

CHF million	31.12.2017	31.12.2018
Guarantees to secure credits and similar	31	87
Other contingent liabilities	2	1
Total contingent liabilities	**33**	**88**

PostFinance Ltd is jointly and severally liable for all amounts due in connection with VAT for the companies belonging to the "Swiss Post" VAT group.

As far as systemic importance is concerned, Swiss Post Ltd has deposited a letter of comfort amounting to 2 billion francs in favour of PostFinance Ltd. There is also a binding, irrevocable declaration from Swiss Post Ltd for the granting of a hybrid loan with contingent debt waiver (AT1 instrument) of 136 million francs.

26 | Managed assets

Breakdown of managed assets

CHF million	31.12.2017	31.12.2018
Type of managed assets:		
Other managed assets	46,305	43,656
Total managed assets [1]	**46,305**	**43,656**
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	31.12.2017	31.12.2018
Total managed assets (including double counting) at beginning	**45,845**	**46,305**
+/– net new money inflow or net new money outflow [1]	–714	–2,024
+/– price gains/losses, interest, dividends and currency gains/losses	1,174	–625
+/– other effects	0	–
Total managed assets (including double counting) at end	**46,305**	**43,656**

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.

Information on the income statement

27 | Result from trading activities and the fair value option

Breakdown by business area

CHF million	2017	2018
Payment transactions and financial investments	211	229
Hedge accounting	2	0
Proprietary trading	9	– 1
Total result from trading activities	**222**	**228**

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

CHF million	2017	2018
Result from trading activities from:		
Interest rate instruments	– 1	1
Equity securities	– 1	0
Foreign currencies	224	227
Total result from trading activities	**222**	**228**

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 is subject to a customer asset fee. PostFinance also charges a customer asset fee for private customers' assets that exceed a defined threshold value.

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

CHF million	2017	2018
Negative interest on the lending business offset against interest and discount income	– 6	– 16
Negative interest on the borrowing business offset against interest expense	37	47

29 | Personnel expenses

Breakdown of personnel expenses

CHF million	2017	2018
Salaries (meeting attendance fees and fixed compensation to members of the bank's governing bodies, salaries and benefits)	388	386
Social insurance benefits	90	72
Changes in book value for economic benefits and obligations arising from pension schemes	0	–
Other personnel expenses	34	20
Total personnel expenses	**512**	**478**

30 | General and administrative expenses

Breakdown of general and administrative expenses

CHF million	2017	2018
Office space expenses	42	40
Expenses for information and communications technology	197	219
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	27	18
Fees of audit firm(s) (Art. 961a no. 2 CO)	3	2
of which, for financial and regulatory audits	3	2
of which, for other services	0	0
Other operating expenses	285	287
Total general and administrative expenses	**554**	**566**

31 | Extraordinary expenses and income

Extraordinary expenses

CHF million	2017	2018
Losses from disposal of participations	–	0
Total extraordinary expenses	**–**	**0**

Extraordinary income

CHF million	2017	2018
Reversals of impairment	10	–
Gains from disposal of participations	0	0
Total extraordinary income	**10**	**0**

32 | Taxes

Current and deferred taxes

CHF million	2017	2018
Expenses for current capital and income taxes	41	21
Total taxes	**41**	**21**

As in the previous year, a tax rate of 20.5 percent was used for calculating corporate income tax.

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 57 to 99) for the year ended 31 December 2018.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view 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 2018 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, 22 February 2019

Reporting

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

Ordering

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

Structure of Swiss Post reporting documents

The Swiss Post annual reporting documents consist of:

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

The present text is a translation of the original German Annual Report (“Geschäftsbericht 2018”), which constitutes the definitive text and is binding in law.

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