Smart banking – made for Switzerland
Annual Report 2020

PostFinance

PostFinance at a glance

With 2.7 million customers and customer assets of around 124 billion francs, PostFinance is one of Switzerland's leading retail financial institutions. In its role as market leader and with more than a billion payment transactions a year, it ensures a seamless flow of liquidity on a daily basis.

Around 1.9 million customers have access to e-finance. The app has now been downloaded 1.3 million times. 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

93.0

Eligible equity capital
in billions of francs

6.3

Capital ratio
in %

19.1

3,660 employees strive to achieve PostFinance's objectives each day.

1.9 million customers have access to e-finance.

Total assets as per IFRS
117 billion francs

Cost-income ratio
in %

89.1

Return on equity
in %

1.5

1.2 billion
transactions at home
and abroad

More than
6.6 million francs
have been added to the fund for
young ice hockey players by the
PostFinance Top Scorers since 2002.

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

* Certified renewable
energies from Switzerland.

42 different nationalities
ensure a diverse
corporate culture
at PostFinance.

Our organization

Board of Directors	
Board of Directors Chairman: Rolf Watter Members: Hans Lauber, Jürg Brun, Giulia Fitzpatrick, Alex Glanzmann, Bernadette Koch, Michaela Troyanov	
Secretary to the Board of Directors Manuel Gwerder	**Internal Auditing** Isabella Stalder

CEO	
CEO Hansruedi Köng*	
Secretariat of CEO and Board of Directors Fabia Schild	**Communication** Thomas Zimmermann a.i.

Retail Sandra Lienhart*	**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

2020 with previous year for comparison		2019	2020
Balance sheet			
Total assets as per IFRS	CHF million	125,742	117,393
Capital ratio as per guidelines for systemically important banks	%	19.3	19.1
Going concern leverage ratio [1]	%	4.84	7.34
Gone concern leverage ratio	%	0.14	0.28
Income statement (as per Group IFRS guidelines)			
Operating profit (EBIT)	CHF million	246	131
Earnings before tax (EBT)	CHF million	224	93
Return on equity [2]	%	3.7	1.5
Cost-income ratio	%	81.2	89.1
Customer assets and loans			
Development of customer assets [3]	CHF million	247	4,019
Customer assets [3]	CHF million monthly avg.	119,660	123,679
Market and employee key figures			
Customers	In thousands	2,738	2,685
E-finance users	In thousands	1,797	1,860
Accounts	In thousands	4,401	4,286
Customer satisfaction – private customers	Index	80	81
Customer satisfaction – business customers	Index	76	78
Average headcount	Full-time equivalents	3,243	3,260
Employee satisfaction	Index	77	76
Transactions			
Transactions	In millions	1,180	1,185

1 Central bank deposits may be temporarily excluded from the calculation of the leverage ratio in accordance with FINMA Guidance 02/2020 on COVID-19.
2 Return on equity = earnings before tax (EBT) as per Group IFRS guidelines / average eligible equity capital as per ARB.
3 For the life insurance, the zillmerized actuarial reserves will be replaced by the surrender value of the life insurance from 2020. The prior-year figures have been restated.

Contents

Our new strategy lays the foundation for sustainable economic viability.

Foreword

Rolf Watter
Chairman of the Board of Directors

Hansruedi Köng
CEO

Dear Reader

In the financial year 2020, PostFinance generated earnings before tax (EBT) as per Group IFRS guidelines of 93 million francs. That is 131 million francs less than in the previous year.

Interest rates have largely been negative for several years, and as a result, it is difficult for us to find profitable opportunities on the financial markets to invest the customer deposits entrusted to us. At the same time, we have only been able to reduce interest expense marginally. This led to a decline in net interest income of 41 million francs. Net trading income fell by 69 million francs. As our customers travelled much less, we saw a decrease in conversion gains from foreign currency cash withdrawals at ATMs in Switzerland and abroad and from the use of credit cards. In addition, the previous year was positively impacted by unrealized market value gains on fund investments. Despite recording a sharp decline in volumes in counter payments, we managed to maintain the result from commission business and services at virtually the same level as the previous year, thanks to various pricing measures. Operating expenses rose by 18 million francs due to the creation of restructuring provisions for the announced reduction in headcount.

Expansion of digital investment business

The investment business performed encouragingly. In e-trading, we achieved customer growth of almost 20 percent year-on-year, while the number of stock exchange transactions executed soared by 150 percent. In May 2020, we also launched our new digital investment solutions. By the end of the year, we had acquired over 5,000 customers for the e-asset management, fund consulting basic and investment consulting plus products. Now, just under eight months since their launch, more than 200 million francs have been invested in these products. All 15 model portfolios within e-asset management generated positive returns by the end of 2020, performing strongly compared with the competition.

Change in the Executive Board

Sylvie Meyer, Head of Retail, took early retirement at the end of January 2020. The Board of Directors would like to thank her for many years of successful service and wishes her well in the next chapter of her life. Sandra Lienhart took over from her as Head of Retail on 1 March 2020.

New SpeedUp strategy

The result of the previous financial year clearly shows the challenges we face due to the current market environment and the applicable legal and regulatory framework. The Board of Directors and Executive Board firmly believe that our new SpeedUp strategy will pave the way for sustainable economic viability. This goal must be attained if we are to finance PostFinance’s future development, including the innovations we require, from our own resources. In our traditional areas of business – retail banking and payment solutions – we must generate the funds required for investment in Digital First Banking and Platform Business over the next few years. However, the only way we can achieve the level of profitability we need and make our contribution to financing the universal postal service is to enter the lending market. This is why the lifting of the prohibition on lending and mortgages remains a priority.

Lifting of the lending prohibition

In the third quarter of 2020, the Federal Council carried out the consultation procedure on the partial revision of the Postal Services Organization Act. The key points of the consultation are PostFinance’s access to the lending and mortgage market, the partial opening-up of the shareholder base over the medium term and a limited capitalization guarantee. After a thorough evaluation of the opinions that were submitted, the Federal Council published its proposal on how to proceed on 20 January 2021. The proposal will be followed up, supplemented and then presented to Parliament. In light of the critical opinions submitted by political parties, associations and other stakeholders, the Federal Council added a significant element to the proposal: PostFinance’s entry into the lending and mortgage market should be accompanied by its privatization and the reorganization of the universal service obligation in payment transactions.

Thank you

Our employees displayed exemplary dedication, solidarity and determination last year and deserve our gratitude and recognition. The coronavirus crisis continues to have a huge impact on our daily working lives. Almost half of the entire workforce has been working from home since March 2020. Although location-independent working has been part of our established practices for years, it still presents a tremendous challenge. The implementation of our new strategy also involves a transition to a new structural and operational organization. This will mean changes for many employees and will also result in a reduction in headcount. We are very proud and grateful that, even during these times of change and uncertainty, we can rely on our employees to do their utmost every day to ensure that our company succeeds and our customers are satisfied.

We would also like to thank you, our valued customers, for your loyalty and trust in us. The past year has brought restrictions, difficulties and uncertainty for you, too. It is in times like these in particular that we want to support you as a reliable partner with help and advice on managing your financial affairs. Demand for simple digital products and services skyrocketed in all areas of banking during the pandemic. Our new strategy takes account of this trend, focusing even more consistently on your requirements. But we have not forgotten those customers who wish to continue managing their finances via analogue channels.

Rolf Watter
Chairman of the Board of Directors

Hansruedi Köng
CEO

Interview

with **Hansruedi Köng**
CEO

We're accelerating our digital transformation with SpeedUp.

Hansruedi Köng, how was the result in the past financial year?
In 2020, we generated earnings before tax of 93 million francs. That is 131 million francs or around 58 percent less than in the 2019 financial year.

How do you explain this decline in the result?
Coronavirus had a huge impact. There was a decline of 69 million francs in trading portfolio assets. Our customers have been doing significantly less travelling. This means that we are seeing no substantial conversion gains from cash withdrawals in foreign currencies and from the use of credit cards. The result from the commission and services business decreased by a million francs year-on-year. The coronavirus crisis led to a sharp drop in revenues from over-the-counter transactions at Swiss Post branches and at ATMs. But we were unable to reduce the costs for maintaining the structures to the same extent.

What other impact has the pandemic had on the year?
The coronavirus crisis has been challenging for everyone. Almost the entire workforce was working from home for a period. Although location-independent working has been an established practice at PostFinance for many years, it still presents an enormous challenge. Despite our prohibition on lending, we pushed strongly to participate in the Federal Council's assistance programme and to provide COVID-19 loans to our SME customers. Thanks to a special effort, we promptly set up processes that enabled us to carry out the evaluation procedures as quickly as possible. This allowed us to provide bridging loans to over 17,000 SMEs.

How have interest operations performed?
The low, and indeed largely negative, interest rates that have prevailed for years continue to erode our interest margin. As a result, net interest income, net of impairment, fell by 41 million francs. And this negative trend is set to continue, as current relatively profitable bonds from previous investments are due to reach maturity, but we will only be able to reinvest them for very low returns.

Did you also see any positive developments?
In the commission business, we saw growth of 18 million francs in revenue thanks to a strong increase in trading activities among our e-trading customers. Particularly after the global price declines on the stock markets in spring 2020, trading among our customers was above average. However, we also recorded much higher trading activities for the year as a whole. This is an encouraging development and shows that there is plenty of potential in the area of investment.

Investment is a key area in which quite a lot happened last year.
That's right. In addition to e-trading, we have been offering our customers four new investment solutions since early May 2020, providing targeted support to enable them to grow their assets long-term. They have the option of conducting their securities transactions independently online, receiving comprehensive personal support or delegating the management of their assets entirely to PostFinance. Not only are we providing highly attractive investment solutions for all relevant customer requirements, but we've also combined the strengths of customer advice with digital processes and integrated them into the existing e-finance environment.

How has that been received by customers?
Really well. Over 5,000 investment solutions have been purchased since the launch. Our customers have invested more than 200 million francs – a third of which is in the "Sustainability" investment focus. These figures put us on track to achieve a leading position in digital investments in the retail customer segment.

The expansion of our investment business was a key part of our digital powerhouse strategy period. This ended on 31 December 2020. How would you sum it up?
We've had four intensive and eventful years, during which we've made great progress at various levels. We've repositioned PostFinance and are focusing on clear priorities. In addition to the investment business, we've also significantly expanded and modernized our digital services, such as the self-service hub in the PostFinance App and the new e-finance login. These innovations require a strong technical basis, which we established by launching our new core banking system at Easter 2018.

One thing that wasn't achieved during the last strategy period was the lifting of the prohibition on lending.
That's right – and unfortunately, something that we've long predicted has now materialized as a consequence: our result has fallen sharply over recent years and is approaching the zero line. This is concerning in many respects. We won't generate sufficient profit over the coming years to build up the additional equity required due to our systemic importance for the current size of the balance sheet from our own resources. We'll hardly be able to pay Swiss Post any dividends for years to come. We're also unable to contribute to the funding of the universal service to the same extent as in the past. In light of this situation, we've set out a strategy for the forthcoming period from 2021 to 2024 that will enable us to remain relevant to our customers with a reduced balance sheet, but also self-sufficient – even if our prohibition on lending is not lifted.

What are the key elements of the new strategy?
We're going to accelerate the digital transformation during the SpeedUp strategy period and will focus on four key priorities. They will be driven forward in independent business units: Payment Solutions, Retail Banking, Digital First Banking and Platform Business. Our aim is to stabilize the financial result, and we plan to achieve this by investing in new business areas and continuing to improve the efficiency of existing structures and processes.

We are well on the way to becoming a leader in digital investment for retail customers.

Hansruedi Köng

Corporate responsibility is firmly embedded in our new strategy.

Hansruedi Köng

Stabilizing the result sounds like quite a defensive approach.
In the current legal, regulatory and economic environment, it would be unrealistic to aim for significant profit growth. Otherwise, the idea that we're adopting a defensive approach is a misconception. The consistency with which we're implementing concepts such as the new operating model makes SpeedUp a very bold strategy. We have four business units that are developing their business independently of each other and at their own pace. This enables each unit to focus even more consistently on its customers' specific requirements. Customers have different expectations in terms of the type of advice, the level of digitization of products and services and the speed of product development in the various areas of banking.

The new strategy also involves a reduction in headcount. Was this step really unavoidable?
In the current negative interest environment and due to the lending prohibition, we can only improve our earnings situation to a limited extent over the short term. And we can achieve a return on investments in new business areas only over the medium term. To enable us to stabilize our result and to avoid slipping into the red, we must improve efficiency on the cost side. For this reason, headcount will be reduced by around 130 full-time equivalents and employment contract changes will be implemented for some 260 employees by the end of 2021. As far as possible, the reduction in headcount is to be achieved through natural fluctuation, expiring temporary employment relationships and (early) retirements. But where job cuts have to be made, we take our responsibility as an employer seriously and have drawn up a comprehensive redundancy plan in conjunction with our social partners. We're also creating around 80 new jobs in an exciting digital environment.

Speaking of responsibility, society is increasingly demanding that banks operate more sustainably. What is PostFinance doing in this respect?
Corporate responsibility is firmly embedded in our new strategy, and we believe it's important to adopt an integral approach to this issue – covering environmental, economic and social dimensions. We are already doing a great deal in various ways. I'm thinking of work-life balance, which we strongly promote and for which we have been certified several times to date. Or in the investment business, where our customers can already opt for sustainable investments. We intend to expand this range of options. In other areas, we can certainly do more. In 2021, we will create the foundations and conduct analyses that will be used to set the impact goals for our activities in the coming years. Several months ago, we set up a new unit focusing exclusively on corporate responsibility.

What is PostFinance doing to protect the climate?
As part of Swiss Post Group, we've been committed to climate issues for many years. Swiss Post aims to become carbon-neutral by 2040 and is playing a pioneering role in this respect. PostFinance is a member of the Exemplary Energy and Climate initiative, and we have pledged to make an ambitious contribution to improving energy efficiency and expanding renewable energies in Switzerland.

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.

The PostFinance Ltd Code of Conduct 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. The Board of Directors is the highest supervisory body within PostFinance Ltd.

Capital structure

The company has 2 billion Swiss francs of share capital divided into 2 million registered shares, each worth 1,000 Swiss 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 und Michaela Troyanov) are independent as defined by FINMA Circular 2017/1. Members are elected for two years.

Rolf Watter

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

Committees:
IT & Digitization; Organisation, 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, previously Member); Cablecom Holding AG (Chairman); Aryzta AG (Member); Zurich Insurance Group (Member); Syngenta Ltd (Member); Bär & Karrer Ltd (Member of the Board of Directors and Executive Board); Centerpulse (Vice-Chairman); Forbo Holding Ltd (Vice-Chairman); Feldschlösschen Beverages Ltd (Member)

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 and Member of the Foundation Board of a charitable foundation

Hans Lauber

Member of the Board of Directors, member since 2015, Switzerland, 1962, lic. rer. pol. (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); Quintet Private Bank (Switzerland) Ltd (Vice-Chair); 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:
Organisation, 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); Post Real Estate Management and Services Ltd (Member of the Board of Directors); PostBus Ltd (Member of the Board of Directors); Swiss Post pension fund (Vice-Chair 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:
Organisation, 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:
Organisation, Nomination & Remuneration (Chair); Audit & Compliance

Professional background:
Wealth & Legal Strategies (founder and owner); Lombard Odier (Head of Legal & Compliance); leading positions in the areas of Corporate Governance, Market Surveillance and Regulation in Swiss stock exchange organizations in Zurich and Geneva (SIX 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); Quintet Private Bank (Switzerland) Ltd (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

2020	Number	Attendance rate %
Board of Directors’ Meetings	11	100
Board of Directors’ Committee Meetings		
Organisation, Nomination & Remuneration	10	100
Audit & Compliance	9	96.3
Risk	8	100
IT & Digitization	9	95.8

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

- Organisation, Nomination & Remuneration
- Audit & Compliance
- Risk
- IT & Digitization

Board of Directors’ Organisation, Nomination & Remuneration Committee

The Organisation, 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 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 is dedicated to the operating framework and strategy for information technology and the developments and challenges of digitization, particularly with regard to the SpeedUp 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.

Changes in the year under review

Sylvie Meyer left the Executive Board at the end of January 2020. Sandra Lienhart took over from her as Head of Retail on 1 March 2020.

Hansruedi Köng

CEO,
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 Bern (Deputy Managing Director); Pricewaterhouse-Coopers 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 Inc. (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:
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:
esisuisse (Member of the Board); Österreichische Post AG (Member of the Supervisory Board)

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 (Partner)

Sandra Lienhart

Head of Retail, member since 2020, Switzerland, 1966, Executive MBA Zurich University of Applied Sciences in Business Administration (ZFH HWZ) / University of Darden, USA

Professional background:
Bank Cler (CEO and Deputy Chair of Group Management); Bank Coop (Interim CEO); Bank Coop (Head of Sales Division, Member of the Executive Board, Deputy CEO and Member of Basler Kantonalbank Group Management); Credit Suisse (Head of Zurich North Market Area, Oerlikon, Director)

Key posts:
TWINT Ltd (Member of the Board of Directors); TWINT Acquiring Ltd (Member of the Board of Directors)

Daniel Mewes

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

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

Key posts:
PostFinance Retirement Savings Foundation 3a (Member of the Foundation Board); wikifolio Financial Technologies AG (Member of the Supervisory Board)

Information and supervisory tools

Reporting

The Board of Directors receives regular reports from the Executive Board and from the following units: Internal Auditing, Finance, Risk Control, Compliance, Governance, Security and Corporate Development. 11 meetings were held in 2020.

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 the Head of Internal Auditing based on a proposal from the Board of Directors' Audit & Compliance Committee. The Head of Internal Auditing 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 employee satisfaction 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 2020). 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 2020

Human resources

PostFinance Ltd paid a total of 362 million francs in salaries to its staff in 2020. This sum consists of fixed salaries of 338 million francs and variable components of 24 million francs, which were predominantly for 2019 and paid in 2020. Remuneration of 24 million francs for 2020 will not be paid until the subsequent year.

PostFinance employed 3,660 staff on average in 2020. This corresponds to 3,260 full-time equivalents.

Board of Directors

The members of the Board of Directors (including the Chairman) received remuneration of 821,500 francs (fees and fringe benefits). The fringe benefits amounted to 93,500 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.

The upper fee limit of 835,300 francs in total, which was determined by the General Meeting, was respected.

Executive Board

The members of the Executive Board (including the CEO) received base salaries of 2,954,458 francs. The fringe benefits amounted to 205,609 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 1,015,850 francs.

The base salary of the CEO stood at 550,000 francs. The variable remuneration amounted to 233,646 francs.

The upper limit of 4,446,721 francs for the total remuneration amount (including employee benefits), which was determined by the General Meeting, was respected.

PostFinance Ltd | Remuneration

CHF	2019	2020
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]		
Fees		
Base remuneration	360,000	360,000
Remuneration from committees	138,800	218,000
Fringe benefits		
Expenses and representation allowances	39,000	14,700
Additional fringe benefits	39,600	2,500
Total remuneration	**577,400**	**595,200**
Entire Board of Directors (7) [1]		
Fees	698,800	728,000
Fringe benefits	104,900	93,500
Total remuneration	**803,700**	**821,500**
CEO		
Fixed base salary	550,000	550,000
Variable remuneration		
Variable salary component (paid out the following year)	224,632	233,646
Fringe benefits		
Expenses and representation allowances	19,200	19,200
Additional fringe benefits [2]	15,212	15,646
Total remuneration	**809,044**	**818,492**
Other members of the Executive Board (8)		
Fixed base salary	2,375,850	2,404,458
Variable remuneration		
Variable salary component (paid out the following year)	754,332	782,204
Additional payments	29,816	677
Fringe benefits		
Expenses and representation allowances	120,000	118,750
Additional fringe benefits [2]	52,560	52,013
Total remuneration	**3,332,558**	**3,358,102**
All members of the Executive Board (9)		
Fixed base salary and variable remuneration	3,934,630	3,970,985
Fringe benefits	206,972	205,609
Total remuneration	**4,141,602**	**4,176,594**

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 Other fringe benefits include: first-class GA Travelcard, company car and mobile phone.

Management contracts

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

Auditor

According to the provisions of the Swiss Code of Obligations on the subject of corporate law, the auditors are to be appointed by the General Meeting. According to the Banking Act and Stock Exchange Act, this is the responsibility of the Board of Directors. Each term of office is one year. Ernst & Young Ltd 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 Ltd, and the current head auditor Mr Philipp de Boer was engaged for the first time on 1 January 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 Ltd stood at a total of 1,895,217 francs, of which 489,222 francs were due for the accounting audit, 933,517 francs for the regulatory audit and 472,478 francs for consultancy work. 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 relating to money and investments in a range of informative publications for its private customers. Topics for business customers are addressed in the "Business Hub". The "Pioneer Blog" covers HR and innovation topics and is aimed at interested parties, job seekers and IT professionals. PostFinance is also present on social networks and makes an active contribution to shaping dialogue on Facebook, Twitter, Instagram, TikTok, LinkedIn and YouTube.

Management report

PostFinance is one of Switzerland's leading financial institutions and is a reliable partner for around 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 1,185 million transactions in 2020.

PostFinance employed 3,660 staff in 2020.
This corresponds to 3,260 full-time equivalents.

In 2020 PostFinance recorded an operating profit (EBIT) of 131 million francs and generated earnings before tax (EBT) of 93 million francs. Total assets stood at 117 billion francs.

Growth in customer assets amounted to 4 billion francs, with a growing trend towards transferring assets from postal and savings accounts to investment products such as funds and securities.

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, and the coronavirus crisis, continued to represent a challenge for PostFinance in 2020 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

Just over 2.4 million private customers and 275,000 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 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 [1]. 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.

1 Current efforts to partially revise the Postal Services Organization Act envisage, among other things, allowing PostFinance to offer loans and mortgages.

Competition

PostFinance operates in a dynamic market environment with ever greater competition. The continual advances in the digitization of banking services have resulted in more and more global technology companies, as well as fintech startups, forcing their way onto the market. PostFinance is therefore focusing its strategy even more strongly on the digital world.

Economy

The coronavirus pandemic is continuing to have a strong adverse effect on the economy. Against this difficult backdrop, the Swiss National Bank (SNB) is maintaining its expansionary monetary policy with a view to stabilizing economic activity and price developments. Interest on sight deposits held at the SNB remains at –0.75 percent. The SNB reaffirms that it will remain active in the foreign exchange market as necessary, while taking the overall exchange rate situation into consideration. Furthermore, it is supplying generous amounts of liquidity to the banking system via the SNB COVID-19 refinancing facility. The SNB's expansionary monetary policy provides favourable financing conditions, counters upward pressure on the Swiss franc, and contributes to an appropriate supply of credit and liquidity to the economy.

In the current situation, the inflation outlook remains subject to high uncertainty. This is primarily due to the renewed deterioration in the economic situation as a result of the second wave of the pandemic. For 2020, the forecast is in negative territory. The coronavirus pandemic and the measures implemented to contain it led to a historic downturn in the global economy in the first half of 2020. This was followed by a strong recovery in the third quarter. Nevertheless, gross domestic product (GDP) remained significantly below pre-crisis levels in most countries.

Infection numbers have risen again rapidly in Europe and the US since October, and containment measures have once more been adopted. Recent indicators show that this is once more having a detrimental impact on economic activity. The monetary and fiscal policy measures adopted worldwide are providing important support in this regard. However, it is likely that global production capacity will be underutilized for some time to come and inflation will remain modest in most countries.

Regulation

Regulatory requirements in the banking sector continue to increase. Due to developments in the European Union and the Organisation for Economic Co-operation and Development (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 and liquidity and capital requirements. In addition, the replacement of the Libor reference rate poses new challenges for financial institutions. All in all, costs are higher, which is 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. As a digital innovation leader in the Swiss banking world, PostFinance is taking advantage of its strong starting position and evolving from a traditional financial services provider into a digital powerhouse. PostFinance wants to create the ideal combination of the digital and physical worlds in order to offer its customers a consistently positive customer experience.

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, 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.

PostFinance accelerates digital transformation with SpeedUp

PostFinance is focusing on four key priorities in the 2021–2024 SpeedUp strategy period. They will be driven forward in independent business units: Payment Solutions, Retail Banking, Digital First Banking and Platform Business. As well as investment in new business areas, the efficiency of existing structures and processes will be further improved. The new strategy is described in more detail in the outlook section.

Commentary on business performance

Key figures

PostFinance generated earnings before tax (EBT) as per Group IFRS guidelines of 93 million francs in the 2020 financial year, which represents a decline of 131 million francs year-on-year. This was mainly due to a decline of 41 million francs in net interest income as a result of market conditions, a 69 million franc decline in net trading income due to the absence of market value gains and lower income from foreign exchange transactions as a result of the coronavirus crisis. The recognition of a restructuring provision in profit or loss as part of the new SpeedUp strategy, a lower reversal or utilization of the restructuring provision from the "Victoria" programme compared with the previous year and the slightly higher headcount resulted in an increase in personnel expenses (+38 million francs year-on-year).

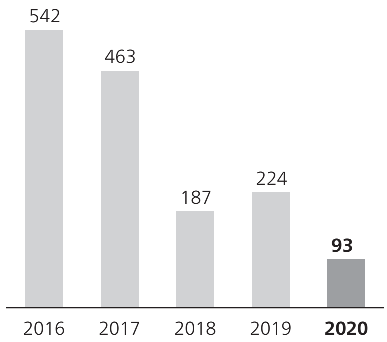
The decrease in earnings before tax is also reflected in the key figures. Return on equity fell to 1.5 percent and the cost-income ratio rose, despite a consistent focus on costs. As in the previous year, no economic value added was generated in 2020.

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. Customer assets grew by 4 billion francs year-on-year. To manage the growth in customer deposits, PostFinance has reduced the exemption limits for customer asset fees several times in the past. In some cases, these measures have resulted in a transfer of customer deposits to funds and securities investments.

Total assets fell by 8.3 billion francs year-on-year as a result of reduced activities in the interbank money market.

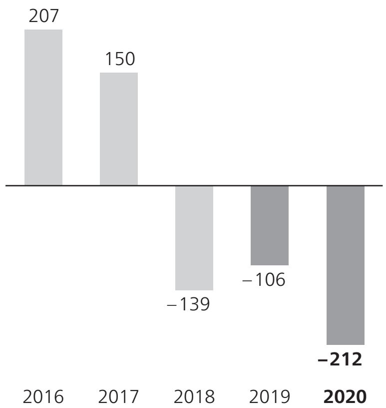
Earnings before tax (EBT)

2016 to 2020
CHF million



Economic value added [1]

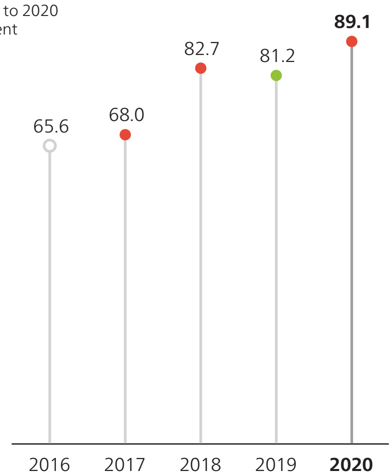
2016 to 2020
CHF million



[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 Accounting – banks.

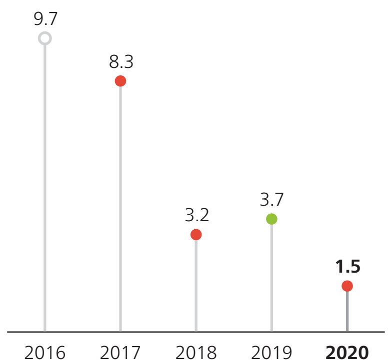
Cost-income ratio

2016 to 2020
percent



Return on equity [2]

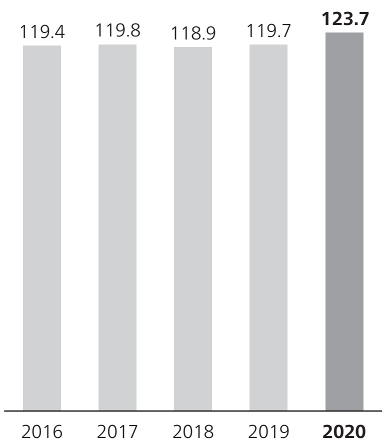
2016 to 2020
percent



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

Average customer assets (monthly avg.) [3]

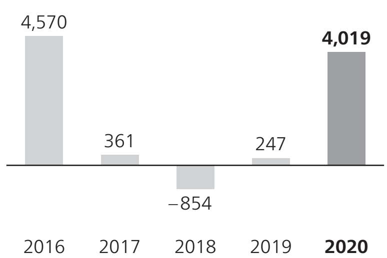
2016 to 2020
CHF billion



[3] For the life insurance, the zillmerized actuarial reserves will be replaced by the surrender value of the life insurance from 2020. The prior-year figure has been restated.

Growth in customer assets [3]

2016 to 2020
CHF million



[3] For the life insurance, the zillmerized actuarial reserves will be replaced by the surrender value of the life insurance from 2020. The prior-year figure has been restated.

PostFinance Ltd | Key figures

2020 with previous year for comparison		2019	2020
Balance sheet			
Total assets as per IFRS	CHF million	125,742	117,393
Capital ratio as per guidelines for systemically important banks	%	19.3	19.1
Going concern leverage ratio [1]	%	4.84	7.34
Gone concern leverage ratio	%	0.14	0.28
Income statement (as per Group IFRS guidelines)			
Operating income	CHF million	1,305	1,199
Operating profit (EBIT)	CHF million	246	131
Earnings before tax (EBT)	CHF million	224	93
Return on equity [2]	%	3.7	1.5
Cost-income ratio	%	81.2	89.1
Customer assets and loans			
Customer assets [3, 4]	CHF million monthly avg.	119,660	123,679
Funds, securities and life insurance [3, 4]	CHF million monthly avg.	12,808	14,490
Customer deposits	CHF million monthly avg.	106,852	109,189
Development of customer assets [4, 5]	CHF million	247	4,019
Managed assets as per provisions of Circ. 2020/1 [3]	CHF million	46,058	43,642
Inflow of new money as managed assets [5]	CHF million	1,033	–3,074
Loans to business customers (taken up)	CHF million	10,123	10,498
Mortgages [6]	CHF million	5,965	6,039
Market and employee key figures			
Customers	In thousands	2,738	2,685
Private customers	In thousands	2,461	2,410
Business customers (incl. banks and agencies)	In thousands	277	275
E-finance users	In thousands	1,797	1,860
Accounts – private customers	In thousands	4,043	3,932
Accounts – business customers	In thousands	358	354
Customer satisfaction – private customers	Index	80	81
Customer satisfaction – business customers	Index	76	78
Average headcount	Full-time equivalents	3,243	3,260
Employee satisfaction	Index	77	76
Transactions			
Transactions	In millions	1,180	1,185

1 Central bank deposits may be temporarily excluded from the calculation of the leverage ratio in accordance with FINMA Guidance 02/2020 on COVID-19.
2 Return on equity = earnings before tax (EBT) as per Group IFRS guidelines/average eligible equity capital as per Accouting – banks.
3 PostFinance reports customer assets and managed assets. "Customer assets" includes all assets held by customers based on average monthly assets. "Managed assets" encompasses only values deposited for investment purposes on the reference date.
4 For the life insurance, the zillmerized actuarial reserves will be replaced by the surrender value of the life insurance from 2020. The prior-year figures have been restated.
5 The managed assets key figure is based on the regulatory requirements in terms of composition and calculation. Customer assets are broader and also include assets that were not deposited for investment purposes (such as private account assets). Moreover, holdings are calculated based on monthly average values. This may result in differing trends between the key figures mentioned.
6 Commission business in cooperation with financial partners.

General developments

The central banks of major industrialized nations continue to pursue their exceptionally expansionary monetary policy. Key rates are close to zero or in negative territory. In addition, many central banks are implementing massive bond-buying programmes and measures to stimulate lending in an effort to combat the negative impact of the pandemic on inflation and the economy. The US Federal Reserve (Fed) has left the target range for its key rate unchanged at 0.0 to 0.25 percent. Purchases of US government bonds and other securities will continue at least at the current level. Its highly expansionary monetary policy looks set to continue for a long time to come: in their latest forecasts, the members of the Federal Open Market Committee signalled their intention to keep the key rate within the current, record-low target range until at least the end of 2023.

In its effort to counter the negative impact of the pandemic on inflation and economic development, the European Central Bank (ECB) has left its monetary policy stance unchanged, while at the same time signalling an adjustment of its instruments. Record low interest rates, massive bond purchases and the provision of cheap liquidity are likely to remain central components of ECB policy, even after the adjustment of monetary policy instruments.

The SNB is continuing with its expansionary monetary policy unchanged. The key rate remains at –0.75 percent, and the SNB is still also prepared to step up foreign exchange market interventions to counter the upward pressure on the Swiss franc. It continues to promote the supply of liquidity and credit to the economy with the so-called SNB COVID-19 refinancing facility, under which banks can obtain liquidity from the SNB against the deposit of COVID business loans guaranteed by the Confederation or the cantons.

The Bank of England has boosted its monetary stimulus policy with its decision on the additional purchase of 150 billion pounds of government bonds. The key rate remains at a record low of 0.1 percent. In the third quarter, Switzerland's GDP recovered strongly (+7.2 percent), making up around three quarters of the massive slump experienced in the first half of the year (a cumulative –8.6 percent). GDP therefore still stands at some 2 percent below the pre-crisis level at the end of 2019. Compared with Germany and other neighbouring countries, but also for example with the United States, the overall losses in value added were lower here in Switzerland. By this measure, Switzerland has so far come through the crisis relatively unscathed.

Following the relatively early and rapid relaxation of the coronavirus measures, domestic demand in the third quarter recovered at a similar pace to GDP as a whole. The situation in the labour market has stabilized: the number of job seekers showed no further increase and there was a significant reduction in short-time working. However, the degree to which individual sectors benefited varied. The retail sector and parts of the hospitality industry benefited from the fact that many people spent their summer holidays at home in Switzerland. Some parts of the service sector, such as the entertainment industry, were more constrained by continuing health policy measures, and the recovery in these areas was therefore somewhat less vigorous. Weak international travel weighed on the transport sector and tourism, with the numbers of foreign visitors remaining at very low levels. The manufacturing sector also remained below pre-crisis levels, although the third quarter did see a substantial improvement compared to the declines of the first half of the year. The industrial sectors, always sensitive to economic developments, are suffering from the economic situation internationally. In most of the major economies, GDP is still well below pre-crisis levels, and this is reflected in demand for exports from Switzerland.

In the course of the third quarter, the recovery of the Swiss economy lost momentum. For the fourth quarter, the available data suggests some weakening of consumer spending behaviour. However, the renewed rise in coronavirus cases and the tightening of measures are dampening its development.

Assets and financial situation

In the year under review, total assets declined by around 8.3 billion francs. The exemption regime in place at FINMA regarding the easing of the leverage ratio expired on 31 December 2020. Repo borrowings were therefore scaled back at the end of December.

Customer assets grew by 4 billion francs. To manage the growth in customer deposits, PostFinance has reduced the exemption limits for customer asset fees several times in the past. Among the customers affected, these measures resulted in some cases in an outflow or transfer of customer deposits to funds and securities investments. Overall, sight deposits of Corporates customers and private customers continued to rise.

PostFinance provides services in the commission business, i.e. funds, e-trading and life insurance, in cooperation with partners. Customer assets in investment products stand at around 14.5 billion francs, representing growth of 13 percent year-on-year. In addition to an increase in e-trading assets, the four new digital investment solutions, such as fund self-service, are also being widely taken up.

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 2020.

Investments

In the year under review, PostFinance once again invested in the maintenance of the core banking system. For example, standard servers were replaced at the end of their lifecycle and migrations of database platforms were carried out. The capacity of central data storage systems was also expanded.

At the end of 2020, the real estate portfolio of 21 properties had a market value of 1.2 billion francs. PostFinance invested around 23 million francs in developing and preserving the value of its own portfolio in 2020.

The construction project in Zurich-Oerlikon is being implemented in two stages. The focus of the work in 2020 was on the complete renovation of the building in Baumackerstrasse with an investment volume of 7 million francs. The residential and commercial building will be brought into service in autumn 2021. Rental agreements are already in place for the majority of the 54 new apartments. Swiss Post will restart its branch operations on the ground floor.

The extensive renovation of the bank building in Engehaldenstrasse in Bern was completed in 2020, providing employees with modern office facilities. The investment volume in 2020 stood at 5 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 2020, PostFinance invested almost 4 million francs in the two historic buildings.

The Geneva Montbrillant property, situated next to the railway station, is being steadily 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 6 million francs in 2020.

PostFinance made additional investments by way of capital contributions in participations.

Balance sheet

PostFinance Ltd | Balance sheet as per Group IFRS guidelines

CHF million	31.12.2019	31.12.2020
Assets		
Cash and cash equivalents	1,778	1,414
Amounts due from banks	45,440	37,090
Interest-bearing amounts due from customers	500	878
Trade accounts receivable	27	18
Other receivables	492	404
Inventories	4	2
Non-current assets held for sale	–	5
Financial investments	76,388	76,508
Participations	5	8
Tangible fixed assets	399	385
Investment property	267	262
Intangible assets	151	127
Right-of-use assets	65	52
Deferred tax assets	226	240
Total assets	**125,742**	**117,393**
Liabilities		
Customer deposits	108,966	109,642
Other financial liabilities	10,349	1,140
Trade accounts payable	81	62
Other liabilities	108	116
Income tax liabilities	–	0
Provisions	264	304
Deferred tax liabilities	89	102
Equity	5,759	5,923
Net annual result	126	104
Total liabilities	**125,742**	**117,393**

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 – as expected – in the 2020 financial year. Interest income fell by 41 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 continues to fall sharply. At the same time, interest expense 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.

As a result of the coronavirus pandemic and the restrictions it has brought, revenue from cash in-payments at Swiss Post branches and from transactions at ATMs fell sharply. The commission business benefited from increased e-trading activities and the expansion of the investment business (+18 million francs).

Net trading income fell by 69 million francs year-on-year. As a result of the restrictions on travel for our customers, there were no substantial conversion gains from cash withdrawals in foreign currencies from ATMs in Switzerland and abroad and from the use of credit cards. In addition, the previous year was positively impacted by unrealized market value gains on fund investments, which were recognized in profit or loss.

The decline in operating income was somewhat mitigated in net income from financial assets by early repayments of financial investments and the associated one-off gains.

Operating expenses

In comparison with the previous year, headcount increased by 17 full-time equivalents to an average of 3,260 full-time equivalents despite the ongoing restructuring programmes. As part of its strategic focus, PostFinance is placing an emphasis on the simplification and digitization of its services and processes. This resulted in a reduction of 27 full-time equivalents in the Sales unit and 61 full-time equivalents in the Operations unit. On the other hand, PostFinance also pushed ahead with innovations and increased staffing in various units (+105 full-time equivalents).

The recognition of a restructuring provision in profit or loss as part of the new SpeedUp strategy, a lower reversal or utilization of the restructuring provision from the “Victoria” programme compared with the previous year and the slightly higher headcount resulted in an increase in personnel expenses (+38 million francs year-on-year).

General and administrative expenses were reduced by 17 million francs due to lower fees paid on the sale of financial services and lower consultancy expenses. PostFinance also recorded lower depreciation on real estate.

The sale of two participations and a subsidiary resulted in a one-off gain of 24 million francs in the prior-year period.

Earnings before tax (EBT)

PostFinance recorded earnings before tax of 93 million francs (–131 million francs year-on-year). The lower result is primarily due to the market-related decline in interest operations and lower income as a result of the coronavirus crisis.

Earnings before tax are also reflected in the key figures. Return on equity fell to 1.5 percent and the cost-income ratio rose, despite a consistent focus on costs. As in the previous year, no economic value added was generated in 2020.

Income taxes

No expenses for current taxes were incurred due to the negative statutory result in the previous year (result in accordance with the accounting rules for banks) and the associated loss carried forward. In the area of deferred taxes, a reduction in expenses or deferred tax income was posted due to valuation differences between the accounting rules in accordance with Group IFRS guidelines and the accounting rules for banks.

Net annual result

PostFinance’s net annual result for 2020 amounted to 104 million francs. This represents a decline of 22 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 from Group segment disclosure with PostFinance’s net annual result as per Group IFRS guidelines

CHF million	2019	2020
Segment operating profit (EBIT) prior to fees and net cost compensation	**240**	**161**
Expenses from management fees, licence fees and excess costs, as well as income from net cost compensation	5	–30
Segment operating profit (EBIT) after fees and net cost compensation	**245**	**131**
Operating profit from subsidiaries	1	–
Operating profit (EBIT)	**246**	**131**
Financial expenses – PostFinance Ltd	–47	–38
Financial income	1	0
Gain/loss from the sale of subsidiaries and associates	24	–
Earnings before tax (EBT)	**224**	**93**
Expenses for current taxes	0	2
Expenses for deferred taxes	–98	9
Net annual result	**126**	**104**

Income statement

PostFinance Ltd | Income statement as per Group IFRS guidelines

CHF million	2019	2020
Net interest income, net of impairment	572	531
Net income from services	233	214
Net commission income	118	136
Net trading income	233	164
Net income from financial assets	−4	21
Other net income	153	133
Operating income	**1,305**	**1,199**
Personnel expenses	−447	−485
General and administrative expenses	−520	−503
Operating expenses	**−967**	**−988**
Gross profit (EBDIT)	**338**	**211**
Depreciation of fixed assets	−92	−80
Operating profit (EBIT)	**246**	**131**
Net financial income	−22	−38
Earnings before tax (EBT)	**224**	**93**
Expenses for current taxes	0	2
Expenses for deferred taxes	−98	9
Income taxes	**−98**	**11**
Net annual result	**126**	**104**

Non-financial results of a material nature

Customer satisfaction

The overall satisfaction rating among PostFinance private customers in 2020 was 81 points on a scale of 0 to 100. For business customers, the figure was 78 points. In both target groups, PostFinance achieved year-on-year increases. This is due on one hand to the positive impact of the introduction of new products and services, and on the other to the fact that the introduction of the new prices in 2019 is becoming less relevant to customers.

The further development of e-finance in particular, with its new login and simplified payment entry, had a positive impact on customer satisfaction. But digital solutions such as Valuu and PostFinance TWINT are also being well received by customers, as cashless payments in particular have become much more important as a result of the coronavirus crisis. In addition, business customers who have received a COVID-19 loan from PostFinance rate their cooperation with PostFinance as excellent. With a rating of 83 out of 100 points, they have a significantly higher level of overall satisfaction than other business customers.

To maintain customer satisfaction at this high level, PostFinance is continuously developing its range of products and services. The increased acceptance of the PostFinance Card as a result of the discontinuation of the previous requirement to have an account as of 1 January 2021 and the launch of the new PostFinance App in spring 2021 are both likely to contribute to this goal.

Staff motivation

At 82 percent, the rate of staff participation achieved in the employee survey was again high. The format of the employee survey was completely revised in 2020. It is simpler, shorter and more modern. Rather than a unit-specific survey, it is now an overall survey of the Group. This means that the "employee satisfaction" key figure is now limited to an appraisal of the work situation. The work situation comes in at an average positive rating of 76 points.

The work situation section of the survey includes the questions: "When you think about everything that is important to you in your work, how satisfied are you with your current work situation overall?" and "To what extent does Swiss Post fulfil your aspirations for / expectations of an ideal employer?" As part of the ongoing development of the employee survey, these questions were retained to ensure comparability with previous years. While the rating was down by one point compared to the previous year's figure, this is a satisfactory result considering the circumstances (in particular the coronavirus crisis and the announcement of implementation of the strategy with reorganization).

Satisfaction with the work situation is down by 2 points, while fulfilment of the aspirations/expectations of employees fell by 1 point. Despite the current challenges, employees therefore rate their satisfaction as similarly positive to the previous year. Managers give these questions a satisfaction rating 4–5 points higher than employees. Satisfaction with the work situation increases with age (from 72 to 77 points). Around 10 percent are not satisfied or less than satisfied with their work situation. There are differences within the individual organizational units.

At 81 points, commitment to PostFinance as an employer (consisting of identification/pride, future career, recommendation, fun) remains high. Employees are proud to work at PostFinance and would recommend it as an employer. Employees see themselves as having a professional future at Swiss Post, but rate their opportunities for future development in their current job differently.

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 tense situation, PostFinance continues to pursue a cautious credit risk policy. This policy results in a very high-quality investment portfolio, which to date has seen only a negligible impact from the COVID-19 pandemic. 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. As a rule, the major risks at PostFinance arise from the longer-term persistence of the current negative interest environment. Additional challenges could emerge as a result of new regulatory developments that PostFinance is particularly exposed to due to the restricted flexibility in its business model imposed by law. PostFinance is less affected by increased market volatility thanks to a large fixed income portfolio.

Customer transaction volumes

In the year under review, total assets declined by around 8.3 billion francs. The exemption regime in place at FINMA regarding the easing of the leverage ratio expired on 31 December 2020. Repo borrowings were therefore scaled back at the end of December. In addition, PostFinance had increased activities in the interbank money market in 2019 for other financial liabilities, which did not accrue to the same extent in the year under review. Customer assets grew by 4 billion francs.

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 March 2020, the customer asset fee had to be extended to include private customers with assets of over 250,000 francs. This concerns only a small number of customers, and had only a marginal impact on the sight deposits, which rose overall. In some cases, the measures resulted in a transfer of customer deposits to funds and securities investments. An outflow of savings was recorded. For customers who only park liquidity with PostFinance, PostFinance set the threshold at 100,000 francs from February 2021. The approximately 14,000 affected customers were informed in writing in advance.

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, four new digital investment solutions were launched in May. In place of the previous fund range and in addition to e-trading, PostFinance now offers e-asset management, investment consulting plus, fund consulting basic and fund self-service. Customers can choose the level of support most appropriate to their needs.

PostFinance provides services in the commission business, i.e. funds, e-trading and life insurance, in cooperation with partners. Customer assets in investment products stand at around 14.5 billion francs, representing growth of 13 percent year-on-year. In addition to an increase in e-trading assets, the four new digital investment solutions, such as fund self-service, are also being widely taken up.

PostFinance processed 1,185 million payment transactions, representing an increase of 0.4 percent year-on-year. Overall, PostFinance customers carried out transactions representing a total volume of well over 1,700 billion francs. These figures illustrate the importance of PostFinance in the Swiss financial services market.

The coronavirus crisis led to a sharp drop in revenues from over-the-counter transactions at Swiss Post branches and at ATMs. In addition, trading portfolio assets saw no substantial conversion gains from cash withdrawals in foreign currencies and from the use of credit cards as a result of the restrictions on travel for our customers. Inpayments at branches are being replaced by electronic processing. In addition to e-finance, particular growth is being seen in cashless transaction volumes in trading activities (EFT/POS) and in the area of digital commerce with e-payment and TWINT transactions.

2020 milestones

PostFinance speeds up digital transformation

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.

Despite falling profits, PostFinance successfully implemented numerous projects during the strategy period running until 2020 and is well positioned to speed up the digital transformation. PostFinance has one of the most modern core banking systems in the Swiss financial center.

In 2020, future main thrusts were developed in a range of comprehensive programmes and four key priorities for the implementation of the SpeedUp strategy were defined. They will be driven forward in independent business units: Payment Solutions, Retail Banking, Digital First Banking and Platform Business.

Innovation

PFLab, PostFinance’s innovation laboratory, works on innovations that lie well in the future and are being driven forward alongside core/day-to-day business and digital transformation. Looking back on five years since its inception, PFLab had the opportunity to showcase its results and successes in the December issue of “Booster” magazine.

Ormera (automated electricity billing based on an innovative blockchain technology), a startup founded from PFLab in 2019, announced the joint product launch of new ABB electricity meters on the market together with ABB.

Together with PFLab, PostFinance is also a co-founder of cardossier, an association founded in 2019 with the goal of mapping the life cycle of a vehicle on the blockchain. PFLab is looking at possible partnerships in this “vehicle ecosystem”, particularly in relation to payment options. In 2020, cardossier took the first step by putting more than 11 million pieces of vehicle data into productive use.

PFLab’s miira, which emerged from the SUGAR university network, was further developed in 2020 and tested with customers. miira was integrated as a new category on the digital mortgage brokerage platform. It offers a retirement planning and coverage check as part of retirement provision.

The partnership with Kickstart, Switzerland’s best-known startup network and programme, was also continued in 2020. Ormera and tilbago (digital debt collection platform), two startups in which PostFinance has a stake, were selected by Kickstart and received attention and access to potential investors.

Tokenization is a fascinating field and one of the topics of the future that PFLab is focusing on. It enables the digital replication and denomination of assets so that they can be traded in the form of tokens via blockchain. In 2020, feasibility tests were carried out with a Swiss partner to look into the digital replication and tokenization of SME shares, and the idea of a purely digital general meeting was also tested.

The Green Coin innovation project was developed in collaboration with a Swiss communications company and an initial prototype was tested with employees. The basis for the project is provided by the in-house Swiss Trust Chain blockchain infrastructure. The blockchain makes it possible to manage digital and programmable assets such as shares and currencies. As a currency in a sustainable Swiss consumption ecosystem, the idea behind the Green Coin is to enable the earmarked purchase of sustainable products and services, while at the same time creating incentives for green behaviour among both private customers and companies. The Green Coins are financed, for example, by companies looking to raise awareness of climate-friendly behaviour among their employees or customers.

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 1.9 million e-finance users and more than one million app downloads, it is currently the Swiss market leader in online banking and mobile banking.

PostFinance plans to expand its business model with a platform approach. The first module, launched in 2019, 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. At each step in the Valuu app and in the desktop version, the customer has the option of contacting the Valuu competence center by phone. In 2020, 221 million francs had already been financed through Valuu. Valuu currently has around 13,500 active users and works with 29 lenders covering over 100 leading Swiss banks, insurance companies and pension funds. 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. Valuu is testing a range of different products to find out which products in these areas are suitable for digital brokerage and comparison. The areas of personal loans and pension planning are in the development phase. It is possible that other products and services will be brokered via the platform in the future.

PostFinance is expanding its range of investment products and has launched four new digital investment solutions. In place of the previous fund range and in addition to e-trading, PostFinance now offers e-asset management, investment consulting plus, fund consulting basic and fund self-service. Customers can choose the level of support that meets their needs – from making their own investment decisions independently to full management by PostFinance. PostFinance has an investment committee, which meets monthly and in response to unusual market events. It monitors macroeconomic developments as well as those on the national and international financial markets and determines PostFinance’s currently applicable investment strategy for customer investment business on the basis of this. The investment committee’s decisions determine PostFinance’s house view on the financial markets.

Switzerland’s financial center introduced 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 has set 30 September 2022 as the final date for the red (IS) and orange (ISR) inpayment slips. Invoice recipients are already able to enjoy the benefits of the QR-bill and make digital payments. The Swiss financial institutions have modified their mobile and e-banking solutions accordingly to enable invoice recipients to scan in and pay their QR-bills with ease – regardless of whether they are a private individual or a company. QR-bills can also be used at Swiss Post branch counters and terminals to pay bills independently, or they can be sent to the bank by payment order in an envelope. In 2020, PostFinance processed one million QR-IBAN transactions.

With the introduction of the eBill platform, the Swiss financial center has also implemented a standardized system for electronic transfer of invoices between invoice issuers and e-banking users. With the release in March 2020, PostFinance has connected its e-banking customers to the eBill platform. Since then, electronic invoices have been available and can be managed on the eBill platform.

Due to the increased hygiene requirements associated with the coronavirus situation, contactless payments of up to 80 francs are possible with the PostFinance Card without entering the PIN, allowing PostFinance customers to better protect themselves against infection. Customers remains free to choose whether they wish to make a contactless payment or insert the card into the terminal and enter the PIN. PostFinance and the other card providers have decided to maintain the limit of 80 francs. It applies both to the PostFinance Card and to PostFinance credit and prepaid cards.

On its way to becoming the number one digital bank in Switzerland and as the market leader in Swiss payment transactions, PostFinance aims to offer its customers convenient, simple and innovative digital payment solutions. Since May, the PostFinance Mastercard (both classic or prepaid) can be linked to SwatchPAY! watches and used at payment terminals for contactless payments. This works anywhere where contactless payment with a Mastercard is already possible. Since December, customers with prepaid cards and credit cards from PostFinance have been able to use Samsung Pay. In the course of 2021, Apple Pay will be made available for all PostFinance prepaid and credit cards. PostFinance is currently working to implement Apple Pay.

E-commerce is becoming increasingly significant. Simple and inexpensive shop solutions are particularly important. 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 credit from a single source.

PostFinance private customers who have stored a voiceprint can use the digital voice assistant to order account statements or interest statements for private and savings accounts at any time by telephone. Thanks to this new technology, PostFinance can allow the digital voice assistant to take care of repetitive orders from customers that do not require consulting services. This means that there is no waiting time for customers and that staff at the Contact Center have more time to advise customers on more complex issues.

PostFinance holds a stake in TONI Digital Insurance Solutions AG, a company working to develop, create, market and operate innovative all-in solutions in the insurance sector. With PostFinance legal protection insurance, PostFinance is expanding its range of insurance products. Insurance is a business area in which PostFinance sees earnings potential. PostFinance is not an insurance company and does not intend to become one. For PostFinance, this is and will continue to be a complementary business in which it wishes to generate additional non-interest income on the basis of cooperation with partners. PostFinance legal protection insurance is an online insurance solution for every budget. A range of options allow for individual coverage. Premiums are calculated and insurance is taken out online. And once customers have signed up, they'll find the service cockpit flexible and clearly laid out.

Federal Council assistance programme: PostFinance may grant loans up to 500,000 francs

The measures taken by the authorities to contain the spread of the coronavirus have far-reaching economic consequences. One of the consequences is that numerous companies have fewer and fewer liquid assets at their disposal to cover their ongoing costs. For this reason, the Federal Council adopted a comprehensive package of measures on 20 March 2020 to cushion the economic impact of the spread of the coronavirus for these companies. Among other things, the affected companies were to quickly and easily receive loan amounts of up to 10 percent of annual turnover or a maximum of 20 million francs. It was possible for banks to pay out loans of up to 500,000 francs immediately after the processing of an extremely simplified, standardized loan application. These loans will be fully guaranteed by the Confederation. PostFinance urged the Federal Council to allow it to participate in this assistance package alongside other banks, despite the lending prohibition, in order to be able to contribute to the common good. The request was approved, which meant that from 26 March 2020 it was able to quickly and easily grant its business customers loans of up to 500,000 francs. By the end of June, around 17,000 applications with a credit limit of more than 800 million francs had been accepted. Out of this total, 391 million francs, or around 43 percent, were used by the end of 2020.

Corporate venturing

Since 2016, PostFinance has been investing via participations in startup companies. At the end of 2020, the portfolio comprised 15 participations in innovative young companies. The example of wikifolio shows the many opportunities that can arise from cooperation between PostFinance and portfolio startups. In the year under review, a strong market presence was established with the "Investors Challenge" competition. PostFinance customers were shown new ways of making independent investment decisions. PostFinance, for its part, gained valuable insights into the demand for social trading in the Swiss market. This experience allows the company to position itself as a provider of digital investment opportunities in line with customer requirements.

PostFinance gains access to specialist expertise, new technologies and innovative business models through investments in startups. This also allows PostFinance to learn first-hand about the specific applications that other financial institutions are working on together with PostFinance participations. Venture Day 2020 was very much characterized by these forward-thinking financial services solutions. Among other companies, RaiseNow and TWINT presented their strategic partnership in the association and non-governmental organization (NGO) segment. RaiseNow and TWINT are companies in which PostFinance holds a participation and with which it also has an operational collaboration. It is a trio that will continue to develop innovative solutions in the future and benefit from each other's respective strengths.

Outlook

The ongoing uncertain situation on the domestic and international financial and capital markets with negative interest rates in some cases continues to present PostFinance with significant challenges. Due to the current investment climate, the high level of liquid assets cannot be profitably invested in the capital market. The negative interest on sight deposit balances charged by the SNB is partly being passed on to major customers and wealthy private customers. Upward pressure on the Swiss franc is expected to persist, despite the intervention by the SNB. An increase in the key rates in Swiss francs can therefore be ruled out at present.

PostFinance is operating in a challenging economic and regulatory environment. As interest rates have been low or even negative for years, its interest margin is being eroded. The competitive disadvantage that it faces in not being able to issue its own loans and mortgages is becoming increasingly pronounced.

The coronavirus pandemic is continuing to have a strong adverse effect on the economy. In the current situation, the inflation outlook remains subject to high uncertainty. The coronavirus pandemic and the measures implemented to contain it led to a historic downturn in the global economy in the first half of 2020. This was followed by a strong recovery in the third quarter. Nevertheless, gross domestic product (GDP) remained significantly below pre-crisis levels in most countries. Infection numbers have risen again rapidly in Europe and the US since October, and containment measures have once more been adopted. This has resulted in a renewed deterioration in the economic outlook. Developments going forward largely depend on how successfully the spread of the virus can be contained in Switzerland and abroad. The containment measures against the virus look set to remain in place for some time, and may even be tightened. The monetary and fiscal policy measures adopted worldwide are providing important support in this regard. However, it is likely that global production capacity will be underutilized for some time to come and inflation will remain modest in most countries. Unemployment in Switzerland is also likely to rise.

The coronavirus crisis is having a far-reaching impact on customer behaviour in the area of cash handling and the use of financial services in connection with travel and online purchases. Any partial recovery depends on how the pandemic develops.

PostFinance accelerates digital transformation with SpeedUp

PostFinance's earnings before tax have been falling sharply for several years due to negative market interest rates and the lending prohibition. By pursuing its new SpeedUp strategy, the financial services provider aims to halt this negative trend and to stabilize earnings before tax. However, in the current interest-rate environment and under the currently applicable statutory and regulatory conditions, PostFinance will fail to achieve the results of previous years despite a clear focus, efficiency increases and investments.

PostFinance's core business will now be divided into four business units: Payment Solutions, Retail Banking, Digital First Banking and Platform Business. They will act largely autonomously and develop their business independently of one another and at their own pace. This will enable each unit to focus even more consistently on the specific requirements of their customers. Customers have different expectations in terms of the type of advice, the level of digitization of products and services and the speed of product development in the various areas of banking.

With Payment Solutions, PostFinance is becoming *the* leading reliable partner in payment transactions for payment and debt collection solutions for retailers and invoice issuers in Switzerland.

In Retail Banking, PostFinance provides its private and business customers with proven solutions and advice on the smartest way to manage money – both physically and digitally.

In Digital First Banking, PostFinance is launching a radical new, completely digitally designed range of services for “Banking & Beyond” over the course of the coming year.

In Platform Business, PostFinance aims to make Valuu the leading independent Swiss platform for comparing and taking out financing, insurance and pension solutions.

As well as investment in new business areas, the efficiency of existing structures and processes will be further improved in an effort to stabilize the financial result. Headcount is to be reduced by around 130 full-time equivalents and employment contract changes are set to be implemented for some 260 employees by the end of 2021. The planned job cuts meant a consultation process had to be carried out in autumn 2020. As part of this procedure the employees concerned had the opportunity to put forward proposals on how to avoid or limit redundancies or mitigate the impact. The Executive Board reviewed all submissions continuously together with the relevant experts. Two proposals were directly accepted. Specific aspects from other proposals were incorporated into further considerations. Overall, however, the input could not replace the planned measures.

PostFinance is aware that the forthcoming changes may cause uncertainty and anxiety amongst employees and also recognizes its social responsibility as a company. It takes this role seriously. The headcount reduction will be achieved, as far as possible, by means of natural fluctuation, expiring temporary employment relationships and (early) retirements. A well-developed redundancy plan that was carefully drawn up together with the social partners will apply for all staff affected by redundancy.

As not all employees are affected by the planned changes to the same extent, different measures have been defined to provide the workforce with individual and personal support over the coming period. Anyone who is directly affected will be provided with close support from Human Resources to identify prospects and find socially acceptable solutions.

PostFinance plans to make substantial investments in a new digital bank and in the development of the platform business over the coming years. It will require additional staff with a broad range of competencies. In this context, around 80 new jobs will be created in an exciting digital environment.

PostFinance and Swissquote enter into joint venture

Swissquote and PostFinance are the leading providers of online financial services in Switzerland. They have collaborated successfully in online trading for several years. They are now set to extend their partnership: the two companies plan to launch a joint digital banking app and have signed a letter of intent.

In September 2020, PostFinance announced its intention to accelerate digital transformation in the new SpeedUp strategy. Its plans include the launch of a new service for “Banking & Beyond” geared entirely to the digital world over the course of the coming year. Digital banking is a key element of Swissquote’s strategy. The launch of this app is the logical next step to develop its wide range of services. Work on the app has been under way for some time. It will now be further refined as part of this joint venture. Both partners see major benefits in a joint venture.

The transaction still has to go through the usual official approval process. Further details will be released when a specific range of services is ready to be launched on the market. This is scheduled for the first half of 2021.

Federal Council seeks privatization of PostFinance

In June 2020, the Federal Council opened the consultation procedure on the partial revision of the Postal Services Organization Act. The key element of the bill is the lifting of the ban on PostFinance providing loans and mortgages. The Federal Council is also proposing a capitalization guarantee based on the too-big-to-fail regulation. This step is necessary owing to PostFinance's inadequate earnings situation. Lifting the prohibition is essential to ensure the long-term survival and competitiveness of PostFinance.

On 20 January 2021, the Federal Council decided to continue to pursue the bill for the partial revision of the Postal Services Organization Act on the basis of the outcome of the consultation procedure, and to expand it to include a key element: the entry of PostFinance into the loan and mortgage market is to be flanked by the transfer of Swiss Post's controlling majority (and thus indirectly that of the Confederation) to PostFinance. This represents the response of the Federal Council to the concerns raised by many participants in the consultation procedure with regard to constitutionality, competitive neutrality, federalism and financial market stability. Since the separation of PostFinance from Swiss Post Group requires a reorganization of the universal service with postal and payment transaction services, the Postal Services Act will first need to be amended. The Federal Council has instructed DETEC to draft concrete proposals by the end of 2021 for the further development of the universal service for payment transactions.

Reconciliation of IFRS with Accounting – banks

PostFinance issues financial statements in accordance with Group International Financial Reporting Standards (IFRS) guidelines and the Accounting rules for banks set out in article 6 et seq. of the Banking Act, article 25 et seq. of the Banking Ordinance, the FINMA Accounting Ordinance and FINMA Circular 2020/1 “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 financial statements in accordance with Accounting – banks.

Balance sheet

PostFinance Ltd | Reconciliation of balance sheet as per Group IFRS guidelines with Accounting – banks

CHF million		31.12.2019	31.12.2020
Total assets	**As per Group IFRS guidelines**	**125,742**	**117,393**
Assets			
Financial investments	Lower of cost or market value principle for shares/funds as per Accounting – banks	–16	–13
	OCI [1] bonds in financial investments	–297	–327
	Value adjustments on OCI [1] bonds	–3	–7
Participations	Amortization of equity securities	–48	–43
	Lower of cost or market value principle for participations as per Accouting – banks	–40	–72
Tangible fixed assets	Revaluation of real estate	349	340
	Right-of-use asset for lease	–64	–51
	Property available for sale	–	2
Other assets	Deferred tax assets (assets)	–225	–240
	Compensation account (assets)	176	169
	Employer contribution reserve	–	38
Items in other amounts due to customers	PostFinance’s own postal accounts (Finance/Real Estate)	–	–
Difference in assets	**Accounting – banks – Group IFRS guidelines**	**–168**	**–204**
Liabilities			
Other liabilities	Lease liability	–65	–52
	Compensation account (liabilities)	182	187
	Employee benefit obligations	–255	–270
	Deferred tax liabilities (liabilities)	–28	–34
Statutory capital reserve	Capital reserves (from revaluations)	1,013	2,897
	Retained earnings reserve under IFRS	93	–2,499
Profit / loss for the year	Difference in profit / loss as per Group IFRS guidelines – Accounting – banks	–708	26
Items in financial investments	OCI [1] bonds in financial investments	–297	–327
OCI [1] as per Group IFRS guidelines only	OCI [1] from shares and participations	–100	–125
	Value adjustments on OCI [1] bonds	–3	–7
	OCI [1] current taxes	–	0
Difference in liabilities	**Accounting – banks – Group IFRS guidelines**	**–168**	**–204**
Total assets	**As per Accounting – banks**	**125,574**	**117,189**

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 Accounting – banks

CHF million		2019	2020
Net annual result (as per Group IFRS guidelines)		**126**	**104**
Interest and dividend income from financial investments	Amortization of revalued held-to-maturity financial investments	–	–
Various items of net income	Valuation differences for financial investments as per Accounting – banks	–3	26
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	–	0
Result from the disposal of financial investments	Realized gains from (earlier than scheduled) repayments	–4	–34
Personnel expenses	Valuation differences between IAS 19 and Swiss GAAP ARR 16	6	52
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets	Revalued real estate	–4	–4
	Individual impairment charge due to lower fair value	–1	–4
	Goodwill	–800	–
Various income statement items	Valuation differences for participations as per Accounting – banks	–1	–3
	Leases as per IFRS 16	1	0
Extraordinary income / extraordinary expenses	Realized gains from participations	0	1
Taxes	Deferred tax income as per Group IFRS guidelines	98	–9
Profit / loss for the year as per Accounting – banks		**–582**	**129**

Statutory annual financial statements

PostFinance issues annual financial statements in accordance with the accounting rules under banking law (articles 25–28 of the Banking Ordinance, the FINMA Accounting Ordinance and FINMA Circular 2020/1 “Accounting – banks”).

For 2020, the statutory financial statements indicate profit after tax of 129 million francs.

Total assets amount to 117 billion francs.

Balance sheet

PostFinance Ltd | Balance sheet as per Accounting – banks

CHF million	Notes	31.12.2019	31.12.2020
Assets			
Liquid assets		46,946	38,308
Amounts due from banks		3,889	3,655
Amounts due from securities financing transactions	5	22	–
Amounts due from customers	6	12,075	12,527
Mortgage loans	6	0	0
Trading portfolio assets		–	–
Positive replacement values of derivative financial instruments	7	162	232
Other financial instruments at fair value		–	–
Financial investments	8	60,406	60,477
Accrued income and prepaid expenses		383	315
Participations	9, 10	105	106
Tangible fixed assets	11	1,166	1,121
Intangible assets		–	–
Other assets	12	420	448
Total assets		**125,574**	**117,189**
Total subordinated claims		11	12
of which subject to mandatory conversion and / or debt waiver		1	–
Liabilities			
Amounts due to banks		1,324	1,026
Liabilities from securities financing transactions	5	9,125	22
Amounts due in respect of customer deposits		108,469	109,340
Trading portfolio liabilities		–	–
Negative replacement values of derivative financial instruments	7	340	330
Liabilities from other financial instruments at fair value		–	–
Cash bonds		71	12
Bond issues and central mortgage institution loans		–	–
Accrued expenses and deferred income		105	108
Other liabilities	12	5	71
Provisions	15	35	51
Reserves for general banking risks		–	–
Bank’s capital	16	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 / loss carried forward		–	–582
Profit / loss		–582	129
Total liabilities		**125,574**	**117,189**
Total subordinated liabilities		203	203
of which subject to mandatory conversion and / or debt waiver		203	203

PostFinance Ltd | Off-balance sheet transactions

CHF million	Notes	31.12.2019	31.12.2020
Contingent liabilities	24	52	75
Irrevocable commitments		699	1,109
Obligations to pay up shares and make further contributions		–	–
Credit commitments		–	–

Income statement

PostFinance Ltd | Income statement as per Accounting – banks

CHF million	Notes	2019	2020
Interest and discount income	27	140	126
Interest and dividend income from trading portfolios		–	–
Interest and dividend income from financial investments		392	276
Interest expense	27	33	150
Gross result from interest operations		**565**	**552**
Changes in value adjustments for default risks and losses from interest operations		–4	–29
Net result from interest operations		**561**	**523**
Commission income from securities trading and investment activities		65	79
Commission income from lending activities		21	21
Commission income from other services		645	615
Commission expense		–385	–371
Result from commission business and services		**346**	**344**
Result from trading activities and the fair value option	**26**	**214**	**189**
Result from the disposal of financial investments		8	3
Income from participations		10	3
Result from real estate		73	72
Other ordinary income		87	58
Other ordinary expenses		–	–
Other result from ordinary activities		**178**	**136**
Operating income		**1,299**	**1,192**
Personnel expenses	28	–442	–433
General and administrative expenses	29	–552	–536
Operating expenses		**–994**	**–969**
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets		–892	–81
Changes to provisions and other value adjustments, and losses		–10	–10
Operating result		**–597**	**132**
Extraordinary income	30	27	1
Extraordinary expenses	30	–2	–
Changes in reserves for general banking risks		–	–
Taxes	31	–10	–4
Profit / loss		**–582**	**129**

Appropriation of profit/loss

PostFinance Ltd | Distributable profit / accumulated loss

CHF million	31.12.2019	31.12.2020
Profit / loss for the year	–582	129
Profit / loss carried forward	–	–582
Total distributable profit / accumulated loss	**–582**	**–453**

At the General Meeting on 26 April 2021, the PostFinance Board of Directors will propose the following appropriation of profit/loss, including the distribution from capital reserves:

PostFinance Ltd | Appropriation of profit / loss

CHF million	31.12.2019	31.12.2020
Dividend distributions	–	–
Profit / loss carried forward to new account	–582	–453
Total distributable profit / accumulated loss	**–582**	**–453**

PostFinance Ltd | Other distributions

CHF million	31.12.2019	31.12.2020
Distributions from the capital reserve	–	–129
Total distributions from the capital reserve	**–**	**–129**

Cash flow statement

PostFinance Ltd | Cash flow statement as per Accounting – banks

CHF million	Cash inflow 2019	Cash outflow 2019	Cash inflow 2020	Cash outflow 2020
Cash flow from operating activities (internal financing)				
Profit / loss for the year	–	582	129	–
Value adjustments on participations, depreciation and amortization of tangible fixed assets and intangible assets	891	–	81	–
Provisions and other value adjustments	–	20	17	
Change in value adjustments for default risks and losses	5	–	29	–
Accrued income and prepaid expenses	85	–	68	–
Accrued expenses and deferred income	11	–	4	–
Other items	–	–	–	–
Previous year's dividend	–	66	–	–
Subtotal	**324**	**–**	**328**	**–**
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	14	3	0	6
Real estate	11	48	–	23
Other tangible fixed assets	0	13	–	9
Intangible assets	–	–	–	–
Subtotal	**–**	**39**	**–**	**38**
Cash flow from banking operations				
Medium and long-term business (>1 year):				
Amounts due to banks	–	–	–	–
Amounts due in respect of customer deposits	204	–	–	–
Cash bonds	–	8	–	59
Other liabilities	–	–	–	15
Amounts due from banks	532	–	190	–
Amounts due from customers	–	73	0	–
Mortgage loans	0	–	0	–
Financial investments	2,141	–	–	92
Other accounts receivable	–	98	–	28
Short-term business:				
Amounts due to banks	229	–	–	298
Liabilities from securities financing transactions	9,125	–	–	9,103
Amounts due in respect of customer deposits	–	2,236	950	–
Negative replacement values of derivative financial instruments	–	138	–	10
Amounts due from banks	173	–	45	–
Amounts due from securities financing transactions	–	–	22	–
Amounts due from customers	–	330	–	461
Positive replacement values of derivative financial instruments	–	60	–	69
Financial investments	–	–	–	–
Subtotal	**9,461**	**–**	**–**	**8,928**
Liquidity				
Liquid assets	–	9,746	8,638	–
Subtotal	**–**	**9,746**	**8,638**	**–**
Total	**9,785**	**9,785**	**8,966**	**8,966**

Statement of changes in equity

PostFinance Ltd | 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 / loss carried forward	Result of the period	Total
Equity as at 1.1.2020	**2,000**	**4,682**	**–**	**–**	**–582**	**–**	**6,100**
Dividends and other distributions	–	–	–	–	–	–	–
Profit	–	–	–	–	–	129	129
Equity as at 31.12.2020	**2,000**	**4,682**	**–**	**–**	**–582**	**129**	**6,229**

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:	Bern (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 ordinances, 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 firms, financial groups and conglomerates.

Individual report figures are rounded in the notes for publication, 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	31.12.2019	31.12.2020
EUR	1.0849	1.0841
USD	0.9679	0.8820
GBP	1.2695	1.2026
JPY	0.0089	0.0086

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 expected losses. 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 fair values of the securities borrowed and lent are monitored on a daily basis in order to provide or claim additional collateral where required. Securities cover for reverse repurchase and securities lending transactions is recognized on a daily basis at current fair values. Fees received or paid in relation to securities lending and repurchase transactions are stated in the result from commission business and services.

Amounts due from customers and mortgage loans

These items are included in the balance sheet at their nominal value or acquisition cost less value adjustments for impaired loans / receivables and expected losses. 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 fair value and are subsequently measured at fair value. Hedge accounting is applied if derivative financial instruments are effective in offsetting changes in fair value or cash flows attributable to the hedged items. The effectiveness of these hedges is reviewed every six months. Fair value hedges are used to hedge exposure to changes in fair value of an asset or liability. Changes in the fair value of both the hedging instrument and the hedged underlying instrument are recognized in the income statement. Cash flow hedges are used to hedge anticipated future transactions. Changes in value to the extent a hedge is effective are allocated to the compensation account, while changes in value to the extent a hedge is ineffective are recognized in profit or loss. Positive and negative replacement values for all derivatives are recognized at fair value in positive replacement values of derivative financial instruments or negative replacement values of derivative financial instruments.

Financial investments

Financial investments with a fixed maturity that PostFinance intends and is able to hold to maturity are measured at amortized cost (accrual method) less impairment for expected losses. 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

The expected loss method as per IFRS 9 is used to establish amounts for value adjustments. Depending on the change in credit risk since acquisition, debt securities, amounts due from securities financing transactions, amounts due from customers and amounts due from banks belong to one of three levels for the calculation of value adjustments. Depending on the level, the value adjustment matches the expected loss over the next year (level 1) or the expected losses over the remaining term to maturity of an instrument (levels 2–3). The expected losses over the next year depend on the exposure of the position included in the default risk, on the probability of default of the instrument for the relevant year due to economic trends, and on an expected loss given default. The lifetime expected losses depend on the probability of default of the position due to economic trends over the remaining term to maturity, on its current and 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 default probabilities are adjusted periodically based on the expected economic trends. A negative economic situation is assumed, so slightly above-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 acquisition 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. Provisions for expected losses are made for off-balance sheet transactions. The method used is analogous to value adjustments on expected losses.

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.

Pension benefit obligations

The accounting treatment of pension benefit obligations at PostFinance Ltd is based on Swiss GAAP ARR 16/26. 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 (OPA). 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 and capitalized 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 results 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 bases 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 2020, 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.

PostFinance mainly uses hedge accounting in connection with bonds (hedging of interest and currency risks by means of interest rate/interest rate currency swaps). Hedging is by means of micro-hedges.

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 2020 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 risks. PostFinance could suffer losses or deviations from the expected result if these risks materialize.

PostFinance defines three risk categories based on its business model:
- Strategic risk refers to the risk of failing to achieve company goals at the level of the fundamental or long-term orientation of the institution as a result of unexpected developments.
- Financial risk refers to the risk of unexpected losses from the investment and deposit business. In terms of financial risks, PostFinance differentiates between interest rate, market, credit and liquidity risks.
- Operational risk refers to the risk of unexpected costs or unwelcome events (such as events with a negative impact on reputation or compliance breaches) that arise as a result of the inadequacy or failure of internal processes, people or systems, or as a result of external events. Operational risks also include the risks associated with financial reporting.

Governance and reporting

In formal terms, the business control and monitoring process and the entire internal control system comply with the 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 Board of Directors defines the risk policy and principles of risk management and is responsible for the regulation, establishment and monitoring of an effective risk management system. It is also responsible for ensuring an appropriate risk and control environment within PostFinance. The Board of Directors uses the definition of risk appetite to determine the total amount of risk that PostFinance is prepared to take. The risk appetite takes strategic, financial and operational risks into account and must be in line with the company's risk capacity. The risk capacity results from the regulatory and legal requirements to be met, adherence to which enables PostFinance to continue as a going concern. In addition, the risk appetite takes the directives and guidelines of the owner into account.

The Board of Directors and all Board of Directors’ Committees (Risk, Audit & Compliance, IT & Digitization, Organisation, Nomination & Remuneration) apply these risk principles. The Risk and Audit & Compliance Committees have a special role to play here, as they perform an explicit monitoring function at Board level, with the Board of Directors’ Audit & Compliance Committee focusing in particular on non-financial risks and the Board of Directors’ Risk Committee on financial risks.

The PostFinance Executive Board is responsible for implementing the directives of the Board of Directors with regard to risk management and monitoring within the framework of the 1st and 2nd lines of defence (LoD), and ensures compliance with the risk capacity and risk appetite. It implements the directives of the Board of Directors with regard to the establishment, maintenance and regular review of control activities and the control units involved. In addition, the 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. The Chief Risk Officer (CRO) is a member of the Executive Board and is responsible for ensuring that the subordinated control entities perform the tasks entrusted to them.

The business units which represent the 1st LoD bear primary responsibility for the risks from their unit and exercise their control function in the management of risks, in particular through their identification, measurement, control, monitoring and reporting activities. They take account of the directives of the 2nd LoD and ensure that their risks and controls are complete and up-to-date in the risk and control inventory. Within the 1st LoD, there are units that are accountable for results and units with no direct accountability for results, which act for example as support units for other units or the Executive Board. The Risk Management unit supports decision-makers with the management and monitoring of financial risks in the overall balance sheet. It identifies, models and measures the financial risks entered into and proposes control measures. It also monitors and reports their effectiveness to decision-makers on a regular basis. The Compliance Services unit ensures compliance with statutory provisions and guidelines in business operations and at the customer interface in accordance with the directives of the 2nd LoD. The management of security risks at the operational level is the responsibility of the Security unit.

The units in the 2nd LoD independently monitor risk management in the 1st LoD ensuring that all risks are appropriately identified, measured, managed, monitored and reported across the Group. At PostFinance, the Governance, Compliance and Risk Control units are the control entities responsible for the 2nd LoD function. The independence of the 2nd LoD units from the 1st LoD units is ensured in organizational terms by the fact that these units are located in the business unit of the CRO.

As independent control entities, the 2nd LoD units monitor the established risk profile with suitable instruments, provide a central overview of PostFinance's risk situation and report it to the Executive Board and the Board of Directors on a regular basis. They also issue directives on the assurance of compliance with internal and external provisions and define methods and procedures for risk management.

Risk Control independently monitors all risks that are not monitored by Compliance or Governance. This applies in particular to financial risks, operational risks, security risks and strategic risks. Risk Control continuously monitors the risk situation in these areas, reviews central risk management processes, methods for risk measurement and assessment and risk monitoring systems in the 1st LoD, and monitors their correct implementation and application. Risk Control defines appropriate requirements and processes for identifying, measuring, assessing and controlling the risks taken by PostFinance.

Risk Control provides a suitable system for maintaining an inventory of all risks, risk management strategies, controls and events. As a unit in the 2nd LoD, it ensures that the 1st LoD units keep the inventory complete and up-to-date and validates the inventory on an ongoing basis with regard to completeness and correctness.

Compliance independently monitors adherence to legal, regulatory and internal provisions relating to money laundering, tax compliance and the provision of financial services. Governance independently monitors compliance by staff with the rules of governance as a whole and with the Code of Conduct.

Risk Control and Compliance inform the Board of Directors and the Executive Board about serious compliance breaches or matters of major significance.

The 2^{nd} LoD units jointly report at least quarterly to the Executive Board and the Board of Directors on the development of PostFinance's risk profile. In addition, matters of major importance are reported to the Board of Directors by the units in the 2^{nd} LoD promptly and on an ad hoc basis. Risk Control coordinates the reporting activities of all 2^{nd} LoD functions.

As part of the 3^{rd} LoD, Internal Auditing is responsible for risk monitoring and for overseeing the 1^{st} and 2^{nd} 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		
– Credit risks	Losses due to deterioration in creditworthiness and counterparty default	Compliance with the minimum regulatory requirements for risk-weighted capital Concentration, rating structure and country portfolio limits as well as nominal limits at counterparty level; management of economic concentration risks in the credit portfolio
– 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
– Market risks	Losses in fair value to be charged to the Accounting – banks income statement	Compliance with the minimum regulatory requirements for risk-weighted capital Value-at-risk limits for fair value effects on the income statement and equity capital
Strategic risks	Losses, reduced revenues or additional internal expenses resulting from failure to achieve company goals at the level of the fundamental or long-term orientation of the institution.	Quantification of gross risk by evaluating the extent of loss and probability of occurrence of a dire but nevertheless realistic scenario. 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 of the development of strategic top risks. Level-appropriate addressing of risks through the definition of approval limits and thresholds for risk management measures for individual risks.
Operational risks	Losses, reduced revenues or additional internal expenses from events occurring as a result of inadequate or failed internal processes, people or systems, or external events	Quantification of gross risk by evaluating the extent of loss and probability of occurrence of a dire but nevertheless realistic scenario. On this basis, establishment of a risk management strategy and risk-mitigating measures, and assessment of the residual risk in both quantitative and qualitative terms. Monitoring by defining reporting limits for operational top risks. Level-appropriate addressing of risks through the definition of approval limits and thresholds for risk management measures 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 by Risk Management 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 market risks 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.

All operational and strategic risks faced by PostFinance are assessed on the basis of a credible worst case scenario (CWC). The CWC represents a dire but nevertheless realistic loss scenario associated with a risk. The CWC covers both probability of occurrence and extent of loss in a quantitative and/or qualitative form. This assessment is undertaken for both gross and residual risk, i.e. after implementation of the risk management strategy.

Operational and strategic individual risks are assessed using threshold values with regard to the obligation to record and the necessity of control measures. Approval limits for individual risks are used to ensure that risks and the associated risk management strategy are acknowledged and approved at the appropriate level.

At a higher level, the risks in the risk inventory are used by the Executive Board and Board of Directors for the top-down definition of top risks that are of central importance to PostFinance and have a high level of management attention. Operational top risks are measured by aggregating the respective individual risk clusters. These top risks and other aggregated risk positions are assigned to a warning level which, if exceeded, triggers a notification to the Board of Directors.

Stress testing

The Risk Management unit 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

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 pursues 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. In addition, a sharp decline in the creditworthiness of a counterparty can trigger additional impairment requirements for the creditor. Credit risk increases as counterparties become more concentrated in an individual sector or region. Economic developments affecting whole sectors or regions can threaten the creditworthiness or 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 control requirements.

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 (environmental, social and governance) also being taken into account. By means of quantitative and risk-oriented qualitative 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. The Risk Management unit 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 unit 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 and control requirements can be defined in such a way that they increase portfolio efficiency and/or limit concentration risks.

The Risk Management unit 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.

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.

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	31.12.2019	31.12.2020
Flattener shock in accordance with FINMA Circular 2019/2.[1]	–	– 190
Standard parallel up shock in accordance with FINMA Circular 2019/2.[1]	– 160	–

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 January 2019. The scenario which leads to the greatest negative change in the present value of equity is disclosed for each reference date.

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 unit on a monthly basis. Risk control proposals are submitted and discussed regularly with the Executive Board on the basis of the results.

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 with a one-day, a one-month and a long-term time horizon. To guarantee liquidity on a daily basis, liquidity figures are defined for the settlement of unforeseen payments. These figures 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 the liquidity figures is based on high daily cash outflows with an extremely low probability of occurrence.

Liquidity over a one-month horizon is guaranteed and limited by determining the Liquidity Coverage Ratio (LCR), which is a regulatory key figure.

To ensure liquidity over a longer time horizon, 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) may 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 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 2020, value at risk for the income statement stood at 10 million francs (previous year: 14 million francs).

Operational and strategic risks

In line with the Basel Committee on Banking Supervision, operational risk at PostFinance is defined as the risk of direct financial loss, reduced revenues, additional internal expenses or a combination thereof, resulting from inadequate or failed internal processes, people and systems or from external events. Strategic risk refers to the risk of failing to achieve company goals at the level of the fundamental or long-term orientation of the institution as a result of unexpected developments or incorrect assessment of the relevant economic, regulatory and social environment. Operational and strategic risks are assumed by PostFinance within the framework of its business model, business strategy and business activities. The Board of Directors sets out the principles for managing operational and strategic risks and the associated risk appetite in the framework for risk management throughout the institution.

On the basis of the risk appetite, PostFinance determines the total amount of risk it is prepared to take. The risk appetite is defined using quantitative and/or qualitative directives and is a key element in the planning of PostFinance's business activities. The risk management process ensures compliance with the risk appetite by means of appropriate control instruments and appropriate risk limits. The stabilization and emergency plan is a set of measures used to identify the options available to PostFinance and enable either the continuation of business activities or, alternatively, an orderly wind-down with the continuation of systemically important functions, even during stressful periods.

The risk appetite for operational risk is defined according to the principles of various risk categories. Compliance, security and all other operational risks with the potential to lead to serious infringements of laws or regulations in plausible, adverse scenarios are not tolerated. In the area of behavioural risks, PostFinance does not tolerate any activities that are unlawful or unethical or that otherwise jeopardize PostFinance’s reputation as a credible, reliable, trustworthy and responsible company. For sourcing partnerships, PostFinance is guided by the principle that outsourced services must be adequately monitored and regulatory directives must be complied with.

The risk appetite for strategic risks is not defined in principle, but determined and given due regard by the Board of Directors during the process of elaborating the strategic focus. The Board of Directors is provided with a periodic assessment of the extent of the strategic risks for this purpose, along with evidence that the strategy is viable in all dimensions and in compliance with the risk appetite as part of the equity capital planning process.

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 124–136 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 2020. 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 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	31.12.2019	31.12.2020
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions	22	–
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	9,125	22
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	13,128	3,203
with unrestricted right to resell or pledge	13,128	3,203
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	4,803	3,460
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		Type of collateral			
31.12.2020 CHF million		Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)					
Amounts due from customers		–	1,588	10,964	12,552
Mortgage loans		0	–	–	0
Residential property		0	–	–	0
Total loans (before netting with value adjustments)	**31.12.2020**	**0**	**1,588**	**10,964**	**12,552**
	31.12.2019	0	1,187	10,904	12,091
Total loans (after netting with value adjustments)	**31.12.2020**	**0**	**1,588**	**10,939**	**12,527**
	31.12.2019	0	1,187	10,888	12,075

Presentation of collateral for off-balance-sheet transactions		Type of collateral			
31.12.2020 CHF million		Secured by mortgage	Other collateral	Unsecured	Total
Off-balance sheet					
Contingent liabilities		–	74	1	75
Irrevocable commitments		–	431	678	1,109
Total off-balance sheet	**31.12.2020**	**–**	**505**	**679**	**1,184**
	31.12.2019	–	51	700	751

Guarantees, sureties for COVID-19 loans, insurance and cash collateral are recognized as receivables with other collateral.

PostFinance discloses payment obligations for depositor protection in irrevocable commitments.

Impaired loans / receivables		
CHF million	31.12.2019	31.12.2020 [1]
Gross debt amount	8	67
Estimated liquidation value of collateral	–	0
Net debt amount	8	67
Individual value adjustments	8	62

1 Expired bond and its individual value adjustment have also been disclosed in impaired loans / receivables since 2020.

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)

31.12.2020 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	–	1
Swaps	–	–	–	2	179	3,159
Foreign exchange / precious metals						
Forward contracts	4	4	655	45	28	5,942
Cross-currency interest rate swaps	–	–	–	181	120	8,129
Equity securities / indices						
Options (exchange-traded)	–	–		–	–	–
Total before netting agreements as at 31.12.2020	**4**	**4**	**655**	**228**	**326**	**17,231**
of which, determined using a valuation model	4	4		228	326	
31.12.2019	4	6	802	158	333	15,220
of which, determined using a valuation model	4	6		158	333	
Total after netting agreements as at 31.12.2020	**4**	**4**	**655**	**228**	**326**	**17,231**
31.12.2019	4	6	802	158	333	15,220

Breakdown by counterparty

31.12.2020 CHF million	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)	–	231	1

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	Term to maturity 0–3 months	3 months – 1 year	1–5 years	Over 5 years
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	–	–	–
31.12.2020					
Currency risk					
Cross-currency interest rate swaps	8,129	–	679	5,909	1,541
Other					
Completed non-settled transactions	1	1	–	–	–

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]
31.12.2019						
Currency risk						
Cross-currency interest rate swaps	106	171	206	206	–	–266
Other						
Completed non-settled transactions	0	–	0	0	–	0
31.12.2020						
Currency risk						
Cross-currency interest rate swaps	181	120	129	129	3	–134
Other						
Completed non-settled transactions	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
31.12.2019		
Currency risk		
Debt securities intended to be held to maturity	–206	–182
31.12.2020		
Currency risk		
Debt securities intended to be held to maturity	–129	–187

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

Hedging reserves in other assets / liabilities CHF million	2019 Hedging reserves – unrealized gains / losses from cash flow hedge	2020 Hedging reserves – unrealized gains / losses from cash flow hedge
Balance at 1.1	**–123**	**–182**
Change in fair value of hedging instrument		
Currency risk	206	129
Other	0	0
Net amount reclassified from cash flow hedging reserves to income statement		
Currency risk	–266	–134
of which arising from discontinued hedging relationships	26	20
of which from changes in foreign currency basis spreads	1	3
Balance at 31.12	**–182**	**–187**

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
31.12.2019				
Cash inflows	11	28	116	20
Cash outflows	–38	–97	–389	–66
31.12.2020				
Cash inflows	6	29	90	12
Cash outflows	–28	–94	–320	–31

Fair value hedges

PostFinance uses fair value hedge accounting to hedge changes in the 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

CHF million	Total	0–3 months	3 months–1 year	1–5 years	Over 5 years
					Term to maturity
31.12.2019					
Interest rate and currency risk					
Interest rate swaps	2,209	246	25	700	1,238
31.12.2020					
Interest rate and currency risk					
Interest rate swaps	3,159	75	200	530	2,354

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

Change in fair value hedges

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]
31.12.2019				
Interest rate and currency risk				
Interest rate swaps	–	160	–60	–
31.12.2020				
Interest rate and currency risk				
Interest rate swaps	2	179	–18	–

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.

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):

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	Remaining cumulative amount from fair value hedge adjustments in the balance sheet for hedged items that have ceased to be adjusted for hedging gains or losses
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	–
31.12.2020				
Interest rate and currency risk				
Debt securities intended to be held to maturity	2,379	116	24	0
Amounts due from customers and banks	963	48	–6	–

8 | Financial investments

Breakdown of financial investments	Book value		Fair value	
CHF million	31.12.2019	31.12.2020	31.12.2019	31.12.2020
Debt securities	60,257	60,363	61,818	61,958
of which, intended to be held to maturity	60,257	60,363	61,818	61,958
Equity securities [1]	148	114	164	126
Total	**60,406**	**60,477**	**61,982**	**62,084**
of which, securities eligible for repo transactions in accordance with liquidity requirements [2]	23,404	23,863	–	–

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

Breakdown of counterparties by rating [1] 31.12.2020 CHF million	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	Below B–	Unrated
Debt securities: book values	37,848	14,328	6,284	185	–	1,719

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				2020						
CHF million	Acquisition cost	Accumulated value adjustments	Book value 31.12.2019	Reclassifications	Additions	Disposals	Value adjustments	Depreciation reversals	Book value 31.12.2020	Market value 31.12.2020
Participations										
with market value	45	–	45	–	–	–1	–	–	44	116
without market value	121	–61	60	–	6	0	–5	1	62	–
Total participations	**166**	**–61**	**105**	**–**	**6**	**–1**	**–5**	**1**	**106**	**116**

10 | Significant participations

Significant participations				Share of capital and of votes [1]	
CHF or EUR, percent	Business activities	Currency	Company capital	31.12.2019	31.12.2020
Finform Ltd, Bern, Switzerland	Fintech and regtech	CHF	100,000	50.00%	50.00%
Ormera AG, Bern, Switzerland	Automated energy billing	CHF	100,000	42.50%	42.50%
TONI Digital Insurance Solutions AG, Schlieren, Switzerland	Insurance service provider	CHF	1,952,782	30.66%	28.89%
moneymeets community GmbH, Cologne, Germany	Online financial services	EUR	99,631	26.17%	27.38%
moneymeets GmbH, Cologne, Germany	Infrastructure for online financial services	EUR	99,631	26.17%	27.38%
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%
Tilbago AG, Lucerne, Switzerland	Smart online payment collection solution (robo payment collection)	CHF	177,906	22.50%	24.43%

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 article 62 of the FINMA Accounting Ordinance: The effect of a theoretical application of the equity method with regard to these participations would be to reduce total assets by 7 million francs (previous year: 3 million francs) and to decrease profit for the year by 7 million francs (previous year: increase of loss for the year by 9 million francs).

11 | Tangible fixed assets

Presentation of tangible fixed assets

				2020					
CHF million	Acquisition cost	Accumulated depreciation	Book value 31.12.2019	Reclassi-fications	Additions	Disposals	Depreciation	Reversals	Book value 31.12.2020
Bank buildings	225	–56	169	–	6	–	–8	–	167
Other real estate	1,022	–205	817	–	17	–	–35	–	799
Proprietary or separately acquired software	231	–80	151	–	–	–	–24	–	127
Other tangible fixed assets	83	–54	29	–	9	–	–10	–	28
Total tangible fixed assets	**1,561**	**–395**	**1,166**	**–**	**32**	**–**	**–77**	**–**	**1,121**

Future lease obligations under operating leases

CHF million	2021	2022	2023	2024	2025	2026	**Total**
Future lease payments	12	10	9	9	3	0	**43**
of which cancellable within a year	1	1	1	1	0	0	**4**

12 | Other assets and other liabilities

Breakdown of other assets and other liabilities

	31.12.2019	31.12.2020	31.12.2019	31.12.2020
CHF million	Other assets	Other assets	Other liabilities	Other liabilities [1]
Compensation account	321	333	–	–
Employer contribution reserves	–	38	–	–
Indirect taxes	92	74	5	8
Other assets and liabilities	7	3	0	63
Total other assets and other liabilities	**420**	**448**	**5**	**71**

1 A sum of 61 million francs was reclassified from amounts due to customers to other liabilities in 2020.

13 | 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	31.12.2019	31.12.2020
Financial investments:		
Book value of assets pledged and assigned as collateral	84	100
Effective commitments	–	–
Amounts due from customers:		
Book value of assets pledged and assigned as collateral	–	390
Effective commitments	–	336

1 Excluding securities lending and securities borrowing, and repurchase and reverse repurchase transactions.

14 | 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 39,354 active insured persons and 29,516 pensioners (as at 31 October 2020), the Swiss Post pension fund had total assets of 17,086 million francs as at 31 December 2020 (previous year: 17,081 million francs). The level of cover calculated according to the accounting principles applicable to the Swiss Post pension fund stands at approximately 105.3 percent (previous year: 108.0 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 551 million francs without a waiver of use (previous year: 552 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 2020. There are no employer-sponsored pension schemes.

The economic benefit or economic 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	31.12.2020	31.12.2019	31.12.2020	2020	2020	31.12.2019	31.12.2020
Swiss Post pension fund	56	0	0	0	36	36	36
Staff vouchers	–7	–7	–7	0	0	1	0
Disability pensions	–2	–1	–2	1	0	0	1
Total Swiss GAAP ARR 16	**47**	**–8**	**–9**	**1**	**36**	**37**	**37**

The waiver of use of employer contribution reserves was lifted in 2020 due to the improved level of cover in the most recently audited annual financial statements of the Swiss Post pension fund. The employer contribution reserves of the Swiss Post pension fund are allocated based on the percentage of PostFinance's retirement capital of the entire retirement capital. This gives the following picture:

Employer contribution reserves (ECR)	Nominal value	Waiver of use	Net amount		Influence of ECR on personnel expenses	
CHF million	31.12.2020	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020
Swiss Post pension fund	38	0	0	38	0	38
Total Swiss GAAP ARR 16	**38**	**0**	**0**	**38**	**0**	**38**

15 | 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 31.12.2019	Use in conformity with designated purpose[1]	Reclassifications	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at 31.12.2020
Provisions for pension benefit obligations	9	–		–	–	0	–	9
Provisions for default risks	0	–		–	–	0	0	0
of which provisions for expected losses	0	–		–	–	0	0	0
Provisions for restructuring	4	–2		–	–	19	–1	20
Other provisions	22	–1		–	–	2	–1	22
Total provisions	**35**	**–3**		**–**	**–**	**21**	**–2**	**51**
Reserves for general banking risks	**–**	**–**		**–**	**–**	**–**	**–**	**–**
Value adjustments for default and country risks[2]	**72**	**–**		**–**	**–**	**29**	**0**	**101**
of which, value adjustments for default risks in respect of impaired loans / receivables	54	–	3	–	–	5	0	62
of which, value adjustments for expected losses	18	–	–3	–	–	24	0	39

1 There were no changes in purpose.
2 Comprises the value adjustments for amounts due from banks, amounts due from customers, mortgage loans and debt securities intended to be held until maturity. In contrast to the previous years, the value adjustments of 62 million francs on participations are no longer included. The figures as at 31 December 2019 have been adjusted accordingly.

Together with other Swiss financial institutions, PostFinance Ltd is currently involved in an investigation initiated in 2018 by the Federal Competition Commission in connection with the mobile payment solution TWINT. The investigation is not yet complete. No provisions have been recognized.

As at 31 December 2019 and 31 December 2020, the levels of expected loss within amounts due from banks, amounts due from customers, held to maturity debt securities and contingent liabilities consisted of the following.

Analysis of expected losses and impaired loans / receivables				31.12.2019				31.12.2020
CHF million	12-month expected credit losses (level 1)	Expected credit losses over remaining term to maturity (level 2)	Expected credit losses over remaining term to maturity (level 3)	Total	12-month expected credit losses (level 1)	Expected credit losses over remaining term to maturity (level 2)	Expected credit losses over remaining term to maturity (level 3)	Total
Amounts due from banks	3,890	–	–	3,890	3,656	–	–	3,656
Value adjustments	0	–	–	0	0	–	–	0
Book value	**3,890**	**–**	**–**	**3,890**	**3,656**	**–**	**–**	**3,656**
Amounts due from customers	12,071	6	14	12,091	12,527	4	21	12,552
Value adjustments	–3	–2	–11	–16	–7	–2	–16	–25
Book value	**12,068**	**4**	**3**	**12,075**	**12,520**	**2**	**5**	**12,527**
Debt securities held to maturity								
AAA to AA–	38,405	–	–	38,405	37,848	–	–	37,848
A+ to A–	13,766	–	–	13,766	14,328	–	–	14,328
BBB+ to BBB–	6,053	–	–	6,053	6,284	–	–	6,284
BB+ to B–	145	–	–	145	185	–	–	185
Unrated	1,897	–	46	1,943	1,748	–	46	1,794
Total	**60,266**	**–**	**46**	**60,313**	**60,393**	**–**	**46**	**60,439**
Value adjustments	–9		–46	–56	–29	–	–46	–75
Book value	**60,257**	**–**	**–**	**60,257**	**60,364**	**–**	**0**	**60,364**
Contingent liabilities	52	–	–	52	75	–	–	75
Provisions for expected losses	0	–	–	0	0	–	–	0
Total	**52**	**–**	**–**	**52**	**75**	**–**	**–**	**75**

To combat the coronavirus crisis, the Federal Council adopted extensive and drastic measures, which resulted in a temporary interruption of business activities in many units. These measures may also have an impact on the credit quality of bonds and receivables. In the current situation, the assessment of the effects is still subject to a high degree of uncertainty. The effects on the holdings of expected losses on financial investments and receivables were taken into account by updating the model parameters, which led to an increase in value adjustments required of 23 million francs in the current financial year. Reclassifications within the three levels were immaterial in nature.

16 | Bank's capital

PostFinance Ltd is owned entirely by Swiss Post Ltd.

Presentation of the bank's capital	31.12.2019			31.12.2020		
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**

17 | Amounts due from / to related parties

Disclosure of amounts due from / to related parties	Amounts due from		Amounts due to	
CHF million	31.12.2019	31.12.2020	31.12.2019	31.12.2020
Holders of qualified participations	713	579	917	840
Linked companies	26	16	284	326
Transactions with members of governing bodies	0	0	17	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.

18 | Holders of significant participations

Disclosure of holders of significant participations	31.12.2019		31.12.2020	
CHF million	Nominal	% of equity	Nominal	% of equity
With voting rights: Swiss Post Ltd	2,000	100	2,000	100

19 | Maturity structure of financial instruments

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

31.12.2020 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		38,308	–	–	–	–	–	–	38,308
Amounts due from banks		196	–	139	75	2,086	1,159	–	3,655
Amounts due from customers		422	1	877	1,151	4,852	5,225	–	12,527
Mortgage loans		–	–	0	–	–	–	–	0
Positive replacement values of derivative financial instruments		–	–	40	54	121	16	–	232
Financial investments		114	–	1,356	5,097	32,884	21,027	–	60,477
Total	**31.12.2020**	**39,039**	**1**	**2,412**	**6,378**	**39,942**	**27,427**	**–**	**115,199**
	31.12.2019	47,802	1	3,620	6,756	36,634	28,687	–	123,500

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

31.12.2020 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		690	336	–	–	–	–	–	1,026
Liabilities from securities financing transactions		–	–	22	–	–	–	–	22
Amounts due in respect of customer deposits		73,494	35,845	1	0	–	–	–	109,340
Negative replacement values of derivative financial instruments		–	–	27	11	106	186	–	330
Cash bonds		–	–	1	3	8	–	–	12
Total	**31.12.2020**	**74,184**	**36,181**	**50**	**14**	**114**	**186**	**–**	**110,730**
	31.12.2019	70,041	37,485	11,401	69	144	189	–	119,329

20 | Assets and liabilities by domestic and foreign origin

Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle	31.12.2019		31.12.2020	
CHF million	Domestic	Foreign	Domestic	Foreign
Assets				
Liquid assets	46,945	1	38,308	–
Amounts due from banks	3,758	131	3,574	81
Amounts due from securities financing transactions	22	–	–	–
Amounts due from customers	12,059	16	12,507	20
Mortgage loans	0	–	0	–
Positive replacement values of derivative financial instruments	63	99	66	166
Financial investments	31,811	28,595	30,535	29,942
Accrued income and prepaid expenses	253	130	215	100
Participations	86	19	89	17
Tangible fixed assets	1,166	–	1,121	–
Intangible assets	0	–	–	–
Other assets	420	0	448	–
Total assets	**96,583**	**28,991**	**86,863**	**30,326**
Liabilities				
Amounts due to banks	1,227	97	940	86
Liabilities from securities financing transactions	6,675	2,450	22	–
Amounts due in respect of customer deposits	104,407	4,062	105,207	4,133
Negative replacement values of derivative financial instruments	139	201	158	172
Cash bonds	71	0	12	0
Accrued expenses and deferred income	105	0	108	0
Other liabilities	5	–	67	4
Provisions	35	–	51	–
Bank's capital	2,000	–	2,000	–
Statutory capital reserve	4,682	–	4,682	–
Profit / loss carried forward	–	–	–582	–
Profit / loss	–582	–	129	–
Total liabilities	**118,764**	**6,810**	**112,794**	**4,395**

21 | Assets by country / group of countries

Breakdown of total assets by country or group of countries (domicile principle)	31.12.2019		31.12.2020	
CHF million, percent	Absolute	Share as %	Absolute	Share as %
Assets				
Switzerland	96,582	76.91	86,863	74.12
Europe	12,538	9.99	12,155	10.37
North America	7,687	6.12	9,302	7.94
Other countries	8,767	6.98	8,869	7.57
Total assets	**125,574**	**100.00**	**117,189**	**100.00**

22 | Assets by credit rating of country groups

Breakdown of total assets by credit rating of country groups (risk domicile view)	Foreign exposure 31.12.2019		Foreign exposure 31.12.2020	
CHF million, percent	Absolute	Share as %	Absolute	Share as %
Rating (Moody's)				
Aaa	13,882	48.32	15,055	50.64
Aa	9,372	32.62	9,408	31.65
A	4,196	14.6	3,797	12.77
Baa	494	1.72	641	2.16
Ba	13	0.05	67	0.22
B	342	1.19	292	0.98
Caa	319	1.11	319	1.07
No rating	111	0.39	150	0.51
Total	**28,729**	**100.00**	**29,729**	**100.00**

23 | Assets and liabilities by currency

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

31.12.2020 CHF million	CHF	EUR	USD	GBP	JPY	Other	Total
Assets							
Liquid assets	38,197	111	–	–	–	–	38,308
Amounts due from banks	3,618	19	3	1	9	5	3,655
Amounts due from customers	12,508	7	11	1	0	0	12,527
Mortgage loans	0	–	–	–	–	–	0
Positive replacement values of derivative financial instruments	232	–	–	–	–	–	232
Financial investments	44,143	11,392	4,200	–	–	742	60,477
Accrued income and prepaid expenses	230	53	28	0	–	4	315
Participations	89	1	16	–	–	0	106
Tangible fixed assets	1,121	–	–	–	–	–	1,121
Other assets	444	4	0	–	–	–	448
Total assets shown in balance sheet	**100,582**	**11,587**	**4,258**	**2**	**9**	**751**	**117,189**
Delivery entitlements from spot exchange, forward forex and forex options transactions	14,170	249	204	54	0	49	14,726
Total assets	**114,752**	**11,836**	**4,462**	**56**	**9**	**800**	**131,915**
Liabilities							
Amounts due to banks	1,011	10	5	–	0	0	1,026
Liabilities from securities financing transactions	–	22	–	–	–	–	22
Amounts due in respect of customer deposits	106,212	2,522	505	49	9	43	109,340
Negative replacement values of derivative financial instruments	330	–	–	–	–	–	330
Cash bonds	11	1	–	–	–	–	12
Accrued expenses and deferred income	108	0	0	–	–	0	108
Other liabilities	26	35	10	0	–	0	71
Provisions	51	–	–	–	–	–	51
Bank’s capital	2,000	–	–	–	–	–	2,000
Statutory capital reserve	4,682	–	–	–	–	–	4,682
Profit / loss carried forward	–582	–	–	–	–	–	–582
Profit	129	–	–	–	–	–	129
Total liabilities shown in the balance sheet	**113,978**	**2,590**	**520**	**49**	**9**	**43**	**117,189**
Delivery obligations from spot exchange, forward forex and forex options transactions	546	9,230	3,925	6	0	753	14,460
Total liabilities	**114,524**	**11,820**	**4,445**	**55**	**9**	**796**	**131,649**
Net position per currency 31.12.2020	**228**	**16**	**17**	**1**	**0**	**4**	**266**
Net position per currency 31.12.2019	84	47	26	0	0	4	161

Information on off-balance sheet transactions

24 | Contingent assets and liabilities

Breakdown of contingent liabilities and contingent assets

CHF million	31.12.2019	31.12.2020
Guarantees to secure credits and similar	51	75
Other contingent liabilities	1	0
Total contingent liabilities	**52**	**75**
Contingent assets arising from tax losses carried forward	70	75
Total contingent assets	**70**	**75**

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 2020.

25 | Managed assets

Breakdown of managed assets

CHF million	31.12.2019	31.12.2020
Type of managed assets:		
Assets under discretionary asset management agreements	0	168
Other managed assets	46,058	43,474
Total managed assets (including double counting) [1]	**46,058**	**43,642**
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 does not offer collective investment schemes managed by the bank. The item “Assets under discretionary asset management agreements” comprises assets in connection with the e-asset management offered by PostFinance. 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	31.12.2019	31.12.2020
Total managed assets (including double counting) at beginning	**43,656**	**46,058**
+/- net new money inflow or net new money outflow [1]	1,033	−3,074
+/- price gains / losses, interest, dividends and currency gains / losses	1,369	658
+/- other effects	–	–
Total managed assets (including double counting) at end	**46,058**	**43,642**

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

26 | Result from trading activities and the fair value option

Breakdown by business area

CHF million	2019	2020
Payment transactions and financial investments	226	204
Hedge accounting	−4	0
Proprietary trading	−8	−15
Total result from trading activities	**214**	**189**

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

CHF million	2019	2020
Result from trading activities from:		
Interest rate instruments	−193	−196
Equity securities	0	−2
Foreign currencies	407	386
Total result from trading activities [1]	**214**	**189**

1 PostFinance does not apply the fair value option.

27 | 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. PostFinance also used the temporary relief granted by FINMA for banks due to the COVID-19 crisis to execute repurchase transactions, which resulted in negative interest on the borrowing business offset against interest expense.

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

CHF million	2019	2020
Negative interest on the lending business offset against interest and discount income	−5	−2
Negative interest on the borrowing business offset against interest expense	65	174

28 | Personnel expenses

Breakdown of personnel expenses

CHF million	2019	2020
Salaries (meeting attendance fees and fixed compensation to members of the bank's governing bodies, salaries and benefits)	352	385
Social insurance benefits	73	34
Changes in book value for economic benefits and obligations arising from pension schemes	–	–
Other personnel expenses	17	14
Total personnel expenses	**442**	**433**

29 | General and administrative expenses

Breakdown of general and administrative expenses

CHF million	2019	2020
Office space expenses	37	37
Expenses for information and communications technology	234	235
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	18	17
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	261	245
Total general and administrative expenses	**552**	**536**

30 | Extraordinary expenses and income

Extraordinary expenses

CHF million	2019	2020
Losses from disposal of participations	2	–
Total extraordinary expenses	**2**	**–**

Extraordinary income

CHF million	2019	2020
Reversals of impairment	1	1
Gains from disposal of participations	25	0
Other extraordinary income	1	–
Total extraordinary income	**27**	**1**

31 | Taxes

Current and deferred taxes

CHF million	2019	2020
Expenses for current capital and income taxes	10	4
Total taxes	**10**	**4**

Owing to the loss carryforward, expenses for current capital taxes and income taxes in 2020 largely consist of capital taxes. In the previous year, expenses for current capital taxes and income taxes also consisted largely of capital taxes due to the loss for the year.

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To the General Meeting of
PostFinance Ltd, Berne

Berne, 11. March 2021

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of PostFinance Ltd, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 46 to 85), for the year ended 31 December 2020.

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 2020 comply with Swiss law and the company's articles of incorporation.

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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 Licensed audit expert (Auditor in charge)	Daniel Güttinger Licensed audit expert

Reporting

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