For all your daily financial needs

Annual Report 2019

PostFinance

PostFinance at a glance

With 2.7 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.

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.

Earnings before tax (EBT)
in millions of francs

224.0
+37.0 million francs

Eligible equity capital
in billions of francs

6.3

Capital ratio
in %

19.3

3,643 employees strive to achieve PostFinance's objectives each day.

1.8 million customers have access to e-finance.

Total assets as per IFRS
126 billion francs

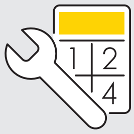
2.7 million customers place their trust in PostFinance to meet their daily financial needs.

Cost-income ratio
in %

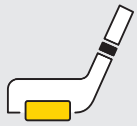
81.2

Return on equity
in %

3.7



1.2 billion
transactions at home and abroad



More than
6.5 million francs
have been added by the PostFinance Top Scorers to the fund for young ice hockey players in the last 18 years.

100 percent of the electricity consumed by PostFinance comes from “naturemade basic”.*

* Certified renewable energies from Switzerland.

46 different nationalities
ensure a diverse corporate culture at PostFinance.

Our organization

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

Secretary of the Board of Directors Markus Schumacher	**Internal Auditing** Isabella Stalder

Chief Executive Officer
Hansruedi Köng*

Secretariat of CEO and Board of Directors Andrea Bezzola	**Communication** Thomas Zimmermann a.i.

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

Our performance

PostFinance Ltd | Key figures

2019 with previous year for comparison		2018	2019
Balance sheet			
Total assets as per IFRS	CHF million	118,173	125,742
Capital ratio as per guidelines for systemically important banks	%	17.6	19.3
ARB leverage ratio	%	4.98	4.98
Income statement (as per Group IFRS guidelines)			
Operating profit (EBIT)	CHF million	229	246
Earnings before tax (EBT)	CHF million	187	224
Return on equity [1]	%	3.2	3.7
Cost-income ratio	%	82.7	81.2
Customer assets and loans			
Development of customer assets [2]	CHF million	–854	220
Customer assets	CHF million monthly avg.	118,943	119,163
Market and employee key figures			
Customers	In thousands	2,857	2,738
E-finance users	In thousands	1,775	1,797
Accounts	In thousands	4,503	4,401
Customer satisfaction – private customers	Index	82	80
Customer satisfaction – business customers	Index	80	76
Average headcount	Full-time equivalents	3,325	3,243
Employee satisfaction	Index	75	77
Transactions			
Transactions	In millions	1,145	1,180

1 Return on equity = earnings before tax (EBT) as per Group IFRS guidelines/average eligible equity capital as per ARB.
2 From 2019, the development of customer assets will be reported. This encompasses customer deposits, funds, securities and life insurance. Previous year's figures restated.

Contents

The lending prohibition must be lifted

Rolf Watter
Chairman of the Board of Directors

Hansruedi Köng
Chief Executive Officer

Dear Reader

In the financial year 2019, PostFinance generated earnings before tax (EBT) as per Group IFRS guidelines of 224 million francs, up 37 million francs year-on-year. The improvement in the result can be explained by the rise in commission and service income (+70 million francs), the increase in trading portfolio assets due to market conditions (+56 million francs), and a one-off gain of 24 million francs from the sale of two participations and a subsidiary. At the same time, personnel expenses declined by 41 million francs.

Interest rates on the national and international financial markets are negative across the board, both in Swiss francs and in euros. Combined with the lending prohibition, this is very worrying for us – and net interest income was indeed down 149 million francs year-on-year. This trend is set to continue. The pressure to pass on a bigger share of the negative market interest to our customers is therefore likely to remain high in the coming months.

Strengthening of commission-based transactions
Because margins from interest operations are declining, we are tapping into new business areas in which we can generate non-interest income.

In January 2019, we launched Valuu, the first fully digital brokerage, comparison and conclusion platform for mortgages. It provides users with easy, fast access to a suitable mortgage from various providers, regardless of time or location. New contracts and replacements are both available. After one year, Valuu has 6,000 registered users, lists 17 mortgage lenders, is available as an app and a desktop version, is available in both German and French, and has already brokered over 100 million francs in financing volumes. In 2020, we want to pick up the pace of Valuu's growth and become Switzerland's leading online mortgage brokerage platform over the medium term.

In March 2019, PostFinance car insurance came onto the market. It got off to a successful start and found acceptance among our customers as an insurance product under the PostFinance brand. This lays the foundation for further expansion of digital insurance as a business independent of interest and equity, which will enable us to scale our customer base into a new business area.

As market leader in payment transactions, we also want to strengthen our position in e-commerce. Since August 2019, small and medium-sized online retailers have been able to avail themselves of PostFinance Checkout, a complete e-payment solution that can be integrated into almost any online shop quickly and easily as a module. In the comprehensive package, retailers receive the PostFinance e-finance, PostFinance Card and TWINT payment methods, as well as Visa and Mastercard. And what's especially practical: shop operators need only one contractual relationship with PostFinance, giving them a dependable contact partner for all their requirements.

Changes in the Board of Directors
Since 13 September 2019, Bernadette Koch has been a new member of the Board of Directors of PostFinance Ltd. She succeeds Marco Durrer, who has stood down from the Board of Directors.

We are pleased that the addition of Bernadette Koch to the Board of Directors has brought us someone with in-depth knowledge of the Swiss banking landscape and a broad, cross-sector network at her disposal. At the same time, we would like to thank Marco Durrer for his many years of commitment to PostFinance and wish him all the best for the future.

Outlook
In September 2018, the Federal Council called for the prohibition on lending to be lifted. The Federal Administration is currently drawing up a consultation draft to this effect. Based on the results of this consultation, the Federal Council will then send draft legislation with its dispatch to Parliament.

Irrespective of this political decision, the Board of Directors and Executive Board are currently working on various scenarios for the future strategic direction of PostFinance. The goals are to generate new income, to improve current products and services, and to increase efficiency. As part of this process, we are also looking at the question of how we want to develop our current banking operations, in light of the fact that customers expect both physical and digital products and services.

Another focus in the current year is on the expansion of our investment business. From mid-2020, we will be offering our customers electronic asset management and the investment consulting plus package to complement our existing range of funds. These new solutions comprise the three focus areas of Switzerland, Global and Sustainability, each with five risk classes, giving a total of 15 model portfolios to choose from.

Thank you
We would like to thank our employees for their great commitment. Our transformation into a digital powerhouse is a big challenge for all of us. We need to change and evolve – in our mindset and expertise, and also in the way we work. We are supporting our employees in this process with various measures. For example, we offer internal temporary job changes that not only develop employees' skills, but also encourage creative exchange. We offer our managers learning opportunities and workspaces for discussing topics such as virtual leadership, allowing them to rethink their patterns of management and work.

In particular, we would like to thank you, our valued customers, for your trust and loyalty. Although our 2019 result was positive, in part thanks to one-off items, our profits overall have fallen sharply in recent years. For this reason, it is unfortunately no longer possible to maintain our previous generous conditions. All the more reason for us to work every day to expand and improve our existing products and services, so that we can continue to offer you fair and competitive value for money.

Rolf Watter
Chairman of the
Board of Directors

Hansruedi Köng
Chief
Executive Officer

Interview

with **Hansruedi Köng**
Chief Executive Officer

We will be launching completely new investment solutions

Hansruedi Köng, how was the result in the past financial year?
In 2019, we generated earnings before tax of 224 million francs. That's 37 million francs or around 20 percent more than in financial year 2018.

How do you explain this improvement?
As a result of adjustments to our fee structure and higher volumes of commission-based transactions, we were able to increase commission income and profit on services by 70 million francs. Trading portfolio assets improved by 56 million francs due to market conditions, and the sale of two participations and a subsidiary resulted in 24 million francs of non-recurring profit. At the same time, personnel expenses declined by 41 million francs. I remain concerned about our income from interest operations, which was down 149 million francs year-on-year. The negative market interest rates combined with the lending prohibition are hitting us hard.

Does that mean the worst is now over?
Our investment portfolio continues to include high-yield bonds from earlier investments that are now reaching maturity but which, in the current interest rate environment, we can only reinvest for very low returns. Margins therefore remain under pressure and interest income will continue to fall, although we should see the decline slow down somewhat.

One effect of the low market rates is that many banks are now charging their customers negative interest. What is PostFinance's approach to this issue?
At present, interest rates on the national and international financial markets are negative across the board, both in Swiss francs and in euros. And the market does not seem to be expecting interest rates to rise in the medium term. We can no longer absorb the negative market interest rates ourselves, and are therefore increasingly passing them on to our customers. Our approach is to look at the entire customer relationship: customers who work actively with us and use a wide range of our products and services receive a higher threshold than customers who only park their cash with us.

Does this mean that small savers will soon also have to pay negative interest at PostFinance?
At the end of the day, the interest differential business is based on the logic that the interest earned by a bank is higher than the interest it pays out to its customers. This logic still applies in the current negative interest rate environment. The pressure to pass on a bigger share of the negative market interest to customers is therefore likely to continue growing for all banks in the coming months. At the moment, however, I don't expect that small savers will have to start paying a customer asset fee at PostFinance. That said, nobody knows what the world will look like two or three years from now.

You mentioned the increased commission income and profit on services. With large numbers of account closures, haven't you paid a high price?
Last year, we lost around 100,000 customers as a result of our fee increases. Although we had to expect this response, these losses really hurt us.

Neobanks generally offer their customers a free basic service. Wasn't that the wrong approach, raising the fees?
Digital banking is extremely scalable. To capture a large customer base as quickly as possible, neobanks tempt customers with favourable conditions. For certain customers, this may seem attractive. With these providers, however, you also quickly end up paying fees if you want to use more than just their basic service. If you are looking for a comprehensive digital product range and personal advice or support in any of Switzerland's national languages, you are in very good hands with PostFinance, benefiting from an attractive price-performance ratio and excellent service.

So why did PostFinance still fail to convince many customers to stay?
When customers have multiple banking relationships, it's normal for them to consolidate them if fees increase. For many of our customers, we are not their main bank. For example, they might have only a savings account with us. With secondary banking relationships like this, customer loyalty is significantly weaker than among customers who carry out their day-to-day financial transactions with us and who may also have their mortgage or investment portfolio with us. In the investment area in particular, we are launching completely new solutions in 2020, and these will also be available digitally. The aim is to develop our savings customers into investment customers.

How do you intend to achieve this?
In the current interest environment, it is more and more difficult for savers to invest their money in a profitable manner. As an alternative to conventional account-based saving, we already offer our customers a clear range of proven funds. We are expanding this range significantly in the current year and adding new digital investment solutions to our existing range of funds. The aim is to make these available to all customers directly in e-finance, or through their customer advisor if required, before mid-2020.

How does the new range differ from PostFinance's previous approach to its investment business?
In addition to investment advice with permanent portfolio monitoring and reallocation proposals, the new e-asset management service is certainly the most important innovation. We manage and monitor the portfolio based on the investment strategy chosen by the customer. We do this by developing our own house view, which focuses on long-term asset growth for private customers. The approach we take is unspectacular, with the focus on performance after deduction of all costs. All decisions are made in customers' interests and are set out transparently in our monthly publication "Investment compass". Incidentally, free subscriptions to this publication are already available at www.postfinance.ch.

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

Hansruedi Köng

How do you plan to differentiate yourself from your competitors in the investment segment?
Until now, PostFinance offered only very limited investment advice and no asset management. We are therefore in a position to launch newly developed digital investment solutions independently of existing sales structures. That is a major advantage. Another plus is the low entry threshold in e-asset management. Private customers can benefit from this service from as little as 5,000 francs. And we will of course offer our customers attractive conditions.

What other innovations are planned for 2020?
Our ambition hasn't changed. We are transforming ourselves into a digital powerhouse and aim to become the number one digital bank in Switzerland. After launching the new e-finance login with facial recognition or fingerprint last year, we are focusing this year on expanding and developing our digital products and services.

What is the current status regarding the lifting of the lending prohibition?
The lifting of the lending prohibition requires an amendment to the Postal Services Organization Act. The Federal Council mandated this at the beginning of September 2018. The Federal Administration is currently drafting a bill to be submitted for consultation and, based on the results of that consultation, the Federal Council will then send draft legislation with its dispatch to Parliament. I cannot comment on the exact timings. But what is clear is that partial privatization will be off the table if Parliament opposes the lifting of the lending prohibition. After all, nobody will invest in a bank that is not allowed to issue loans.

Is this uncertainty paralyzing PostFinance's strategic development?
As far as the future of the lending prohibition goes, we would of course like to have clarity as quickly as possible, because this decision is key to PostFinance's future. At the same time, it makes little sense to spend our energy on things that we cannot influence ourselves. We are therefore focusing on areas where we have matters firmly under control, which includes consistent implementation of our digitization strategy. We have made great progress with this in recent months. First, we have closed gaps between us and our competitors. And secondly, we have demonstrated our pioneering spirit and innovative strength with initiatives such as the successful launch and positioning of Valuu. These skills are crucial to PostFinance's future success.

The current strategy period ends this year. Where do we go from 2021?
Working with the Board of Directors, the Executive Board is currently drawing up various scenarios for our strategic focus for PostFinance in the future. I can say no more at this point in time. However, I do assume that we will have set our course for the strategy period from 2021 by the summer of this year.

The lifting of the lending prohibition requires the consent of Parliament.

Hansruedi Köng

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.

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.

Marco Durrer stepped down from the Board of Directors in autumn 2019. Bernadette Koch was elected as a new member.

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:
IT & Digitization; Organization, Nomination & Remuneration; Risk

Professional background:
Law firm Bär & Karrer Ltd (partner); honorary professor at the University of Zurich.
Previous directorships: CEVA Logistics Ltd (Chairman); 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:
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 of the Committee); Chairman or Member of the Foundation Board of two charitable foundations

Hans Lauber

Member of the Board of Directors, member since 2015, Switzerland, 1962, lic. rer. pol. (Business Administration and Economics, University of Basel), certified federal financial analyst and asset manager, AZEK

Committees:
Risk (Chair); Audit & Compliance

Professional background:
Bank Julius Bär (Head of Investment Solutions Group/Chief Investment Officer, Member of the Executive Board); ARECON AG (CEO, Chairman of the Board of Directors); Winterthur Insurance (Head Asset Management, Chief Investment Officer, Member of Executive Management); other positions at UBS 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, owner); HFL Invest AG (Member of the Board of Directors, owner); AXA Insurance Ltd (Member of the Board of Directors); AXA Life Ltd (Member of the Board of Directors); Swiss Finance & Property Group AG (Member of the Board of Directors); Swiss Finance & Property Ltd (Member of the Board of Directors); Swiss Finance & Property Funds AG (Member of the Board of Directors)

Jürg Brun

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

Committees:
Audit & Compliance (Chair); IT & Digitization

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

Key posts:
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, USA, MBA in Finance, The Wharton School, Master's degree in International Relations, University of Pennsylvania, USA

Committees:
IT & Digitization (Chair)

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 (various positions); Bankers Trust (Strategy Planning)

Key posts:
Worldline SA (Member of the Board of Directors); Bascoral GmbH (Chief Executive Officer, owner); Zetamind AG (Chair of the Board of Directors, joint owner)

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:
Organization, Nomination & Remuneration; 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)

Bernadette Koch

Member of the Board of Directors, member since 2019, Switzerland, 1968, Certified public accountant, business economist, Higher School of Economics and Administration

Committees:
Organization, Nomination & Remuneration

Professional background:
Ernst & Young AG (People Partner, Member of the Management Committee of Assurance Switzerland, Partner/Head of the Public Sector market area; Auditor)

Key posts:
Swiss Post Ltd (Member of the Board of Directors, Chair of the Audit, Risk & Compliance Committee); Geberit AG (Member of the Board of Directors); Mobimo Holding AG (Member of the Board of Directors); Energie Oberkirch AG (Member of the Board of Directors); EXPERTsuisse (Member of the Professional Ethics Committee)

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:
Organization, Nomination & Remuneration (Chair); Audit & Compliance

Professional background:
Wealth & Legal Strategies (founder and owner); Lombard, Odier, Darier, Hentsch & Cie (Head of Legal & Compliance); leading positions in the areas of Corporate Governance, Market Surveillance & Regulation in Swiss stock exchange organizations in Zurich and Geneva (SWX Swiss Exchange, Admission Board, Takeover Board, Geneva Stock Exchange); 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)

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

2019	Number	Attendance rate %
Board of Directors’ Meetings	10	97.1
Board of Directors’ Committee Meetings		
Organization, Nomination & Remuneration	7	95.8
Audit & Compliance	9	100
Risk	8	100
IT & Digitization	8	91.7

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

– Organization, Nomination & Remuneration
– Audit & Compliance
– Risk
– IT & Digitization

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:

– Michaela Troyanov (Chair)
– Rolf Watter
– Alex Glanzmann
– Bernadette Koch

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:

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

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

Board of Directors’ Risk Committee

The Risk Committee is responsible mainly for the tasks relating to risk management, 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’ IT & Digitization Committee

The IT & Digitization Committee was newly established in 2019. It is dedicated to the operating framework and strategy for information technology and the developments and challenges of digitization, particularly with regard to the “digital powerhouse” strategy. It also provides support and assistance with the innovation process, the management of participations and the assessment of strategic thrusts. Its members are:

– Giulia Fitzpatrick (Chair)
– Rolf Watter
– Jürg Brun

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); 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:
Ormera AG (Member of the Board of Directors)

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, Lucerne University of Applied Sciences and Arts / 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, University of St. Gallen

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); seebacher GmbH (Managing Director, joint owner)

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); wikifolio Financial Technologies AG (Member of the Supervisory 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); TWINT Acquiring 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, Governance, Security and Corporate Development. Ten meetings were held in 2019.

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, with the "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. 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 (341,280 francs in 2019). 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.

Remuneration in 2019

Human resources

PostFinance Ltd paid a total of 357 million francs in salaries to its staff in 2019. This sum consists of fixed salaries of 334 million francs and variable components of 23 million francs for 2018, which were paid in 2019. Remuneration of 25 million francs for 2019 will not be paid until the subsequent year.

PostFinance employed 3,643 staff on average in 2019. This corresponds to 3,243 full-time equivalents.

Board of Directors

The members of the Board of Directors (including the Chairman) received remuneration of 803,700 francs (fees and fringe benefits). The fringe benefits amounted to 104,900 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 hold an Executive Management position at Swiss Post is paid directly to Swiss Post Group.

Executive Board

The members of the Executive Board (including the Chief Executive Officer) received base salaries of 2,925,850 francs. The fringe benefits amounted to 206,972 francs. The variable remuneration payable to members of the Executive Board, which is based on the average attainment of targets in the previous two years, amounted to 978,964 francs.

The base salary of the CEO stood at 550,000 francs. The variable remuneration amounted to 224,632 francs.

PostFinance Ltd | Remuneration

CHF	2018	2019
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	6,300	6,300
Total remuneration	**226,300**	**226,300**
Other members of the Board of Directors (6) [1, 2]		
Fees		
Base remuneration	317,000	360,000
Remuneration of committees	109,300	138,800
Fringe benefits		
Expenses and representation allowances	27,800	39,000
Additional fringe benefits	33,000	39,600
Total remuneration	**487,100**	**577,400**
Entire Board of Directors (7) [1, 2]		
Fees	626,300	698,800
Fringe benefits	87,100	104,900
Total remuneration	**713,400**	**803,700**
Chief Executive Officer		
Fixed base salary	550,000	550,000
Variable remuneration		
Variable salary component (paid out the following year)	154,309	224,632
Variable salary component (paid into account for variable remuneration) [3]	77,154	0
Fringe benefits		
Expenses and representation allowances	19,200	19,200
Additional fringe benefits [4]	32,961	15,212
Total remuneration	**833,624**	**809,044**
Other members of the Executive Board (8)		
Fixed base salary	2,262,000	2,375,850
Variable remuneration		
Variable salary component (paid out the following year)	490,223	754,332
Variable salary component (paid into account for variable remuneration) [3]	245,111	0
Additional payments [5]	75,000	29,816
Fringe benefits		
Expenses and representation allowances	120,000	120,000
Additional fringe benefits [4]	52,560	52,560
Total remuneration	**3,244,894**	**3,332,558**
All members of the Executive Board (9)		
Fixed base salary and variable remuneration	3,853,797	3,934,630
Fringe benefits	224,721	206,972
Total remuneration	**4,078,518**	**4,141,602**

1 Remuneration for members of the Board of Directors who also hold an Executive Management position at Swiss Post is paid directly to Swiss Post Group.
2 In 2018, not all board directorships were occupied for the entire year.
3 No inpayment was made for the 2019 financial year due to the discontinuation of the account for variable remuneration.
4 Other fringe benefits include: first-class GA travelcard, company car, mobile phone and, for the CEO, premiums for risk insurance policies up to 2018.
5 Correction payments for company car.

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. Ernst & Young AG have been selected 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 mandate for the auditors in accordance with the Banking Act and Stock Exchange Act was awarded to Ernst & Young AG, and the current head auditor was engaged for the first time in 2019. The auditors' term of office is one year. 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 Ernst & Young AG stood at a total of 1,435,054 francs, of which 485,388 francs were due for the accounting audit and 949,666 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 more than 2.7 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 1,180 million transactions in 2019.

PostFinance employed 3,643 staff in 2019. This corresponds to 3,243 full-time equivalents.

In 2019, PostFinance recorded an operating profit (EBIT) of 246 million francs and generated earnings before tax (EBT) of 224 million francs. Total assets stood at 126 billion francs.

Growth in customer assets amounted to 220 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 2019 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.

Customers

Almost 2.5 million private customers and 300,000 business customers put their trust in PostFinance. PostFinance's 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, as well as online and by phone in the Contact Center.

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 ongoing 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.

International trade tensions and political uncertainties have weighed on the global economy in recent months. Accordingly, economic growth around the world was again slightly below average in the third quarter of 2019. In view of modest inflation and the economic risks, various central banks eased their monetary policy in the autumn, indicating that they will probably keep their key rates at a low level for some time to come. The Swiss economy continued to grow at a moderate rate in the third quarter. In Switzerland, the SNB anticipates GDP growth of around 1.0 percent for 2019 as a whole.

The labour market continues to be a mainstay of the economy. Employment figures rose again slightly, and the unemployment rate persisted at a low level through to November.

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 either being applied directly in Switzerland or giving rise to an equivalent Swiss solution. Increasing regulation can be seen in particular with regard to due diligence obligations in the area of money laundering prevention, data protection, market behaviour and liquidity and capital requirements. This 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 2019, PostFinance generated earnings before tax (EBT) as per Group IFRS guidelines of 224 million francs. The 37 million franc improvement in the result year-on-year can be explained mainly by the 70 million franc rise in service and commission income, the 56 million franc increase in trading portfolio assets due to market conditions, and a one-off gain of 24 million francs from the sale of two participations and a subsidiary. At the same time, personnel expenses declined by 41 million francs.

However, the better results must not detract from the fact that pressure on PostFinance's core business remains consistently high. Net interest income was down 149 million francs year-on-year. This negative trend looks set to continue as bonds from earlier investments which continue to earn high interest reach maturity, but can only be reinvested for very low returns.

Higher earnings before tax are also reflected in the key figures. Return on equity rose to 3.7 percent and the cost-income ratio declined slightly thanks to a consistent focus on costs. However, no economic value added was generated in 2019.

The sales and transaction figures confirm the emphasis placed on customers who manage their own finances and use the simple, attractive products offered by PostFinance. The customer asset fee introduced in 2017 failed to stop growth in customer deposits. To stem the inflow, PostFinance had to reduce the exemption limits as at October 2018 and December 2019. In some cases, these measures have resulted in a transfer of customer deposits to funds and securities investments.

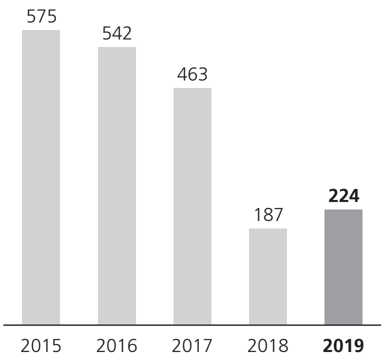
PostFinance Ltd | Key figures

2019 with previous year for comparison		2018	2019
Balance sheet			
Total assets as per IFRS	CHF million	118,173	125,742
Capital ratio as per guidelines for systemically important banks	%	17.6	19.3
ARB leverage ratio	%	4.98	4.98
Income statement (as per Group IFRS guidelines)			
Operating income	CHF million	1,321	1,305
Operating profit (EBIT)	CHF million	229	246
Earnings before tax (EBT)	CHF million	187	224
Return on equity [1]	%	3.2	3.7
Cost-income ratio	%	82.7	81.2
Customer assets and loans			
Customer assets [2]	CHF million monthly avg.	118,943	119,163
Funds, securities and life insurance [3]	CHF million monthly avg.	10,074	12,311
Customer deposits	CHF million monthly avg.	108,869	106,852
Development of customer assets [3]	CHF million	−854	220
Managed assets as per provisions of Circ. 2015/1 [3]	CHF million	43,656	46,058
Inflow of new money as managed assets	CHF million	−2,024	1,033
Loans to business customers (taken up)	CHF million	10,082	10,123
Mortgages [4]	CHF million	5,816	5,965
Market and employee key figures			
Customers	In thousands	2,857	2,738
Private customers	In thousands	2,567	2,461
Business customers (incl. banks and agencies)	In thousands	290	277
E-finance users	In thousands	1,775	1,797
Accounts – private customers	In thousands	4,128	4,043
Accounts – business customers	In thousands	375	358
Customer satisfaction – private customers	Index	82	80
Customer satisfaction – business customers	Index	80	76
Average headcount	Full-time equivalents	3,325	3,243
Employee satisfaction	Index	75	77
Transactions			
Transactions	In millions	1,145	1,180

1 Return on equity = earnings before tax (EBT) as per Group IFRS guidelines / average eligible equity capital as per ARB.
2 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.
3 From 2019, the development of customer assets will be reported. This encompasses customer deposits, funds, securities and life insurance. Previous year’s figures restated.
4 Commission business in cooperation with financial partners.

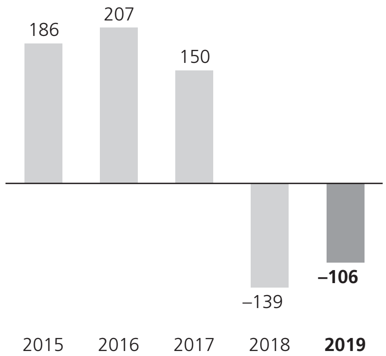
Earnings before tax (EBT)

2015 to 2019
CHF million



Economic value added[1]

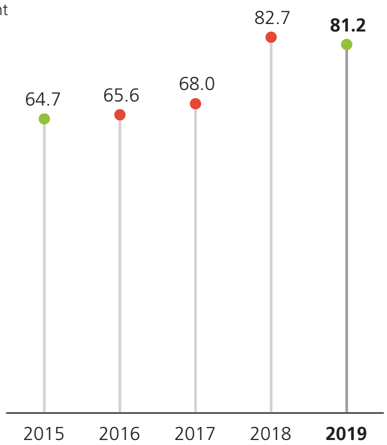
2015 to 2019
CHF million



[1] Economic value added = earnings before tax (EBT) as per Group IFRS guidelines less the cost of equity of the average eligible equity capital as per ARB.

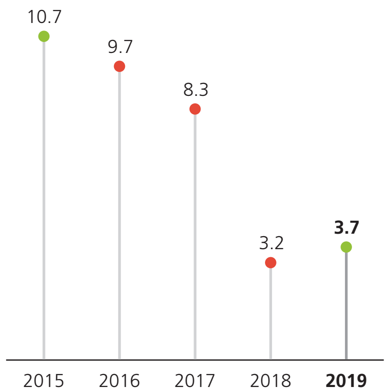
Cost-income ratio

2015 to 2019
Percent



Return on equity[2]

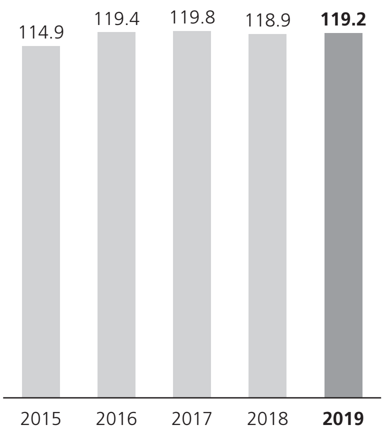
2015 to 2019
Percent



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

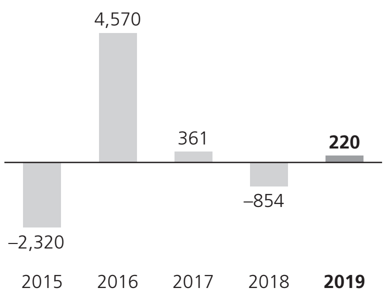
Average customer assets (monthly avg.)

2015 to 2019
CHF billion



Growth in customer assets[3]

2015 to 2019
CHF million



[3] From 2019, growth in customer assets is shown, comprising customer deposits, funds, securities and life insurance. Restated prior-year figures.

General developments

In recent months, the central banks of major industrialized countries have either eased their monetary policy or maintained their highly expansionary approach. The aim is to counter the weaker economy, high risks and an inflation rate that is below target. At the end of October 2019, the US Federal Reserve (Fed) again cut the key rate, this time by 25 basis points to a target range of 1.5 to 1.75 percent. This is the third rate cut within a few months and largely reverses the increases in the previous year. The reasons given for this turnaround are the weak development of the global economy and world trade on the one hand, and subdued inflationary pressure on the other. Given robust GDP growth rates and core inflation close to the stated target, this reasoning may seem rather surprising. However, the interest rate cuts constitute a hedge against the risks to which the US economy feels exposed, for example in connection with the trade dispute and an economic slowdown. Nevertheless, no further easing of monetary policy is expected at present: the Fed is signalling that the direction of current monetary policy is appropriate, and the markets consider the likelihood of changes to interest rates in the coming months to be low.

As announced, the European Central Bank (ECB) launched a new bond purchase programme in November 2019, with a monthly volume of 20 billion euros. With these bond purchases and record low key rates, the ECB's monetary policy is highly expansionary. The policy is likely to continue for quite some time: the ECB does not intend to abandon it until it is clear that its inflation forecast is moving closer to the target of just under 2 percent. Given persistently lower core inflation, this could take years.

At –0.75 percent, the SNB's key rates also remain at a record low. However, contrary to the expectations of some market participants, they were not further reduced in its September assessment. Instead, the SNB is likely to continue to intervene in the foreign exchange market as necessary in an effort to reduce the upward pressure on the franc. In view of the low core inflation rate and subdued economic momentum, it can be assumed that the direction of monetary policy will remain highly expansionary for a long time to come.

In the United Kingdom and Japan, monetary policy remains unchanged. The Bank of England continues to keep the key rate at 0.75 percent. It can be expected to hold off with changes to its policy until there is greater clarity with respect to the Brexit process and future relations with the EU. The Bank of Japan is maintaining its highly expansionary stance.

Overall, the Swiss economy has slowed to a more leisurely pace. The SNB anticipates GDP growth of around 1.0 percent for 2019. In some areas of the economy, the unfavourable international environment is making itself clearly felt, while other sectors are showing considerable resilience. Although GDP growth was stronger than, for example, in the eurozone, Switzerland cannot escape the effects of weak international development. This is particularly evident in the industrial sector and, in turn, in goods exports. It is also reflected in the labour market: both short-time working and unemployment continue to rise in these sectors. By contrast, the pharmaceutical sector again reported dynamic growth.

Against the backdrop of consumer confidence levels that remains below average, private consumption also provided only a moderate impetus to growth. The trend of investment in plant and equipment has been largely sideways in the past six months: the uncertain environment and the gloomy situation in the international industrial sector continue to weigh on companies' investment activity.

The leading indicators paint a similar picture: many are at levels below the long-term average, indicating weak economic growth. However, after intermittent sharp declines between early 2018 and summer 2019, the trends have recently stabilized. They would therefore seem to point to a period of weak growth, but not to a crisis.

Assets and financial situation

In the year under review, total assets rose by around 7.6 billion francs. This is mainly due to increased activity in the interbank money market. Growth in customer assets amounted to 220 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 individual 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. For customers who only park liquidity with us, we have set the threshold at CHF 250,000 since December 2019. 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, i.e. funds, e-trading and life insurance, in cooperation with partners. Average customer assets in investment products stand at around 12.3 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 2019.

Investments

In the year under review, PostFinance once again invested in the maintenance of the core banking system. For example, the ESX and RAC platform was expanded and investments were made in the replacement and expansion of the Postomat network.

At the end of 2019, the real estate portfolio of 21 properties had a market value of 1.2 billion francs. PostFinance invested around 35 million francs in developing and preserving the value of its own portfolio in 2019.

The construction project in Zurich-Oerlikon consists of two stages. The new building in Franklinstrasse opened in 2019. The PostFinance branch started operations at the new location in autumn. The lettable area in the newly built business premises was very well received on the market. Construction of the commercial and residential property on Baumackerstrasse is currently underway. PostFinance invested 9 million francs in project development in 2019.

PostFinance is carrying out extensive refurbishment of the bank building on Engehaldenstrasse in Berne, and the first employees moved into the modern office premises in 2019. The investment volume for this refurbishment was 7 million francs.

The maintenance of the properties in Neuchâtel Place du Port and Geneva Mont-Blanc, which both date back to the 19th century, requires particularly careful and costly measures. In 2019, PostFinance invested a total of 2 million francs in the two historic buildings.

The Geneva Montbrillant property, situated next to the railway station, is being gradually transformed from a pure Swiss Post building into a marketable investment property. The restoration and reconfiguration of the building's 65,000 square metres absorbed investments of almost 11 million francs in 2019.

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	31.12.2018	31.12.2019
Assets		
Cash and cash equivalents	1,958	1,778
Amounts due from banks	35,677	45,440
Interest-bearing amounts due from customers	543	500
Trade accounts receivable	14	27
Other receivables	591	492
Inventories	4	4
Non-current assets held for sale	4	–
Financial investments	78,215	76,388
Participations	21	5
Tangible fixed assets	402	399
Investment property	269	267
Intangible assets	175	151
Right-of-use assets	–	65
Deferred tax assets	300	226
Total assets	**118,173**	**125,742**
Liabilities		
Customer deposits	111,520	108,966
Other financial liabilities	552	10,349
Trade accounts payable	83	81
Other liabilities	97	108
Income tax liabilities	0	–
Provisions	276	264
Deferred tax liabilities	19	89
Equity	5,476	5,759
Net annual result	150	126
Total liabilities	**118,173**	**125,742**

Profit situation

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

Operating income

The interest differential business, the most important source of revenue for PostFinance, has been declining for many years. This trend continued in the 2019 financial year. Interest income fell by 149 million francs year-on-year. As a result of the ongoing low interest rate situation on the international financial markets and investment options that are now barely profitable, interest income is falling sharply while expenses can only be reduced marginally. This situation is and remains a major challenge, particularly as PostFinance is not allowed to issue its own loans and mortgages. This is economically damaging, especially in the current negative interest rate environment. PostFinance therefore welcomes the policy decision of the Federal Council to lift the lending prohibition and hopes that in due course, the National Council and Council of States will approve the necessary revision of the law.

Due to the challenging situation in interest operations, PostFinance introduced industry-standard prices for certain products and services which no longer cover costs at the beginning of 2019. This was the main reason for the higher result from services (+61 million francs compared to the previous year). The efforts to expand the investment business in order to generate non-interest income are having an impact on commission income (+9 million francs).

Operating income also benefited from positive growth in trading portfolio assets of 56 million francs. The main drivers for this growth were unrealized fluctuations in fair value on fund investments, which were recognized in profit or loss. As a result of early sales of financial investments, non-recurring gains were realized in net income from financial assets (+12 million francs compared to the previous year), while other income was down by 6 million francs.

Operating expenses

In comparison with the previous year, headcount decreased by 82 full-time equivalents to an average of 3,243 full-time equivalents due to ongoing restructuring programmes. As part of its strategic focus, PostFinance is placing an emphasis on the simplification and digitization of its services and processes. PostFinance also outsourced paper-based payment transactions with around 80 full-time equivalents to Swiss Post Solutions on 1 June 2018. At the same time, however, PostFinance also pushed ahead with innovations and built up staff in new areas. Personnel expenses fell by 41 million francs, due on the one hand to the lower headcount and on the other to the reversal through profit or loss of a restructuring provision set up in previous years.

The IFRS 16 reporting standard was applied to general and administrative expenses for the first time in the 2019 financial year. This governs the accounting treatment of leases through the capitalization of leases. At PostFinance, this concerns rental agreements with third parties in particular. The application of IFRS 16 led to a transfer of around 14 million francs from general and administrative expenses to depreciation and financial expenses in 2019. PostFinance also recorded higher depreciation for software and tenant fit-outs.

The sale of two participations and a subsidiary resulted in a one-off gain of 24 million francs in the financial result.

Earnings before tax (EBT)

PostFinance recorded earnings before tax of 224 million francs (+37 million francs year-on-year). The higher result is primarily due to the increase in the result from the service and commission business, the increase in trading portfolio assets due to market conditions and the one-off gain from the sale of two participations and a subsidiary. In the core business, earnings declined sharply due to the difficult interest rate environment and the lending prohibition.

Earnings before tax are reflected in the key figures. Return on equity stood at 3.7 percent and the cost-income ratio declined slightly thanks to a consistent focus on costs. No economic value added was generated in 2019.

Income taxes

No expenses for current taxes were incurred due to the negative statutory result in 2019 (result in accordance with the accounting rules for banks). In contrast, however, there were higher expenses for deferred taxes due to valuation differences between the accounting rules in accordance with Group IFRS guidelines and the accounting rules for banks (ARB).

Net annual result

PostFinance's net annual result for 2019 amounted to 126 million francs. This represents a decline of 24 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 the consolidated perspective. 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	2018	2019
Segment operating profit (EBIT) prior to fees and net cost compensation	**220**	**240**
Expenses from management fees, licence fees and excess costs, as well as income from net cost compensation	7	5
Segment operating profit (EBIT) after fees and net cost compensation	**227**	**245**
Operating profit from subsidiaries	2	1
Operating profit (EBIT)	**229**	**246**
Financial expenses – PostFinance Ltd	–44	–47
Financial income	2	1
Gain/loss from the sale of subsidiaries and associates	0	24
Earnings before tax (EBT)	**187**	**224**
Expenses for current taxes	3	0
Expenses for deferred taxes	–40	–98
Net annual result	**150**	**126**

Income statement

PostFinance Ltd | Income statement as per Group IFRS guidelines

CHF million	2018	2019
Net interest income, net of impairment	721	572
Net income from services	172	233
Net commission income	109	118
Net trading income	177	233
Net income from financial assets	–16	–4
Other net income	159	153
Operating income	**1,322**	**1,305**
Personnel expenses	–488	–447
General and administrative expenses	–537	–520
Operating expenses	**–1,025**	**–967**
Gross profit (EBDIT)	**297**	**338**
Depreciation of fixed assets	–68	–92
Operating profit (EBIT)	**229**	**246**
Net financial income	–42	–22
Earnings before tax (EBT)	**187**	**224**
Expenses for current taxes	3	0
Expenses for deferred taxes	–40	–98
Income taxes	**–37**	**–98**
Net annual result	**150**	**126**

Non-financial results of a material nature

Customer satisfaction

New digital products and services to impress customers.

PostFinance's private customers remain satisfied, awarding PostFinance 80 points on a scale of 0 to 100 for overall satisfaction, despite a decline of 2 points. The decline in satisfaction is mainly due to the introduction of account management fees, which as expected is viewed more critically than a year ago. Among business customers, overall satisfaction fell to 76 points. Leisure associations and larger SMEs in particular were annoyed by PostFinance's new prices.

In contrast, PostFinance introduced various new products and services in 2019 that were very well received by customers: the new e-finance login and change of address or card blocking directly in e-finance are just a few examples of this. To restore balance to perceived value for money for customers, PostFinance is continuously developing its existing digital products and services and at the same time working on launching new products and services that impress customers and make it easier for them to manage their finances.

Staff motivation

At 84 percent, a high employee participation rate was once again noted in this year's employee survey. Employees are satisfied with their work and with cooperation in teams (work situation index).

Commitment (consisting of identification, fluctuation and motivation) has a high positive rating and remains high at 84 points. Staff motivation continues to receive a very high positive rating.

The work situation was rated slightly more positively in 2019 than in 2018 (78 points compared to 77 points in the previous year). Direct line managers, team interaction and work content received the highest scores in this area. Above all, however, the survey points to a high workload, and a critical view is taken of work processes. Overall, unit fitness is positive with an increase of one point to 72 points. For this criterion, the average positive assessment of strategy and management in particular stands out. Employee satisfaction remains high. It has actually increased by 2 points year-on-year (79 points compared to 77 points in the previous year).

PostFinance aims to become the number one digital bank in Switzerland, and a collective team spirit will help it reach this objective. One team requires one spirit: respect, clear communication and a readiness to take on responsibility. Employees are guided by the contents of ONE – Open, Network and Engage.

The conditions in place at PostFinance are good. And yet PostFinance must continue to evolve, whether in terms of mindset, skills or the way people work. For some things, training is in teams, while people work on other things individually.

Risk assessment

The current negative interest rate environment presents PostFinance with major 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: the term structure of the investment portfolio is coordinated with the refinancing structure. 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. Essentially, 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 rose by around 7.6 billion francs. This is mainly due to increased activity in the interbank money market. Growth in customer assets amounted to 220 million francs on average. A decline in customer deposits was recorded in sight deposits of retail business customers. Customer asset fees on credit balances over an exemption limit held by selected individual customers had to be maintained due to the negative interest rates on sight deposit balances at the SNB. Growth of 3.1 billion francs 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. For customers who only park liquidity with PostFinance, the threshold has been set at CHF 250,000 since December 2019. These measures concern 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.

With effect from 1 January 2019, PostFinance had to increase fees in various areas. This move is unpopular. Under the current market conditions, however, PostFinance can no longer afford to provide products and services at prices which fall well short of covering their costs. This announcement resulted in a consolidation of account relationships.

The topic of investment remains of strategic importance at PostFinance. PostFinance wants to increase awareness of its products, and is organizing successful campaigns on the subject of investment. This is underpinned by the launch of new products. For example, a new retirement fund was launched in

September: the new PostFinance Pension 100 retirement fund completes the range of existing retirement funds. It is aimed at customers with a retirement savings account 3a who are more willing or able to take risks and who tend to have a longer investment horizon.

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

PostFinance processed 1,180 million payment transactions, representing an increase of over 3 percent year-on-year. Overall, PostFinance customers carried out transactions representing a total volume of over 1,700 billion francs. These figures illustrate the major importance of PostFinance in the Swiss financial services market. Inpayments at Swiss Post branches are declining further as electronic processing gains ground. In addition to e-finance, particular growth is being seen in transaction volumes in trading activities (EFT/POS) and e-payment.

2019 milestones

Digital powerhouse

PostFinance wants to become Switzerland’s leading digital bank. It wants to be the bank that helps its customers make the transition from the analogue to the digital world. Or, to put it another way: PostFinance wants 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 its competitors. This creates a direct benefit for its customers – and helps it to design internal processes more efficiently.

PostFinance successfully introduced its new core banking system in 2018. This represented an important milestone, and the technical requirements for becoming a digital powerhouse are now in place. At the end of 2018, PostFinance launched the “self-service hub” in e-finance and in the PostFinance App, which its customers can use to manage their PostFinance Card completely digitally or change an address on their smartphones.

PostFinance is seeking to reduce complexity by simplifying the provision of services and to increase speed thanks to improved fitness. By optimizing and transforming its core business, it is 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 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. The lifting of the lending prohibition being initiated by the Federal Council would free PostFinance from this serious disadvantage and guarantee its earning power and development in the long term.

As part of a holistic analysis of Swiss Post being undertaken on behalf of DETEC and the FDF, PostFinance is currently illustrating the contribution it makes to maintaining the universal service obligation to provide postal services. It is also providing more details about the business areas PostFinance would actively pursue in the event of a lifting of the lending prohibition. PostFinance sees potential in the promotion of home ownership or support of SMEs, for example. It would seek to acquire a market share in the single-digit percentage region.

Innovation

PFLab, PostFinance's innovation laboratory, works on innovations that lie (sometimes well) in the future and are being driven forward alongside core/day-to-day business and digital transformation. In 2019, activities in this area were intensified together with the IT blockchain team (the Tech Lab). This included the implementation of a blockchain infrastructure, which is operated together with Swiss Post Group and Swisscom. It forms the basis for new business models and future billing methods with a technology that is characterized by the trustworthy, transparent and unalterable storage of data. In the first use case, the project known as B4U was successfully completed. B4U was founded as the startup Ormera and offers a solution that allows self-generated electricity to be billed to tenants easily and automatically. Ormera is the first "product" that started out as an idea from an employee at PFLab and went through the innovation process until the foundation of a startup. This so-called company building or venture building is possible with today's PostFinance processes.

In 2019, with a view to also taking advantage of specific external innovations (open innovation), explicit partnerships with startup networks and programmes (so-called incubators and accelerators) were entered into. Examples worth mentioning include Impact Hub Bern and the Kickstart Accelerator programme. Participation allows PostFinance to gain direct access to new startups and to other large companies to carry out joint feasibility studies (PoCs, proofs of concept).

With the University of St. Gallen and a network of various universities (SUGAR Network), the need for retirement provision in Switzerland was examined. From this work, a dedicated team at PFLab derived rapid prototypes (so-called minimal valuable products) and tested them with customers. This iterative and focused approach was established in order to obtain even faster, customer-oriented insights that serve as a basis for the realization of new products.

PostFinance and PFLab also received the "Best collaboration with startup" award at the Corporate Startup Summit 2019 in Zurich. The award was in recognition of the efforts of the innovation laboratory, together with the corporate venture capital team, in providing excellent support to and working together with the startup tilbago, from the innovation process at PFLab to the launch in 2016 with the participation of PostFinance. The online platform tilbago processes debt collection proceedings electronically, simply and inexpensively.

Development of products and services

Irrespective of the upcoming political decisions, PostFinance is pressing ahead with its transformation to become the number one digital bank in Switzerland. With around 1.8 million e-finance users and more than one million app downloads, it is currently the Swiss market leader in online banking and mobile banking. Approximately 95 percent of e-finance users previously logged in to e-finance with the yellow card reader and PostFinance Card. Around 5 percent used Mobile ID as an alternative. In June 2019 PostFinance introduced a new, software-based login, signature and authentication procedure via the PostFinance App. By the end of 2019, 417,000 customers had already activated the new login procedure and have since generated around 32 percent of transactions with it. The new login with fingerprint or Face ID offers a range of benefits: PostFinance customers can log in to e-finance more quickly and easily, and use this service more frequently as a result. They can also benefit from simplified authentication when carrying out credit card transactions in online shops.

PostFinance plans to expand its business model with a platform approach. The first module it is implementing is a mortgage brokerage and comparison platform for mortgage seekers and providers. The platform is called "Valuu" and enables mortgage customers to compare and take out a wide range of mortgages through completely digitized channels by bringing together mortgage seekers and lenders using a matching algorithm. People looking for a loan do not simply receive the least expensive but rather the best or most suitable mortgage for them. This is because, in addition to the price, other factors (such as the terms of repayment and borrowing limit) can also be important. At each step in the Valuu app, the customer has the option of contacting the Valuu competence center by phone. The platform will be expanded in stages, firstly within the mortgage sector itself, and secondly with the addition of other products and services from the banking, near-banking and non-banking sectors.

With TONI Digital Insurance Solutions AG, PostFinance developed the “PostFinance car insurance” product, a PostFinance-branded motor vehicle insurance policy specifically for PostFinance customers. The product was introduced to the market via an internal Swiss Post pilot phase. Following the successful completion of this phase, open marketing without restriction started in mid-March. Those who do not have an account with PostFinance are also able to take out a PostFinance car insurance policy.

E-commerce is becoming increasingly important. Simple and inexpensive shop solutions are particularly significant. The demand for standardized solutions for setting up and operating online shops is growing rapidly. This includes the requirement for payment processes that are as straightforward as possible. For this reason, PostFinance is now offering a new full-service solution that significantly simplifies integration of the payment solution into the shop and combines all standard payment methods in a single contract and service package. “PostFinance Checkout” – as the solution is called – can be quickly integrated into all standard shop systems with just a few clicks and includes the payment methods PostFinance Card, PostFinance E-Finance, Visa, Mastercard and TWINT. The product also offers full service in operation, as PostFinance provides support and consolidated invoicing and credits from a single source.

Since November 2019, customers with an Android smartphone have been able to register the PostFinance Card in the PostFinance App for payments at store checkouts. Customers with iPhones are not able to use this function for the time being, as the interface for near field communication (NFC) has not been approved by Apple on these devices.

The new PostFinance Pension 100 retirement fund completes the range of existing retirement funds. It is aimed at customers with a retirement savings account 3a who are more willing or able to take risks and who tend to have a longer investment horizon. The issue started in September 2019.

Corporate venturing

Since 2016, PostFinance has been investing via participations in startup companies. At the end of 2019, the portfolio comprised 13 participations in innovative young companies. One of the aims of corporate venturing is to create opportunities for developing PostFinance’s range of products and services. With “PostFinance car insurance”, a joint product with a portfolio startup was successfully launched in the 2019 financial year. Corporate venturing also offers a tool for creating the ideal conditions for internal innovation projects. This was implemented in the 2019 financial year with the founding of the private limited company Ormera, a joint innovation project with Energie Wasser Bern.

Another objective of corporate venturing is to allow knowledge to be transferred between PostFinance and startups. A “Family Day” attended by members of the PostFinance Executive Board and the founders of the portfolio startups was therefore again organized during the financial year. The forum enables direct dialogue between the parties, to allow them to learn by sharing experience and ideas, and to identify potential linking factors. In addition to the “Family Day”, there were also various interactions between startups and experts during the financial year dedicated to benefiting from the knowledge of both sides.

Outlook

The Swiss National Bank (SNB) expects economic momentum to remain subdued in the short term. The SNB confirmed its expansionary monetary policy stance in its December assessment. 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 conditional inflation forecast is 0.1 percent for 2020 and 0.5 percent for 2021. The conditional inflation forecast is based on the assumption that the SNB key rate will remain at –0.75 percent during the entire forecast period.

In November 2019, the SNB adjusted the basis for calculating the negative interest rate. This will continue to be levied on the portion of the sight deposits held by banks at the SNB that exceeds a given exemption threshold. This exemption threshold will now be updated on a monthly basis to reflect developments in banks' balance sheets over time. The adjustment of the calculation basis takes into account the fact that the global low interest rate environment has recently become more entrenched and could persist for some time. The adjustment will lead to an increase in the exemption threshold for the banking system and a reduction in the SNB's negative interest income.

In view of modest inflation and the economic risks, various central banks eased their monetary policy in the autumn, indicating that they will probably keep their key rates at a low level for some time to come. The SNB is sticking to its baseline scenario for the global economy. It expects economic momentum to remain subdued in the short term. The monetary policy easing is likely to contribute to the economy – and thus also inflation – picking up again over the medium term. The SNB expects GDP growth of between 1.5 and 2 percent in 2020. Imbalances remain in the mortgage and real estate markets. Both mortgage loans and prices for single-family homes and owner-occupied flats continued to rise slightly in 2019, while prices for residential investment properties stagnated. There is nevertheless a risk of a correction, particularly in this segment, due to the sharp price increases in recent years and rising vacancy rates.

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 its own loans and mortgages is becoming increasingly pronounced.

The lifting of the lending prohibition being initiated by the Federal Council would free PostFinance from this serious disadvantage and guarantee its earning power and development in the long term. The Federal Council 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 should be allowed to also provide mortgages and loans. In line with this strategic focus, PostFinance must meet additional capital requirements for systemically important domestic banks, mainly by building up equity capital and without state guarantees.

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. In addition, customer requirements are also changing: 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 retail 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 omnichannel 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 Corporates business.

PostFinance supports its retail customers with improved and consistently digital products and services. It remains the leader in payment transactions and also offers simple products for independent customers with the best customer experience. PostFinance is doing this with consistent end-to-end digitization. It is expanding the "Money for the future" area and investing in particular in digital investments. In 2020 it plans to launch new services comprising electronic asset management in addition to investment consulting. PostFinance will of course continue to offer personal investment consultations in its branches alongside its electronic services.

PostFinance is evolving into a full-service provider of payment transactions and is establishing itself in the market with working capital management solutions. It makes it easier for business customers with complex requirements to manage money along the entire value chain. It offers solutions in the areas of purchasing, logistics and sales to optimize the processes and cash management of its customers.

To survive in the digital world, new digital business models for future banking need to be developed. PostFinance is investing in future banking with business models extending beyond the traditional financial sector. Cooperation with startups and the active integration of partner solutions and its own innovations are key.

From mid-2020, inpayments at counters and other physical access points will become more expensive. This will apply to inpayments with red inpayment slips (IS) and orange inpayment slips with reference number (ISR). At the same time, the prices for inpayments with the new QR bill have been set. If invoices are paid at Swiss Post's physical access points, a fee is incurred by the payment recipient. It helps at least partly to cover the costs of this service. Because payment transactions are becoming increasingly digitized, more and more people are paying their invoices with online banking. As a result, the number of transactions carried out at physical Swiss Post access points has fallen significantly in recent years. At the same time, increasing regulatory requirements are also leading to higher processing costs. To ensure that counter payment transactions can still be offered nationwide in future, and to ensure they remain part of the public service, PostFinance is increasing the fees in consultation with the price regulator for the first time in 12 years.

Switzerland's financial center will be introducing the QR bill on 30 June 2020. After a transition period, the changeover to the ISO standard 20022 and the new QR bill will replace today's domestic inpayment slips. PostFinance completed the migration to ISO 20022 at all its customers at 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.

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 et seq. of the Banking Act and article 25 et seq. 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		31.12.2018	31.12.2019
Total assets	**As per Group IFRS guidelines**	**118,173**	**125,742**
Assets			
Financial investments	Lower of cost or market value principle for shares/funds as per ARB	–14	–16
	OCI[1] bonds in financial investments	–39	–297
	Value adjustments on OCI[1] bonds	–3	–3
Participations	Amortization of equity securities	–16	–48
	Lower of cost or market value principle for participations as per ARB	–23	–40
Tangible fixed assets	Revaluation of real estate	354	349
	Right-of-use assets for leasing	–	–64
	Goodwill adjustment in ARB less amortization	800	–
Other assets	Deferred tax assets (assets)	–300	–225
	Compensation account (assets)	123	176
	Hedge fair value compensation account	–	–
Items in other amounts due to customers	PostFinance's own postal accounts (Finance/Real Estate)	–	–
Difference in assets	**ARB – Group IFRS guidelines**	**882**	**–168**
Liabilities			
Other liabilities	Lease liability	–	–65
	Compensation account (liabilities)	123	182
	Employee benefit obligations	–250	–255
	Deferred tax liabilities (liabilities)	–4	–28
Statutory capital reserve	Capital reserves (from revaluations)	1,096	1,013
	Retained earnings reserve under IFRS	94	93
Profit/loss for the year	Difference in profit/loss as per Group IFRS guidelines – ARB	–84	–708
Items in financial investments	OCI[1] bonds in financial investments	–39	–297
OCI[1] as per Group IFRS guidelines only	OCI[1] from shares and participations	–51	–100
	Value adjustments on OCI[1] bonds	–3	–3
Difference in liabilities	**ARB – Group IFRS guidelines**	**882**	**–168**
Total assets	**As per ARB**	**119,055**	**125,574**

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		2018	2019
Net annual result (as per Group IFRS guidelines)		**150**	**126**
Interest and dividend income from financial investments	Amortization of revalued held-to-maturity financial investments	–3	–
Various items of net income	Valuation differences for financial investments as per ARB	3	–3
Changes in value adjustments for default risks and losses from interest operations	Reversal of impairment on / impairment of loans, financial investments and receivables incl. taxes	73	–
Result from the disposal of financial investments	Realized gains from (earlier than scheduled) sales	0	–4
Personnel expenses	Valuation differences between IAS 19 and Swiss GAAP ARR 16	10	6
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets	Revalued real estate	–4	–4
	Individual value adjustment due to lower fair value	–3	–1
	Goodwill	–200	–800
Various income statement items	Valuation differences for participations as per ARB	0	–1
	Leases as per IFRS 16	–	1
Extraordinary income / extraordinary expenses	Realized gains from participations	0	0
Taxes	Deferred tax income as per Group IFRS guidelines	40	98
Profit / loss for the year as per ARB		**66**	**–582**

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 a loss after tax of 582 million francs. Total assets rose to 126 billion francs in 2019. With a capital ratio of 19.3 percent, PostFinance exceeds the minimum capital requirements for systemically important banks.

Balance sheet

PostFinance Ltd | Balance sheet as per ARB

CHF million	Notes	31.12.2018	31.12.2019
Assets			
Liquid assets		37,201	46,946
Amounts due from banks		4,595	3,889
Amounts due from securities financing transactions	5	21	22
Amounts due from customers	6	11,676	12,075
Mortgage loans	6	0	0
Trading portfolio assets		–	–
Positive replacement values of derivative financial instruments	7	102	162
Other financial instruments at fair value		–	–
Financial investments	8	62,547	60,406
Accrued income and prepaid expenses		468	383
Participations	9, 10	124	105
Tangible fixed assets	11	1,200	1,166
Intangible assets	12	800	–
Other assets	13	321	420
Total assets		**119,055**	**125,574**
Total subordinated claims		5	11
of which subject to mandatory conversion and/or debt waiver		–	1
Liabilities			
Amounts due to banks		1,095	1,324
Liabilities from securities financing transactions	5	–	9,125
Amounts due in respect of customer deposits		110,501	108,469
Trading portfolio liabilities		–	–
Negative replacement values of derivative financial instruments	7	478	340
Liabilities from other financial instruments at fair value		–	–
Cash bonds		80	71
Bond issues and central mortgage institution loans		–	–
Accrued expenses and deferred income		94	105
Other liabilities	13	5	5
Provisions	16	54	35
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/loss		66	–582
Total liabilities		**119,055**	**125,574**
Total subordinated liabilities		–	203
of which subject to mandatory conversion and/or debt waiver		–	203

PostFinance Ltd | Off-balance sheet transactions

CHF million	Notes	31.12.2018	31.12.2019
Contingent liabilities	25	88	52
Irrevocable commitments		723	699
Obligations to pay up shares and make further contributions		–	–
Credit commitments		–	–

Income statement

PostFinance Ltd | Income statement as per ARB

CHF million	Notes	2018	2019
Interest and discount income	28	142	140
Interest and dividend income from trading portfolios		–	–
Interest and dividend income from financial investments		563	392
Interest expense	28	14	33
Gross result from interest operations		**719**	**565**
Changes in value adjustments for default risks and losses from interest operations		88	–4
Net result from interest operations		**807**	**561**
Commission income from securities trading and investment activities		59	65
Commission income from lending activities		21	21
Commission income from other services		606	645
Commission expense		–410	–385
Result from commission business and services		**276**	**346**
Result from trading activities and the fair value option	27	**228**	**214**
Result from the disposal of financial investments		0	8
Income from participations		6	10
Result from real estate		68	73
Other ordinary income		86	87
Other ordinary expenses		–43	–
Other result from ordinary activities		**117**	**178**
Operating income		**1,428**	**1,299**
Personnel expenses	29	–478	–442
General and administrative expenses	30	–566	–552
Operating expenses		**–1,044**	**–994**
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets		–287	–892
Changes to provisions and other value adjustments, and losses		–10	–10
Operating result		**87**	**–597**
Extraordinary income	31	0	27
Extraordinary expenses	31	0	–2
Changes in reserves for general banking risks		–	–
Taxes	32	–21	–10
Profit / loss		**66**	**–582**

Appropriation of profit / loss

PostFinance Ltd | Distributable profit / loss

CHF million	31.12.2018	31.12.2019
Profit / loss for the year	66	–582
Profit carried forward	–	–
Total distributable profit / loss	**66**	**–582**

At the General Meeting on 16 April 2020, the PostFinance Board of Directors will propose the following appropriation of profit / loss:

PostFinance Ltd | Appropriation of profit / loss

CHF million	31.12.2018	31.12.2019
Dividend distributions	66	–
Profit / loss carried forward to new account	–	–582
Total distributable profit / loss	**66**	**–582**

Cash flow statement

PostFinance Ltd | Cash flow statement as per ARB

CHF million	Cash inflow 2018	Cash outflow 2018	Cash inflow 2019	Cash outflow 2019
Cash flow from operating activities (internal financing)				
Profit/loss for the year	66	–	–	582
Value adjustments on participations, depreciation and amortization of tangible fixed assets and intangible assets	287	–	891	–
Provisions and other value adjustments	9	–	–	20
Change in value adjustments for default risks and losses	–	88	5	–
Accrued income and prepaid expenses	88	–	85	–
Accrued expenses and deferred income	–	14	11	–
Other items	3	–	–	–
Previous year’s dividend	–	136	–	66
Subtotal	**215**	**–**	**324**	**–**
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	0	13	14	3
Real estate	3	34	11	48
Other tangible fixed assets	0	21	0	13
Intangible assets	–	–	–	–
Subtotal	**–**	**65**	**–**	**39**
Cash flow from banking operations				
Medium and long-term business (>1 year):				
Amounts due to banks	–	–	–	–
Amounts due in respect of customer deposits	1	–	204	–
Cash bonds	–	13	–	8
Amounts due from banks	–	74	532	–
Amounts due from customers	92	–	–	73
Mortgage loans	0	–	0	–
Financial investments	329	–	2,141	–
Short-term business:	–	–		
Amounts due to banks	552	–	229	–
Liabilities from securities financing transactions	–	–	9,125	–
Amounts due in respect of customer deposits	–	2,792	–	2,236
Negative replacement values of derivative financial instruments	–	250	–	138
Other liabilities	–	1	–	–
Amounts due from banks	302	–	173	–
Amounts due from securities financing transactions	3	–	–	–
Amounts due from customers	431	–	–	330
Positive replacement values of derivative financial instruments	–	58	–	60
Financial investments	–	–	–	–
Other accounts receivable	53	–	–	98
Subtotal	**–**	**1,425**	**9,461**	**–**
Liquidity				
Liquid assets	1,275	–	–	9,746
Subtotal	**1,275**	**–**	**–**	**9,746**
Total	**1,490**	**1,490**	**9,785**	**9,785**

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 1.1.2019	**2,000**	**4,682**	**–**	**–**	**66**	**–**	**6,748**
Dividends	–	–	–	–	–66	–	–66
Loss	–	–	–	–	–	–582	–582
Equity as at 31.12.2019	**2,000**	**4,682**	**–**	**–**	**–**	**–582**	**6,100**

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	31.12.2018	31.12.2019
EUR	1.1262	1.0849
USD	0.9851	0.9679
GBP	1.2498	1.2695
JPY	0.0089	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. 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 market 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 market 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 debt 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 market values 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 the market value of an asset or liability. Changes in the 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 and valued 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 loss over the remaining term to maturity of an instrument (levels 2 – 3). The expected loss over the next year depends 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 loss depends 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 initial recognition, 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 economic situation is estimated to be slightly above average, so slightly below-average probabilities of default have been applied for the financial year. 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 level 1 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. The fair values of participations for the purposes of impairment testing at least once a year are determined on the basis of stock market prices and valuation techniques such as the discounted cashflow method or using the venture capital approach.

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 3 – 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 receivable and payable, 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 et seq. 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. A future economic benefit is calculated based on the last available and audited financial statements from the Swiss Post pension fund foundation.

Taxes

Income tax is determined on the basis of the accrued net annual result in the relevant reporting period. 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 values are recognized as deferred taxes under provisions. Deferred taxes are determined separately in each business period.

Changes in the accounting and valuation principles versus the previous year

In the financial year 2019, there were no changes in the accounting and valuation principles versus the previous year.

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 of the other financial instruments 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 the critical terms match method).
- There is a close economic relationship between the hedged item and the hedging transaction.
- There is an inverse relationship between the value changes of the hedged item and those of the hedging transaction with regard to the hedged risk.

Ineffectiveness
If this results in an ineffective portion, this is recognized 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

On the date of issue of the annual financial statements, no material events had occurred as at 31 December 2019 which would have to be disclosed in the financial statements and/or in the notes.

3 | Risk management

Business model and risk profile

PostFinance operates mainly in the fields of payment transaction services, the receipt of customer deposits, account services and related services. It also handles customer securities trading, carries out investments in its own name, and manages other financial services on behalf of third parties. On account of its business model, PostFinance is exposed to the risks shown in the following table. PostFinance could suffer losses if these risks materialize. 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 unrealized 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 – in accordance with FINMA Circular 2017/01 "Corporate governance – banks" – 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 internal control system (ICS) which the operating units are required to observe in managing risks. The Board of Directors limits the maximum risks that can be entered into by defining the quantitative risk appetite. The quantitative risk appetite comprises requirements for the total amount of capital that is available to cover risks, regulations on the allocation of capital to individual risk categories and the definition of minimum liquidity and leverage ratio requirements. The qualitative risk appetite consists of regulations that trigger a discussion of the content of individual risks or aggregated risk positions as well as the strategies for managing such risks within the Executive Board or 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 (2nd LoD 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 stipulations and directives 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 (1st LoD) 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 LoD 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 LoD are control entities which are independent of the business units assuring the 1st LoD. At PostFinance, these are Risk Control, Compliance and Governance. 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 independently monitors compliance with limits of the Board of Directors and the Executive Board as well as the established risk profile across all risk categories. Risk Control performs the 2nd LoD function for all risks except compliance risks, which are monitored by the Compliance and Governance departments. As a central function of the 2nd LoD, Risk Control coordinates the work of all 2nd LoD functions and ensures PostFinance's integrated risk reporting.

The Compliance and Governance departments provide support and advice to the Executive Board and employees for the drafting, implementation and monitoring of statutory and internal regulations. Compliance and Governance perform the 2nd LoD function for compliance risks. They are responsible for assessing the compliance risk and report significant information to the Board of Directors and Executive Board on a regular basis.

The 2nd LoD units 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 LoD. Matters of major importance are reported to PostFinance's Board of Directors promptly and on an ad-hoc basis.

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

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 Quantification of the economic concentration risks in the credit portfolio and definition of diversification requirements
– Market risks	Losses in fair value to be charged to the ARB income statement	Value-at-risk limits for fair value effects on the income statement and equity
Strategic risks	Losses mainly in terms of unrealized 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 warning levels for strategic top risks. Level-appropriate addressing of risks by defining approval 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 warning levels for individual risks and operational top risks. Level-appropriate addressing of risks by defining approval limits for individual 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 stochastic models to determine value at risk or expected shortfall risk indicators (e.g. to measure fair value risks resulting from open foreign currency items or to quantify economic concentration risks in the credit portfolio). 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. 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 interest margin volatility.

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 required level specified by the Executive Board due to short-term shocks, maturity can be controlled on the asset side using swaps.

Absolute change in the present value of equity

CHF million	31.12.2018	31.12.2019
Standard parallel up shock in accordance with FINMA Circular 2019/2 [1]	–	–160
Shift in the yield curve of -100 basis points	–76	–

1 In order to determine the present value sensitivity of equity, the six standard shocks in accordance with FINMA Circular 2019/2 “Interest rate risks – banks” have been applied since 1.1.2019. The interest rate shocks are currency-dependent and amount to 150 basis points for CHF and 200 basis points for EUR and USD.

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 a broad set of deterministic scenarios over the course of the year. 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 Board of Directors of PostFinance 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.

The directives for counterparty limits are based on publicly accessible ratings by recognized rating agencies and qualified banks, and on internal limit systems, with ESG criteria also taken into account. 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 economic concentration risks in the credit portfolio are taken into consideration in defining the portfolio and counterparty limits. To measure them, PostFinance uses a credit portfolio model that quantifies the credit risks within the credit portfolio while taking into account correlation effects. On the basis of the modelled risk indicators (expected shortfall and the relevant risk contributions of sub-portfolios), limits can be defined in such a way that they increase portfolio efficiency and/or limit concentration risks.

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.

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 delivered (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 delivered resulting from securities lending transactions undergoes a quarterly stress test.

Note on credit risks arising from mortgage lending
The mortgage lending solutions offered in cooperation with Münchener Hypothekenbank eG (MHB) since June 2008 and with Valiant Bank AG since 2010 do not result in any credit risks for PostFinance. These are borne entirely by the partner 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, and medium- to 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 Board of Directors of PostFinance 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 the 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 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 2019, ARB value at risk for the income statement stood at 14 million francs (previous year: 58 million francs).

Operational and strategic risks

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. Strategic risks comprise losses mainly in terms of unrealized gains due to missed opportunities or incorrectly assessed potential. The Board of Directors sets out the principles for managing operational and strategic risks in the framework for risk management throughout the institution.

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 and strategic risk management system that is controlled centrally by the Risk Control department, part of the 2nd LoD. 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 traceable identification, measurement, monitoring and reporting on all material operational risks. The department 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. For this reason, PostFinance must comply with the requirements set out in Articles 124–133 of the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers (CAO).

Two disclosures showing PostFinance's equity situation were published as at 31 December 2019. The information in the "Capital adequacy disclosure" meets the requirements of Annexes 1 and 2 of the FINMA Circular 2016/01 "Disclosure–banks". The capital adequacy disclosure on grounds of systemic importance, which is a parallel calculation in accordance with Annex 3 of the aforementioned Circular, is also published. The different requirements result in deviations, particularly with regard to eligible equity capital and capital ratios. The specified documents are published at www.postfinance.ch.

Information on the balance sheet

5 | Securities financing transactions

Breakdown of securities financing transactions (assets and liabilities)

CHF million	31.12.2018	31.12.2019
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	21	22
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	–	9,125
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	4,394	13,128
with unrestricted right to resell or pledge	4,394	13,128
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	4,925	4,803
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 31.12.2019 CHF million		Type of collateral: Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)					
Amounts due from customers[1]		–	1,187	10,904	12,091
Mortgage loans		0	–	–	0
Residential property		0	–	–	0
Total loans (before netting with value adjustments)	**31.12.2019**	**0**	**1,187**	**10,904**	**12,091**
	31.12.2018	0	33	11,655	11,688
Total loans (after netting with value adjustments)	**31.12.2019**	**0**	**1,187**	**10,888**	**12,075**
	31.12.2018	0	33	11,643	11,676

1 As at 31 December 2019, guarantees, insurance policies and cash collateral are now recognized as receivables with other collateral.

Presentation of collateral for off-balance-sheet transactions as at 31.12.2019 CHF million		Type of collateral: Secured by mortgage	Other collateral	Unsecured	Total
Off-balance sheet					
Contingent liabilities		–	51	1	52
Irrevocable commitments		–	–	699	699
Total off-balance sheet	**31.12.2019**	**–**	**51**	**700**	**751**
	31.12.2018	–	47	764	811

PostFinance discloses payment obligations for depositor protection in irrevocable commitments.

Impaired loans / receivables CHF million	31.12.2018	31.12.2019
Gross debt amount	5	8
Net debt amount	5	8
Individual value adjustments	5	8

7 | Derivative financial instruments and hedge accounting

Derivatives entered into by PostFinance on behalf of customers are disclosed in the following overview as trading instruments.

Presentation of derivative financial instruments (assets and liabilities)

as at 31.12.2019 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	–	219
Swaps		–	–	–	–	160	2,209
Foreign exchange / precious metals							
Forward contracts		4	6	802	52	3	4,671
Cross-currency interest rate swaps		–	–	–	106	171	8,121
Equity securities / indices							
Options (exchange-traded)		–	–	0	–	–	–
Total before netting agreements as at	**31.12.2019**	**4**	**6**	**802**	**158**	**333**	**15,220**
of which, determined using a valuation model		4	6		158	333	
	31.12.2018	4	5	788	98	473	14,921
of which, determined using a valuation model		4	5		98	473	
Total after netting agreements as at	**31.12.2019**	**4**	**6**	**802**	**158**	**333**	**15,220**
	31.12.2018	4	5	788	98	473	14,921

Breakdown by counterparty

31.12.2019 CHF million	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	–	158	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.

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			
31.12.2018					
Currency risk					
Cross-currency interest rate swaps	8,413	–	303	4,743	3,367
Other					
Completed non-settled transactions	13	13	–	–	–
31.12.2019					
Currency risk					
Cross-currency interest rate swaps	8,121	53	200	5,673	2,194
Other					
Completed non-settled transactions	219	219	–	–	–

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

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 interest rate swaps	68	366	287	287	–	–244
Other						
Completed non-settled transactions	0	–	–0	–0	–	–0
31.12.2019						
Currency risk						
Cross-currency interest rate swaps	106	171	206	206	–	–266
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
31.12.2019		
Currency risk		
Debt securities intended to be held to maturity	–206	–182

On 1 January 2019 the hedging reserves in other assets/liabilities stood at 123 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 (287 million francs of gains) and discontinued hedging relationships (–26 million francs) 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.

Hedging reserves in other assets/liabilities	2018	2019
CHF million	Hedging reserves – unrealized gains/losses from cash flow hedge	Hedging reserves – unrealized gains/losses from cash flow hedge
Balance at 1 January	**–165**	**–123**
Change in fair value of hedging instrument		
Currency risk	286	206
Other	–0	0
Net amount reclassified from cash flow hedging reserves to income statement		
Currency risk	–244	–266
of which arising from discontinued hedging relationships [1]	–	26
of which from changes in foreign currency basis spreads	–1	1
Balance at 31 December	**–123**	**–182**

1 The hedging relationships were also discontinued via the early sale of three hedged items during the year under review.

These cash flows are 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
31.12.2018				
Cash inflows	12	30	141	36
Cash outflows	–44	–98	–468	–121
31.12.2019				
Cash inflows	11	28	116	20
Cash outflows	–38	–97	–389	–66

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.

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
31.12.2018					
Interest rate and currency risk					
Interest rate swaps	2,559	50	300	971	1,238
31.12.2019					
Interest rate and currency risk					
Interest rate swaps	2,209	246	25	700	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	2018	2019
Fair value hedges for interest rate risks		
Profit/(loss) on hedging instrument	–7	–60
Profit/(loss) on hedged activities or those which are allocated to the hedged risk	7	60
Net profit/(loss) corresponding to the ineffective share of the fair value hedges	–	–

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				
Interest rate and currency risk				
Interest rate swaps	–	102	–7	–
31.12.2019				
Interest rate and currency risk				
Interest rate swaps	–	160	–60	–

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
31.12.2019			
Interest rate and currency risk			
Debt securities intended to be held to maturity	1,298	92	56
Amounts due from customers and banks	1,064	54	4

8 | Financial investments

Breakdown of financial investments	Book value		Fair value	
CHF million	31.12.2018	31.12.2019	31.12.2018	31.12.2019
Debt securities	61,454	60,257	62,268	61,818
of which, intended to be held to maturity	61,454	60,257	62,268	61,818
Equity securities [1]	1,093	148	1,107	164
Total	**62,547**	**60,406**	**63,375**	**61,982**
of which, securities eligible for repo transactions in accordance with liquidity requirements [2]	24,494	23,404	–	–

1 There are no qualified participations.
2 The securities eligible for repos correspond to the SNB GC Basket.

Breakdown of counterparties by rating[1]

31.12.2019 CHF million	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Debt securities: book values	38,405	13,766	6,053	145	–	1,888

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

9 | Participations

Presentation of participations

CHF million	Acquisition cost	Accumulated value adjustments	Book value 31.12.2018	2019 Reclassifications	Additions	Disposals	Value adjustments	Depreciation reversals	Book value 31.12.2019	Market value 31.12.2019
Participations										
with market value	46	–	46	–	–	–1	–	–	45	79
without market value	138	–60	78	–	3	–14	–8	1	60	–
Total participations	**184**	**–60**	**124**	**–**	**3**	**–15**	**–8**	**1**	**105**	**79**

10 | Significant participations

Significant participations

CHF or EUR, percent	Business activities	Currency	Company capital	Share of capital and of votes[1] 31.12.2018	31.12.2019
Finform Ltd, Berne, Switzerland	Fintech and regtech	CHF	100,000	50.00%	50.00%
Ormera AG, Berne, Switzerland	Automated energy billing	CHF	100,000	–	42.50%
TONI Digital Insurance Solutions AG, Schlieren, Switzerland	Insurance service provider	CHF	1,417,782	23.93%	30.66%
TWINT Ltd, Zurich, Switzerland	Mobile payment	CHF	12,750,000	26.66%	26.66%
TWINT Acquiring Ltd, Zurich, Switzerland	Acquiring for payment transactions	CHF	100,000	26.66%	26.66%
moneymeets community GmbH, Cologne, Germany	Online financial services	EUR	81,000	26.17%	26.17%
moneymeets GmbH, Cologne, Germany	Infrastructure for online financial services	EUR	81,000	26.17%	26.17%
Tilbago AG, Lucerne, Switzerland	Smart online payment collection solution (robo payment collection)	CHF	158,373	19.00%	22.50%
Lendico Schweiz AG, Zurich, Switzerland	Crowdlending platform	CHF	100,000	100.00%	–
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%	–
SIX Interbank Clearing Ltd, Zurich, Switzerland	Payment transaction processing for financial institutions	CHF	1,000,000	25.00%	–

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

Additional information on the true and fair value statutory single-entity financial statements in accordance with FINMA Circular 2015/1, margin no. 264: The effect of a theoretical application of the equity method with regard to these participations would be to reduce total assets by 3 million francs (previous year: increase of 20 million francs) and to increase the loss for the year by 9 million francs (previous year: reduction of profit for the year of 13 million francs).

11 | Tangible fixed assets

Presentation of tangible fixed assets

CHF million	Acquisition cost	Accumulated depreciation	Book value 31.12.2018	2019 Reclassi-fications	Additions	Disposals	Depreciation	Reversals	Book value 31.12.2019
Bank buildings	230	–49	181	–	19	–11	–20	–	169
Other real estate	1,009	–192	817	–	29	0	–30	–	816
Proprietary or separately acquired software	231	–56	175	–	0	–	–24	–	151
Other tangible fixed assets	89	–62	27	–	13	0	–10	–	30
Total tangible fixed assets	**1,559**	**–359**	**1,200**	**–**	**61**	**–11**	**–84**	**–**	**1,166**

Future lease obligations under operating leases

CHF million	2020	2021	2022	2023	2024	2025	**Total**
Future lease payments	13	12	11	0	0	0	**36**
of which cancellable within a year	1	1	1	0	0	0	**3**

12 | Intangible assets

Presentation of intangible assets

CHF million	Cost value	Accumulated amortization	Book value 31.12.2018	2019 Additions	Disposals	Amortization	Book value 31.12.2019
Goodwill	2,000	–1,200	800	–	–	–800	–
Total intangible assets	**2,000**	**–1,200**	**800**	**–**	**–**	**–800**	**–**

In its monetary policy assessment of 19 September 2019, the SNB suggests that the low interest environment has become more entrenched and could persist for some time. The yield curve used as the basis for planning net interest income fell further compared with the previous year. Due to lower amounts budgeted in the strategic financial planning as a result of the prevailing negative interest environment and the credit ban, the recoverable amount of goodwill was lost so that the latter had to be completely impaired in the 2019 financial year.

13 | Other assets and other liabilities

Breakdown of other assets and other liabilities

CHF million	31.12.2018 Other assets	31.12.2019 Other assets	31.12.2018 Other liabilities	31.12.2019 Other liabilities
Compensation account	208	321	–	–
Indirect taxes	106	92	4	5
Other assets and liabilities	7	7	1	0
Total other assets and other liabilities	**321**	**420**	**5**	**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	31.12.2018	31.12.2019
Financial investments:		
Book value of assets pledged and assigned as collateral	63	84
Effective commitments	–	–

1 Excluding securities lending and securities borrowing, and repurchase and reverse 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 annual 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 39,799 active insured persons and 29,168 pensioners (as at 31 October 2019), the Swiss Post pension fund had total assets of 17,081 million francs as at 31 December 2019 (previous year: 16,083 million francs). The level of cover calculated according to the accounting principles applicable to the Swiss Post pension fund stands at approximately 108.0 percent (previous year: 101.9 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 552 million francs, of which 550 million francs with a waiver of use (previous year: 553 million francs, of which 550 million francs with a waiver of use). A technical interest rate of 1.75 percent (previous year: 1.75 percent) and the technical basis of OPA 2015 (previous year: OPA 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; in 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 2019. 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	31.12.2019	31.12.2018	31.12.2019	2019	2019	31.12.2018	31.12.2019
Swiss Post pension fund	86	0	0	0	36	37	36
Staff vouchers	–7	–6	–7	1	0	–1	1
Disability pensions	–1	–1	–1	0	0	0	0
Total ARR 16	**78**	**–7**	**–8**	**1**	**36**	**36**	**37**

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

Employer contribution reserves (ECR)	Nominal value	Waiver of use[1]		Net amount	Influence of ECR on personnel expenses	
CHF million	31.12.2019	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019
Swiss Post pension fund	36	–36	0	0	1	0
Total ARR 16	**36**	**–36**	**0**	**0**	**1**	**0**

1 The impairment of the employer contribution reserves due to the waiver of use is based on the most recent audited and approved annual financial statements of the Swiss Post pension fund.

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 31.12.2018	Use in conformity with designated purpose[1]	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at 31.12.2019
Provisions for pension benefit obligations	7	–	–	–	2	–	9
Provisions for restructuring	24	–10	–	–	1	–11	4
Other provisions	23	–4	–	–	8	–5	22
Total provisions	**54**	**–14**	**–**	**–**	**11**	**–16**	**35**
Reserves for general banking risks	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Value adjustments for default and country risks	**129**	**–**	**–**	**–**	**14**	**–9**	**134**
of which, value adjustments for default risks in respect of impaired loans / receivables	112	–	–	–	12	–8	116
of which, value adjustments for latent risks	17	–	–	–	2	–1	18

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			31.12.2018			31.12.2019
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	31.12.2018	31.12.2019	31.12.2018	31.12.2019
Holders of qualified participations	1,110	713	779	917
Group companies	0	–	1	–
Linked companies	12	26	422	284
Transactions with members of governing bodies	0	0	5	17

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), 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		31.12.2018		31.12.2019
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 31.12.2019 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		46,946	–	–	–	–	–	–	46,946
Amounts due from banks		240	–	215	215	1,461	1,758	–	3,889
Amounts due from securities financing transactions		–	–	22	–	–	–	–	22
Amounts due from customers		467	1	1,020	752	4,286	5,549	–	12,075
Mortgage loans		–	–	0	–	–	–	–	0
Positive replacement values of derivative financial instruments		–	–	45	11	101	5	–	162
Financial investments		149	–	2,318	5,778	30,786	21,375	–	60,406
Total	**31.12.2019**	**47,802**	**1**	**3,620**	**6,756**	**36,634**	**28,687**	**–**	**123,500**
	31.12.2018	39,344	3	2,227	7,919	35,728	30,921	0	116,142

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

as at 31.12.2019 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		784	–	540	–	–	–	–	1,324
Liabilities from securities financing transactions		–	–	9,125	–	–	–	–	9,125
Amounts due in respect of customer deposits		69,257	37,485	1,723	4	–	–	–	108,469
Negative replacement values of derivative financial instruments		–	–	9	10	132	189	–	340
Cash bonds		–	–	4	55	12	0	–	71
Total	**31.12.2019**	**70,041**	**37,485**	**11,401**	**69**	**144**	**189**	**–**	**119,329**
	31.12.2018	72,935	39,129	11	8	68	4	–	112,154

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		31.12.2018		31.12.2019
CHF million	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	37,198	3	46,945	1
Amounts due from banks	4,281	314	3,758	131
Amounts due from securities financing transactions	21	–	22	–
Amounts due from customers	11,659	17	12,059	16
Mortgage loans	0	–	0	–
Positive replacement values of derivative financial instruments	38	64	63	99
Financial investments	31,498	31,049	31,811	28,595
Accrued income and prepaid expenses	282	186	253	130
Participations	101	23	86	19
Tangible fixed assets	1,200	–	1,166	–
Intangible assets	800	–	0	–
Other assets	321	0	420	0
Total assets	**87,399**	**31,656**	**96,583**	**28,991**
Liabilities				
Amounts due to banks	1,012	83	1,227	97
Liabilities from securities financing transactions	–	–	6,675	2,450
Amounts due in respect of customer deposits	106,408	4,093	104,407	4,062
Negative replacement values of derivative financial instruments	125	353	139	201
Cash bonds	79	1	71	0
Accrued expenses and deferred income	94	0	105	0
Other liabilities	5	–	5	–
Provisions	54	–	35	–
Bank's capital	2,000	–	2,000	–
Statutory capital reserve	4,682	–	4,682	–
Profit carried forward	–	–	–	–
Profit/loss	66	–	–582	–
Total liabilities	**114,525**	**4,530**	**118,764**	**6,810**

22 | Assets by country / group of countries

Breakdown of total assets by country or group of countries (domicile principle)	31.12.2018		31.12.2019	
CHF million, percent	Absolute	Share as %	Absolute	Share as %
Assets				
Switzerland	87,399	73.41	96,582	76.91
Europe	15,181	12.75	12,538	9.99
North America	8,457	7.10	7,687	6.12
Other countries	8,018	6.74	8,767	6.98
Total assets	**119,055**	**100.00**	**125,574**	**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 31.12.2018		Net foreign exposure 31.12.2019	
CHF million, percent	Absolute	Share as %	Absolute	Share as %
Rating (Moody's)				
Aaa	15,917	50.33	13,882	48.32
Aa	10,377	32.82	9,372	32.62
A	4,227	13.37	4,196	14.60
Baa	283	0.89	494	1.72
Ba	116	0.37	13	0.05
B	292	0.92	342	1.19
Caa	319	1.01	319	1.11
No rating	91	0.29	111	0.39
Total	**31,622**	**100.00**	**28,729**	**100.00**

24 | Assets and liabilities by currency

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

31.12.2019 CHF million	CHF	EUR	USD	GBP	JPY	Other	Total
Assets							
Liquid assets	46,829	117	–	–	–	–	46,946
Amounts due from banks	3,838	30	15	1	1	4	3,889
Amounts due from securities financing transactions	–	22	–	–	–	–	22
Amounts due from customers	12,059	8	8	0	0	0	12,075
Mortgage loans	0	–	–	–	–	–	0
Positive replacement values of derivative financial instruments	162	–	–	–	–	–	162
Financial investments	45,573	10,827	3,626	–	–	380	60,406
Accrued income and prepaid expenses	289	62	29	0	0	3	383
Participations	86	2	17	–	–	0	105
Tangible fixed assets	1,166	–	–	–	–	–	1,166
Intangible assets	–	–	–	–	–	–	–
Other assets	420	0	0	0	0	0	420
Total assets shown in balance sheet	**110,422**	**11,068**	**3,695**	**1**	**1**	**387**	**125,574**
Delivery entitlements from spot exchange, forward forex and forex options transactions	12,900	398	175	45	8	68	13,594
Total assets	**123,322**	**11,466**	**3,870**	**46**	**9**	**455**	**139,168**
Liabilities							
Amounts due to banks	1,314	10	–	–	0	–	1,324
Liabilities from securities financing transactions	9,125	–	–	–	–	–	9,125
Amounts due in respect of customer deposits	105,461	2,486	432	42	9	39	108,469
Negative replacement values of derivative financial instruments	340	–	–	–	–	–	340
Cash bonds	70	1	–	–	–	–	71
Accrued expenses and deferred income	105	0	0	0	–	–	105
Other liabilities [1]	−4	9	0	–	–	0	5
Provisions	35	–	–	–	–	–	35
Bank's capital	2,000	–	–	–	–	–	2,000
Statutory capital reserve	4,682	–	–	–	–	–	4,682
Loss	−582	–	–	–	–	–	−582
Total liabilities shown in the balance sheet	**122,546**	**2,506**	**432**	**42**	**9**	**39**	**125,574**
Delivery obligations from spot exchange, forward forex and forex options transactions	692	8,913	3,412	4	0	412	13,433
Total liabilities	**123,238**	**11,419**	**3,844**	**46**	**9**	**451**	**139,007**
Net position per currency 31.12.2019	**84**	**47**	**26**	**0**	**0**	**4**	
Net position per currency 31.12.2018	−228	73	−1	0	0	4	

1 The compensation accounts are balanced across all currencies. This effect results in a negative value for the currency CHF.

Information on off-balance sheet transactions

25 | Contingent assets and liabilities

Breakdown of contingent liabilities and contingent assets

CHF million	31.12.2018	31.12.2019
Guarantees to secure credits and similar	87	51
Other contingent liabilities	1	1
Total contingent liabilities	**88**	**52**
Contingent assets arising from tax losses carried forward	–	70
Total contingent assets	**0**	**70**

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 1.5 billion francs in favour of PostFinance Ltd as at 31 December 2019.

26 | Managed assets

Breakdown of managed assets

CHF million	31.12.2018	31.12.2019
Type of managed assets:		
Assets under discretionary asset management agreements	–	0
Other managed assets	43,656	46,058
Total managed assets (including double counting)[1]	**43,656**	**46,058**
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	31.12.2018	31.12.2019
Total managed assets (including double counting) at beginning	**46,305**	**43,656**
+/- net new money inflow or net new money outflow[1]	−2,024	1,033
+/- price gains/losses, interest, dividends and currency gains/losses	−625	1,369
+/- other effects	–	–
Total managed assets (including double counting) at end	**43,656**	**46,058**

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	2018	2019
Payment transactions and financial investments	229	226
Hedge accounting	0	–4
Proprietary trading	–1	–8
Total result from trading activities	**228**	**214**

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

CHF million	2018	2019
Result from trading activities from:		
Interest rate instruments	1	–193
Equity securities	0	–0
Foreign currencies	227	407
Total result from trading activities [1]	**228**	**214**

1 PostFinance does not apply the fair value option.

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	2018	2019
Negative interest on the lending business offset against interest and discount income	–16	–5
Negative interest on the borrowing business offset against interest expense	47	65

29 | Personnel expenses

Breakdown of personnel expenses

CHF million	2018	2019
Salaries (meeting attendance fees and fixed compensation to members of the bank's governing bodies, salaries and benefits)	386	352
Social insurance benefits	72	73
Changes in book value for economic benefits and obligations arising from pension schemes	–	–
Other personnel expenses	20	17
Total personnel expenses	**478**	**442**

30 | General and administrative expenses

Breakdown of general and administrative expenses

CHF million	2018	2019
Office space expenses	40	37
Expenses for information and communications technology	219	234
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	18	18
Fees of audit firm(s) (Art. 961a no. 2 CO)	2	2
of which, for financial and regulatory audits	2	2
of which, for other services	0	–
Other operating expenses	287	261
Total general and administrative expenses	**566**	**552**

31 | Extraordinary expenses and income

Extraordinary expenses

CHF million	2018	2019
Losses from disposal of participations	0	2
Total extraordinary expenses	**0**	**2**

Extraordinary income

CHF million	2018	2019
Reversals of impairment	–	1
Gains from disposal of participations	0	25
Other extraordinary income	–	1
Total extraordinary income	**0**	**27**

32 | Taxes

Current and deferred taxes

CHF million	2018	2019
Expenses for current capital and income taxes	21	10
Total taxes	**21**	**10**

Owing to the loss for the year, expenses for current capital taxes and income taxes in 2019 largely consist of capital taxes. A tax rate of 20.5 percent was used for calculating the previous year's corporate income tax.

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To the General Meeting of
PostFinance Ltd, Berne

Berne, 28. February 2020

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 flow statement, statement of changes in equity and notes (pages 42 to 81), for the year ended 31 December 2019.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with 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 2019 comply with Swiss law and the company's articles of incorporation.

Other matter
The financial statements of PostFinance AG for the year ended 31 December 2018 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 22 February 2019.

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 recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Philipp de Boer	Jan Streit
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Reporting

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

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Print versions of the Annual Report can be ordered online at www.postfinance.ch/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

Publication details

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PostFinance Ltd
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Concept and project management
PostFinance Ltd Communication, Berne
phorbis Communications Ltd, Basel

Text
PostFinance Ltd, Berne
Klarkom AG, Berne

Photographs
Rolf Siegenthaler, Berne,
Julian Salinas, Basel,
and various sources

Design and typesetting
phorbis Communications Ltd, Basel

Proofreading and translations
Swiss Post Language Services, Berne

Printer
Stämpfli AG, Berne

ISSN numbers:
Print: 2296-8113
Online: 2296-8164

About the paper:
This Annual Report was produced carbon-neutrally on 100% FSC®-certified recycled paper without optical brightening agents. RecyStar Polar paper is certified with the Blue Angel eco-label for particularly environmentally friendly products (www.blauer-engel.de). It also has the EU Ecolabel (www.ecolabel.eu) and is FSC®-certified (www.fsc.org).

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Printed Matter
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FSC
www.fsc.org
RECYCLED
Paper made from recycled material
FSC® C005019

printed in switzerland

450.01 EN 03.2020 PF

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