Swiss Confederation Rating Report

STABLE OUTLOOK
AAA

Credit strengths

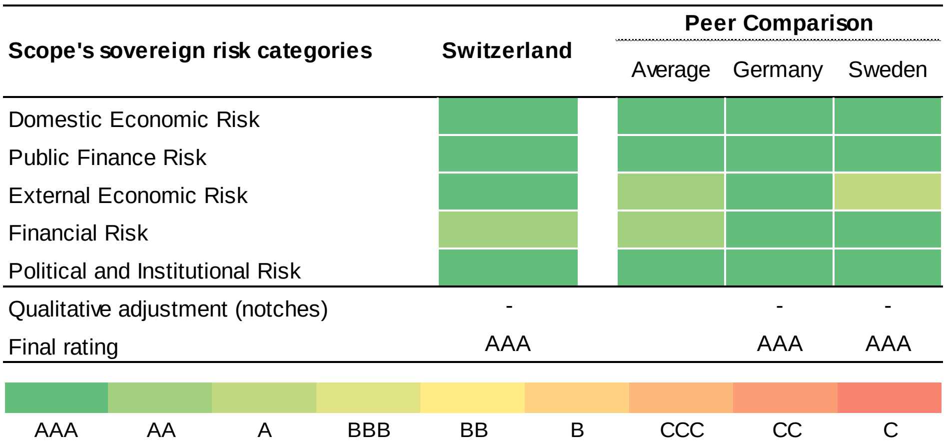
- Diversified and wealthy economy
- Prudent fiscal management
- Strong external position
- Deep and liquid capital markets

Credit weaknesses

- Adverse demographics
- Large and concentrated banking sector
- Exposure to real estate risk

Rating rationale and Outlook: Switzerland's AAA rating is underpinned by the resilience of the economy, moderate levels of indebtedness and prudent fiscal management. Switzerland furthermore benefits from a strong external position, the safe-haven status of the Swiss franc, and highly developed capital markets providing liquidity. However, unfavourable demographics, a large and concentrated banking sector and exposure to mortgages remain challenges. The Stable outlook reflects Scope's assessment that the risks Switzerland faces remain manageable given its significant strengths.

Figure 1: Sovereign scorecard results



Source: Scope Ratings AG

NB. The comparison is based on Scope's Core Variable Scorecard (CVS), which is determined by relative rankings of key sovereign credit fundamentals. The CVS peer group average is shown together with two selected countries chosen from the entire CVS peer group. The CVS rating can be adjusted by up to three notches depending on the size of relative credit strengths or weaknesses.

Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- Sharp correction in housing market, weighing on growth and banks
- Uncontrolled exchange-rate appreciation damaging growth

Ratings and outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

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Bloomberg: SCOP

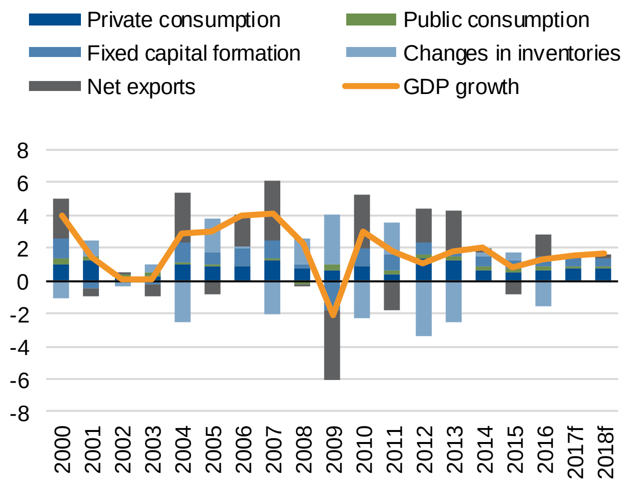
Domestic economic risk

Resilient performance despite appreciation of the franc

Switzerland benefits from an exceptionally wealthy and well-diversified economy with a high level of labour productivity, which exceeded the EU average by around 23% in 2016. Switzerland's 2016 GDP per capita on a purchasing power parity basis was almost 60% higher than the euro-area average and 50% higher than the OECD average.

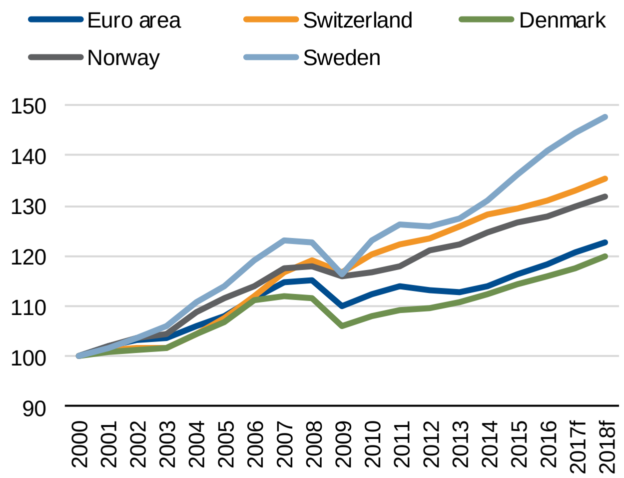
The growth has been gaining momentum since the effects of the sharp exchange-rate appreciation following the Swiss National Bank (SNB)'s decision to exit the exchange-rate floor have unwound. In the first quarter of 2017, year-on-year GDP growth stood at 1.1%, driven by both external and domestic demand. Scope expects GDP to grow by 0.9% in 2017, and to accelerate to 2.0% in 2018, with the biggest contributions coming from private consumption, supported by improving labour market conditions, and exports, helped by the recovery in the euro area. The modest increase in Switzerland's unemployment rate in 2016 is likely to be corrected as economic activity picks up. After two consecutive years of deflation, year-on-year growth of HICP[1] has been in positive territory since the beginning of this year. In Scope's view, inflation will remain below 1% in the medium term, reflecting upward pressures on the franc.

Figure 2: Percentage-point contribution to real GDP growth



Source: European Commission

Figure 3: Real GDP, 2000=100



Source: European Commission, calculations Scope Ratings AG

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The SNB's monetary policy has been effective in controlling appreciation pressures, preventing prolonged periods of sustained deflation, and helping the economic recovery through negative interest rates and currency interventions. Since January 2015, when the SNB discontinued the exchange-rate floor of CHF 1.20 per euro, the interest rate on sight deposits has stood at -0.75%, along with a target range between -1.25% and -0.25% for the reference interest rate, LIBOR. As inflation stays weak and upward pressures on the Swiss franc remain (notwithstanding recent exchange rate depreciation), Scope expects no policy changes in the near future, and only a gradual increase in the policy rate over the medium term, following a recovery in domestic economic performance and a rise in major central banks' key interest rates.

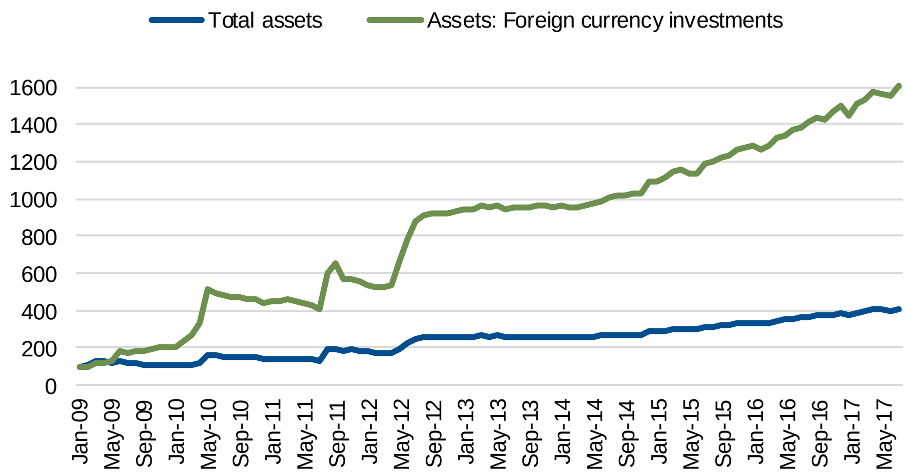
[1] The Harmonized Index of Consumer Prices (HICP) measures changes over time in the prices of consumer goods and services acquired by households.

Appreciation pressures from external uncertainties

The Swiss economy remains vulnerable to unexpected currency movements, however, particularly appreciation pressures on the exchange rate in cases of large capital inflows during periods of international financial uncertainty. This has been demonstrated by the need for SNB's currency interventions and sizeable expansions of its balance sheet (approximately quadrupled since the financial crisis, see Figure 4).

Scope notes that the Federal Council's current tax-reform proposal, if implemented, will have a positive effect on Switzerland's attractiveness as an investment destination for multinationals. The main measures being proposed are: 1) cancelling all special tax regimes and applying a transitional mechanism for companies moving from special to ordinary taxation (with tax rates to be determined by individual cantons); 2) introducing a mandatory patent box for cantons and large R&D deductions; 3) raising the tax on residents' income from dividends and capital gains; 4) raising family allowances; and 5) increasing the portion of federal taxes apportioned for cantons.

Figure 4: SNB's balance sheet evolution, Jan 2009=100



Source: SNB, calculations by Scope Ratings AG

Public finance risk

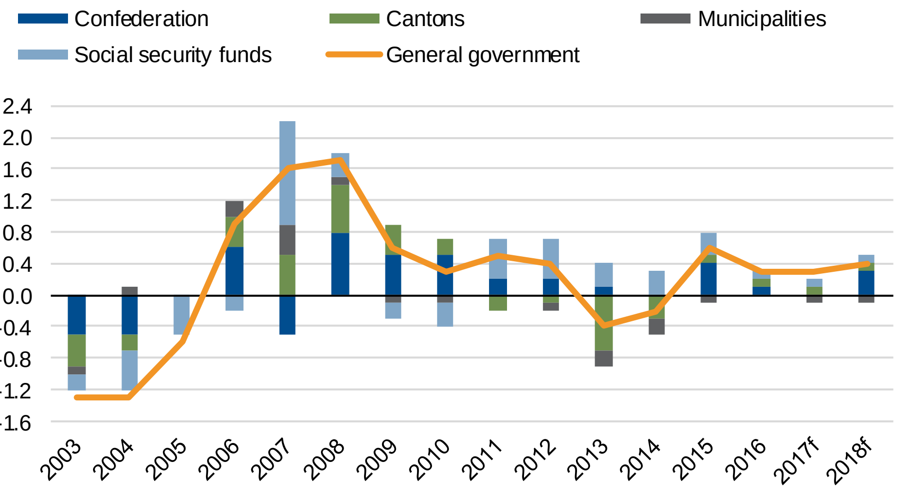
Strong fiscal performance and adequate fiscal space

In Scope's opinion, Switzerland has adequate fiscal space given its balanced public finances and moderate public debt burden, and its position is further bolstered by current negative financing costs.

Fiscal performance remained strong in 2016, with the general government surplus[2] at 0.2% of GDP, representing a slight deterioration from 2015 (Figure 5). As in previous years, the biggest contribution came from the budgets of the confederation and the social security funds (the latter posted a lower surplus compared to 2015 because of a rise in the unemployment rate). Recapitalisation measures for the pension funds continued to impede the budget results of the cantons (although to a lesser degree, reflected in improving fiscal results since 2015) and municipalities. Scope expects the headline deficit to average around 0.4% over the medium term, with the confederation remaining the largest positive contributor to the budget.

[2] General government budget is the sum of the budgets of the confederation, the cantons, municipalities and social security funds.

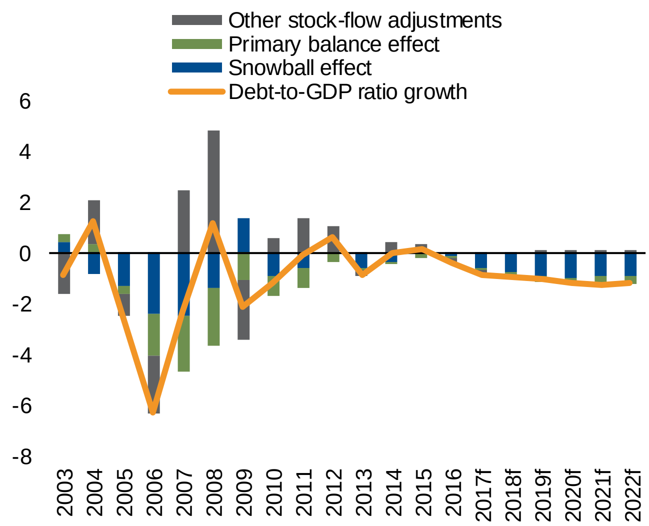
Figure 5: Budget balances of government units, % of GDP



Source: Federal Department of Finance

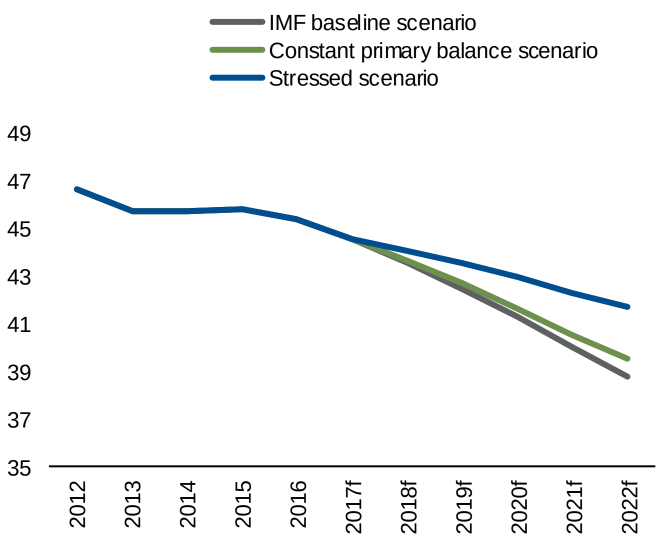
Switzerland's sustained fiscal record is underpinned by its well-established and effective 'debt brake' rule that was introduced in 2003 and is anchored by the Federal Constitution. The rule requires the confederation to maintain a cyclically adjusted balanced budget on an ex-ante basis. Surpluses in periods of economic expansion go to offset deficits in periods of economic contraction, and expenditures may only be increased if matched by a subsequent rise in receipts, with an exemption clause for extraordinary situations. Scope notes that the mechanism has contributed to significant reductions in government debt and proven to be resilient in periods of economic downturn.

Figure 6: Contribution to gov't debt changes, % of GDP



Source: IMF, Calculations Scope Ratings AG

Figure 7: General government debt, % of GDP



Source: IMF, Scope Ratings AG

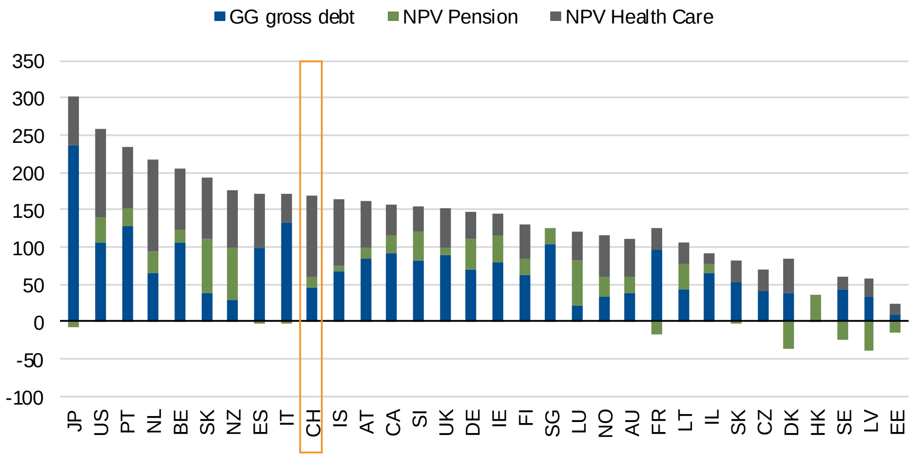
Effective debt-brake rule, but long-term sustainability challenges

Scope assesses Switzerland's medium-term public debt dynamics as strong, owing to relative robustness across several scenarios over the projection horizon to 2022 (Figure 7). In 2016, public debt under IMF definitions stood at around 45% of GDP (Maastricht-defined debt was around 30%).

Scope expects the ratio under IMF definitions to decrease to below 39% by 2022, supported by positive primary balances and extremely low/negative financing costs

(Figure 6). However, long-term challenges to debt sustainability remain due to adverse demographics. According to the long-term sustainability report published by the Federal Department of Finance, which considers the Federal Council's 2020 retirement provision reform, demographics-related expenditure will rise from 17.3% of GDP in 2013 to 20.8% of GDP by 2045 in the baseline scenario. This increase is due to higher expenditure on healthcare, long-term care, old-age and survivors' insurance, and disability insurance. This rise will correspond to around a 24-pp increase in the debt ratio by 2045. Furthermore, in an assessment of total government liabilities including the net present value of future pension and health-care obligations, Switzerland ranks 10th among 32 advanced economies, with a ratio of 168% of GDP (Figure 8), above Austria (163%), Canada (156%), the UK (153%) and Germany (149%), but significantly below Japan (294%), the US (260%), the Netherlands (217%), and Belgium (206%)[3].

Figure 8: General government liabilities, including NPV of future pension and health-care obligations (2015-2050), % of GDP



Source: IMF Fiscal Monitor April 2017, calculations Scope Ratings AG

Scope notes that Switzerland's proposed pensions reform failed in a popular vote on 24 September, as the majority of voters opposed the project, and most cantons rejected the proposal to raise the VAT tax for social security financing. The package included 1) aligning the retirement age for women (currently 64) with that for men (65) and raising the earliest-possible retirement age from 58 to 62; 2) reducing the minimum retirement-conversion rate from 6.8% to 6.0% (expected from 2019); 3) compensatory measures such as an increase in savings credits, increasing the flexibility of coordination offsets, an increase in AHV/AVS pensions with an extra supplement for married couples (expected from 2019); 4) raising the VAT tax by 0.6% to provide more financing for social security.

Favourable debt structure; highly liquid capital markets

Switzerland benefits from highly liquid capital markets, a favourable public debt-portfolio structure, reflected in an increasing average term to maturity that reached 9.7 years at the end of 2016 (and 23.5 years for bonds issued in 2016), a roughly 3-year improvement since 2010, and low refinancing risks, as the share of debt requiring refinancing within the next 12 months stood at only 16% of the total stock. Given historically low interest rates, the average yield of bonds issued by the Federal Treasury in 2016 stood at -0.002%. These yields recovered slightly in 2017, although they have by and large remained negative. The Swiss government borrows in local currency, which eliminates exchange-rate risks.

[3] IMF Fiscal Monitor, April 2017, calculations Scope Ratings AG.

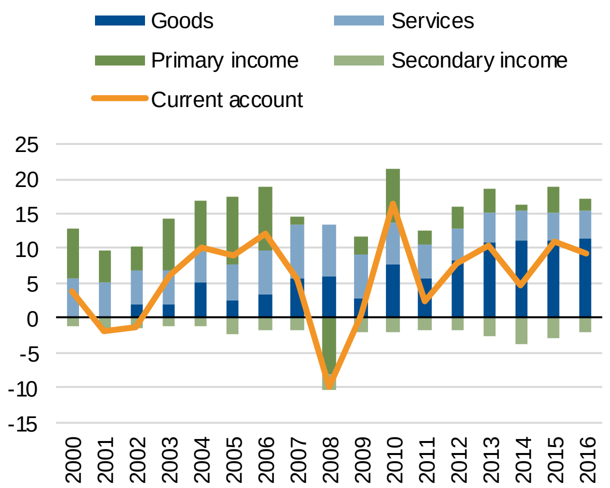
External economic risk

Positive net international investment position (NIIP)

Switzerland has an open and very competitive external sector. The economy benefits from well-developed capital markets and the safe-haven status of the Swiss franc. The export base is highly diversified, both in terms of products and destination markets. Since 1981, Switzerland has persistently generated large current account surpluses, which averaged around 10% of GDP between 2006 and 2016, resulting in a positive NIIP of 131% of GDP in 2016. Driven by a sharp rise in chemicals exports, the trade balance made a positive contribution to growth in 2016, and Scope expects that positive contribution to remain over the medium term.

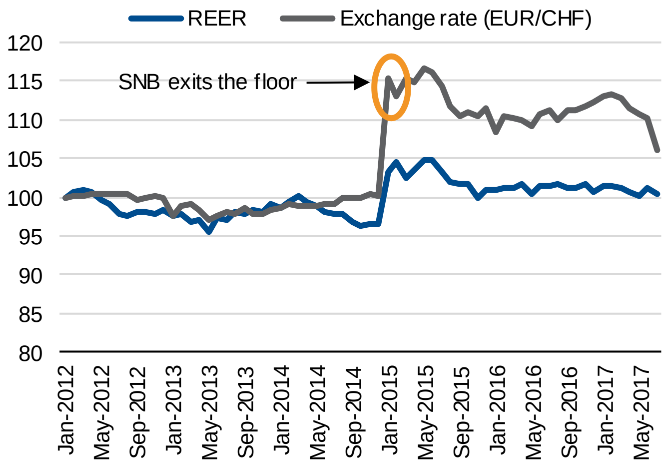
After a large appreciation in 2015 (of around 20% for CHF/EUR in January 2015) following the SNB's decision to abandon the exchange-rate floor, the Swiss franc depreciated over 2016 and 2017. However, in both real and nominal terms, the exchange rate remains elevated compared to the period just before the exit from the floor (Figure 10). But, the flexibility and resilience of the external sector have helped to mitigate the negative repercussions of exchange-rate appreciation stemming from competitiveness pressures.

Figure 9: Composition of current account balance, % of GDP



Source: Swiss National Bank, calculations by Scope Ratings AG

Figure 10: Exchange-rate developments, Jan 2012=100



Source: Swiss National Bank, calculations by Scope Ratings AG

Switzerland has a large stock of external assets and liabilities associated with the size of its banking sector and the country's international openness. External assets (of around 690% of GDP) are well above external liabilities (of around 558% of GDP). The share of external debt in total foreign liabilities stood at around 47% in 2016, a 2pp decline from 2015.

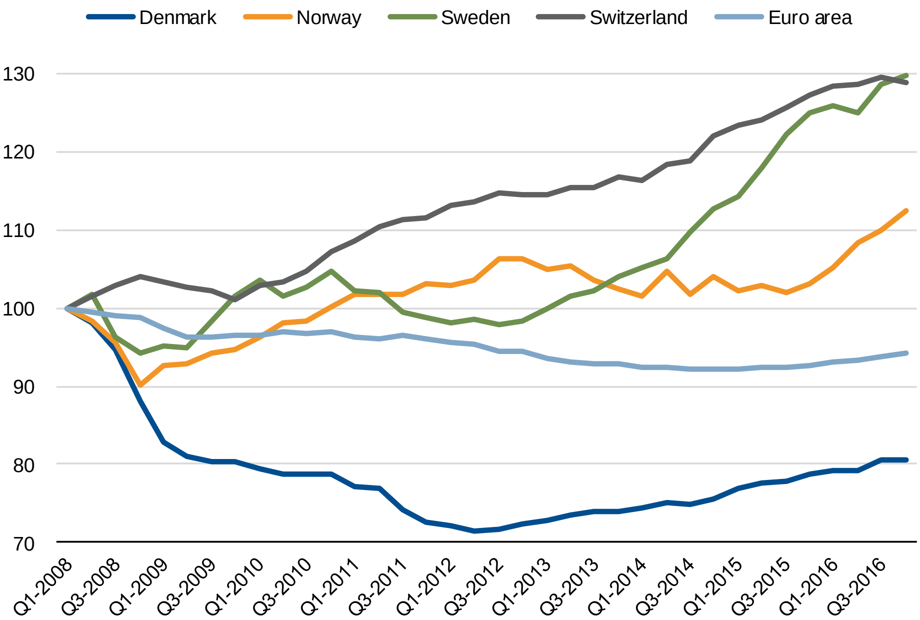
Financial stability risk

Well-capitalised banking sector, but high exposure to real estate

The financial sector is a central pillar of the Swiss economy. The sector's total assets are approximately 500% of GDP, owing primarily to two global systemically important Swiss banks (G-SIBs) – Credit Suisse (A+/stable outlook) and UBS (AA-/stable outlook) – making Switzerland's banking system one of the largest financial sectors in the world relative to GDP. Overall credit quality remains high at Swiss banks, reflected in continuous low levels of non-performing loans (of below 1% of total loans). However, the prolonged environment of very low interest rates has put pressure on banks' profitability.

Important vulnerabilities stem from rising household debt (amounting to around 127% of GDP in 2015), and Swiss banks' high mortgages exposure (which account for over 93% of total household financial liabilities), reflecting risks in a period of historically low interest rates. Debt risks are moderated, however, by Swiss households' large financial assets, amounting to 363% of GDP in 2015. Mortgage loan growth at these banks remained strong, standing at 4.1% YoY at the end of 2016 (versus 4.3% YoY in 2015), and the share of new mortgages with a high loan-to-value ratio has increased further[4]. These exposures will prove challenging due to imbalances in the real estate sector, as reflected in rising house price-to-income ratios (Figure 11). In Scope's opinion, competition between banks could cut profit margins further and increase risk-taking incentives.

Figure 11: House price-to-income ratio, Q1 2008=100



Source: OECD, Calculations Scope Ratings AG

Scope views the authorities' efforts to address the too-big-to-fail (TBTF) issue positively, in light of revised TBTF2 regulations, which came into effect on 1 June 2016. The new regulations are more stringent, leading to improvements in the capital ratios of Credit Suisse and UBS. Both banks have been meeting going-concern capital ratio requirements, and are on track to meet gone-concern requirements[5]. However, given the interconnectedness between the economy and the financial sector, measures aimed at achieving full implementation of regulatory requirements remain essential.

[4] SNB's Financial Stability Report, 2017
[5] Going-concern capital is loss-absorbing under regular operating conditions, whereas gone-concern instruments serve to recapitalise a bank in the event of impending insolvency (SNB Financial Stability Report 2017, p. 11).

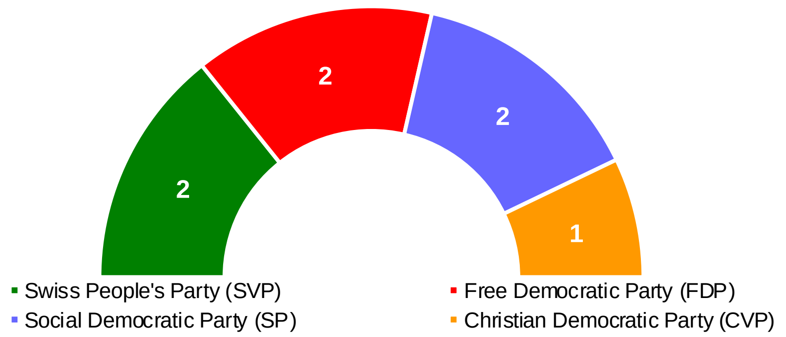
Institutional and political risk

Sound political institutions

Switzerland's political system is characterised by strong democratic institutions and predictable consensus-orientated policies. The composition of the Federal Council, Switzerland's executive board, has traditionally been divided among the country's four main political parties (Figure 12). In the federal election held in October 2015, the conservative Swiss People's Party (SVP) received 29.4% of the vote, gaining 65 of 200 seats in the lower house of parliament. The second-largest party, the Social Democrats (SP), won 18.9% of the vote (43 seats). The right-of-centre Free Democratic Party (FDP) and Christian Democratic Party (CVP) gained 33 and 27 seats, respectively.

One of the most important policy challenges for the government has been dealing with the outcome of a February 2014 referendum launched by the SVP to impose immigration ceilings and annual quotas from the EU as well as from non-EU countries. However, these measures were found to violate Switzerland's freedom of movement agreement in bilateral treaties with the EU. In December 2016, the Swiss Parliament approved an immigration law that avoids outright quotas on EU immigrants but, instead, prioritises Switzerland-based job seekers over EU citizens. The EU has welcomed the law as compatible with the agreement on free movement of people, but Scope expects the debate over limits on immigration to continue.

Figure 12: Political party representation in the Federal Council



Source: The Federal Council

Methodology

The methodology applicable for this rating and/or rating outlook, 'Public Finance Sovereign Ratings', is available at www.scoperatings.com.

Historical default rates of Scope Ratings can be viewed in the rating performance report on at https://www.scoperatings.com/governance-and-policies/regulatory/esma-registration.

Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA) at http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

A comprehensive clarification of Scope's definition of default and definitions of rating notations can be found in Scope's public credit rating methodologies at www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is not automatically ensured, however.

I. Appendix: CVS and QS results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on relative rankings of key sovereign credit fundamentals, signals an indicative 'AAA' ('aaa') rating range for the Swiss Confederation. This indicative rating range can be adjusted by up to three notches on the Qualitative Scorecard (QS) depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative analysis.

For the Swiss Confederation, the QS signals relative credit strengths for the following analytical categories: i) economic policy framework, ii) fiscal performance, iii) market access and funding sources, iv) current-account vulnerabilities, v) financial-sector oversight and governance. No relative credit weaknesses are indicated. Relative credit strengths generate no adjustment and signal a sovereign rating of AAA for Switzerland. The results have been discussed and confirmed by a rating committee.

Rating overview

CVS category rating range	aaa
QS adjustment	AAA
Final rating	AAA

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 22 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest rating score. The score result translates to an indicative rating range that is always presented in lower-case.

Within the QS assessment, analysts conduct a comprehensive review of the qualitative factors. This includes but is not limited to economic scenario analysis, a review of debt sustainability, fiscal and financial performance, and policy implementation assessments.

There are three assessments per category for a total of 15. For each assessment, the analyst examines the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment, which is the basis for the analysts' recommendation to the rating committee.

Foreign- versus local-currency ratings

Swiss debt is issued in local currency. Because of the country's history of openness to trade and capital flows, and the Swiss franc's reserve-currency status, Scope sees no evidence that Switzerland would differentiate between any contractual debt obligations based on currency denomination.

II. Appendix: CVS and QS results

CVS

Rating indicator	Category weight
Domestic economic risk	**35%**
Economic growth	
Real GDP growth	
Real GDP volatility	
GDP per capita	
Inflation rate	
Labour & population	
Unemployment rate	
Population growth	
Public finance risk	**30%**
Fiscal balance	
GG public balance	
GG primary balance	
GG gross financing needs	
Public debt	
GG net debt	
Interest payments	
External economic risk	**15%**
International position	
International investment position	
Importance of currency	
Current-account financing	
Current-account balance	
T-W effective exchange rate	
Total external debt	
Institutional and political risk	**10%**
Control of corruption	
Voice & accountability	
Rule of law	
Financial risk	**10%**
Non-performing loans	
Liquid assets	
Credit-to-GDP gap	

QS

Maximum adjustment = 3 notches

	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Growth potential of the economy	○ Excellent outlook, strong growth potential	○ Strong outlook, good growth potential	◉ Neutral	○ Weak outlook, growth potential under trend	○ Very weak outlook, growth potential wel under trend or negative
Economic policy framework	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Macroeconomic stability and imbalances	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Fiscal performance	○ Exceptionally strong performance	◉ Strong performance	○ Neutral	○ Weak performance	○ Problematic performance
Debt sustainability	○ Exceptionally strong sustainability	○ Strong sustainability	◉ Neutral	○ Weak sustainability	○ Not sustainable
Market access and funding sources	◉ Excellent access	○ Very good access	○ Neutral	○ Poor access	○ Very weak access
Current-account vulnerabilities	◉ Excellent	○ Good	○ Neutral	○ Poor	○ Inadequate
External debt sustainability	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Vulnerability to short-term shocks	○ Excellent resilience	○ Good resilience	◉ Neutral	○ Vulnerable to shock	○ Strongly vulnerable to shocks
Perceived willingness to pay	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Recent events and policy decisions	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Geo-political risk	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Financial sector performance	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Financial sector oversight and governance	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Macro-financial vulnerabilities and fragility	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate

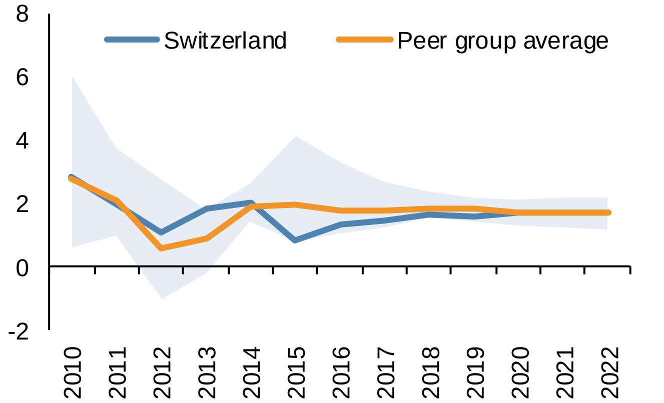
Indicative rating range	**aaa**
QS adjustment	**AAA**
Final rating	**AAA**

*** Implied QS notch adjustment = (QS notch adjustment for domestic economic risk)*0.35 + (QS notch adjustment for public finance risk)*0.30 + (QS notch adjustment for external economic risk)*0.15 + (QS notch adjustment for institutional and political risk)*0.10 + (QS notch adjustment for financial stability risk)*0.10**

Source: Scope Ratings AG

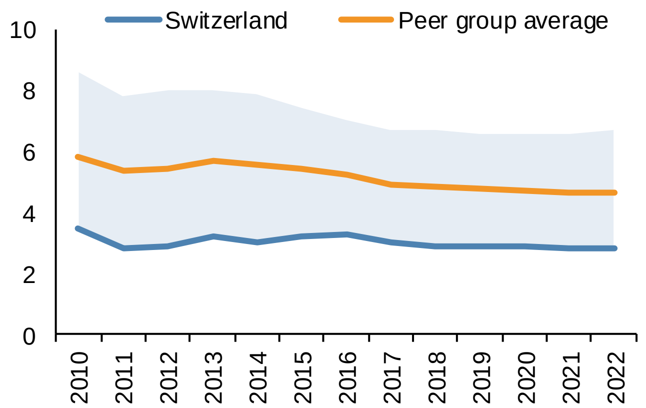
III. Appendix: Peer comparison

Figure 13: Real GDP growth



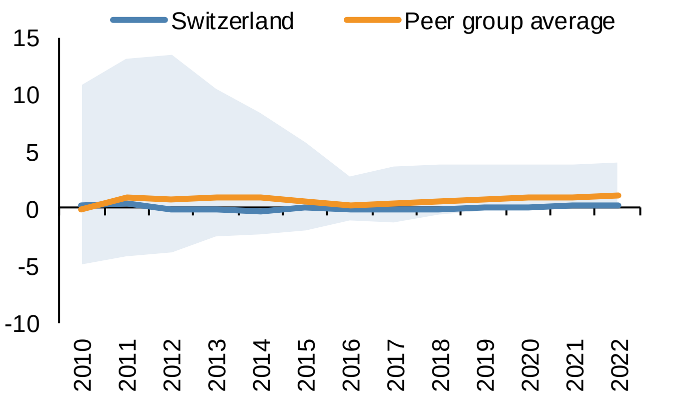
Source: IMF, Calculations Scope Ratings AG

Figure 14: Unemployment rate, % of total labour force



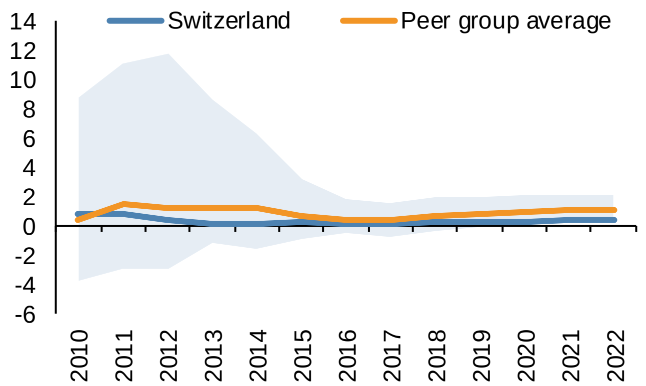
Source: IMF, Calculations Scope Ratings AG

Figure 15: General government balance, % of GDP



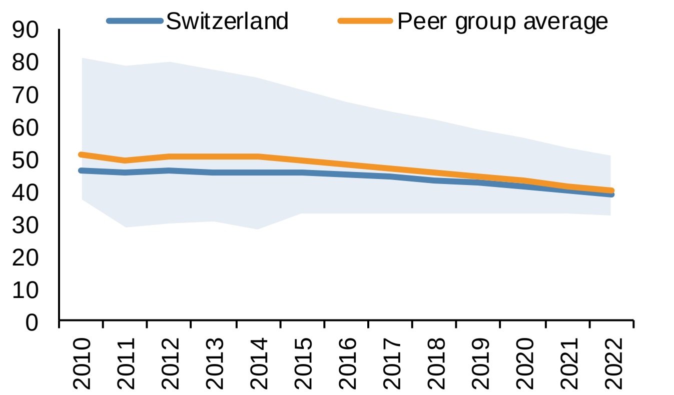
Source: IMF, Calculations Scope Ratings AG

Figure 16: General government primary balance, % of GDP



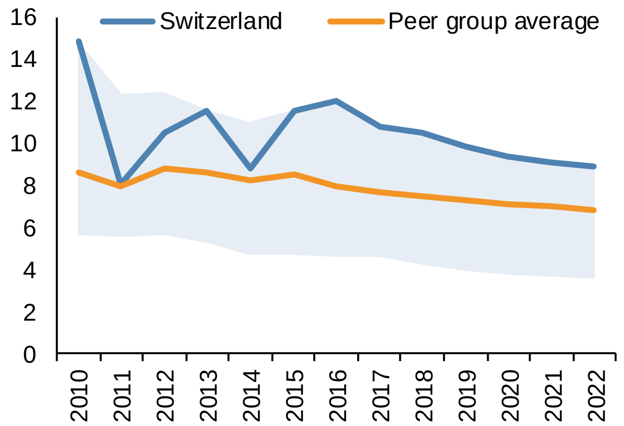
Source: IMF, Calculations Scope Ratings AG

Figure 17: General government gross debt, % of GDP



Source: IMF, Calculations Scope Ratings AG

Figure 18: Current account balance, % of GDP



Source: IMF, Calculations Scope Ratings AG

IV. Appendix: Statistical tables

	2012	2013	2014	2015	2016	2017E	2018F
Economic performance							
Nominal GDP (CHF bn)	623.5	635.0	643.8	645.4	650.1	661.6	676.3
Population ('000s)	8,031.7	8,132.7	8,229.6	8,319.8	8,401.7	8,476.0	8,544.0
GDP-per-capita PPP (USD)	57,590.7	59,788.2	61,227.9	62,499.6	62,881.5	-	-
GDP per capita (CHF)	78,374.4	78,993.1	79,092.4	78,347.5	78,072.5	78,504.6	79,382.7
Real GDP growth, % change	1.0	1.8	2.0	0.8	1.3	0.9	2.0
GDP growth volatility (10-year rolling SD)	1.9	1.8	1.8	1.8	1.6	1.3	1.3
CPI, % change	-0.7	0.1	0.0	-0.8	-0.5	0.3	0.2
Unemployment rate (%)	2.9	3.2	3.0	3.2	3.3	3.0	2.9
Investment (% of GDP)	24.2	22.6	23.0	23.0	22.5	23.4	23.5
Gross national savings (% of GDP)	34.7	34.1	31.8	34.5	34.4	34.2	34.0
Public finances							
Net lending/borrowing (% of GDP)	0.2	-0.5	-0.3	1.1	0.2	0.4	0.5
Primary net lending/borrowing (% of GDP)	1.0	0.1	0.3	1.6	0.8	0.9	1.1
Revenue (% of GDP)	33.5	33.6	33.5	35.0	35.0	35.0	34.9
Expenditure (% of GDP)	33.3	34.2	33.8	33.9	34.8	34.6	34.3
Net interest payments (% of GDP)	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Net interest payments (% of revenue)	2.1	1.9	1.8	1.6	1.7	1.7	1.6
Gross debt (% of GDP)	46.7	45.7	45.7	45.8	45.4	44.5	43.5
Net debt (% of GDP)	25.6	24.6	24.6	24.7	24.3	23.4	22.5
Gross debt (% of revenue)	139.2	135.9	136.5	131.0	129.8	127.4	124.9
External vulnerability							
Gross external debt (% of GDP)	237.1	232.8	251.0	255.2	261.2	-	-
Net external debt (% of GDP)	-	-	-	-	-	-	-
Current-account balance (% of GDP)	10.3	11.5	9.1	11.1	12.7	12.6	12.9
Trade balance (% of GDP)	9.4	11.0	10.8	10.6	10.8	-	-
Net direct investment (% of GDP)	2.18	5.43	-1.36	4.92	8.60	-	-
Official forex reserves (EOP, USD m)	467955.2	488554.8	498972.5	560612.7	634912.7	-	-
REER, % change	-3.7	-1.6	0.5	4.8	-1.5	-	-
Nominal exchange rate (EOP, CHF/EUR)	1.21	1.23	1.20	1.08	1.07	-	-
Financial stability							
Non-performing loans (% of total loans)	0.8	0.8	0.7	0.8	-	-	-
Tier 1 ratio (%)	15.7	16.4	14.8	15.6	-	-	-
Consolidated private debt (% of GDP)	209.3	208.4	208.8	211.1	-	-	-
Domestic credit-to-GDP gap (%)	14.1	10.0	7.0	6.2	7.6	-	-

Source: IMF, European Commission, European Central Bank, Swiss National Bank, SECO, World Bank, United Nations, Scope Ratings AG

V. Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings AG.

Rating prepared by John Francis Opie, Lead Analyst.

Person responsible for approval of the rating: Dr Stefan Bund, Chief Analytical Officer.

The ratings/outlook were first assigned by Scope as a subscription rating in January 2003. The subscription ratings/outlooks were last updated on 05.05.2017.

The senior unsecured debt ratings as well as the short-term issuer ratings were assigned by Scope for the first time.

As a "sovereign rating" (as defined in EU CRA Regulation 1060/2009 "EU CRA Regulation"), the ratings on the Swiss Confederation are subject to certain publication restrictions set out in Art 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Sovereign Ratings Calendar of 2017" published on 21.07.2017 on www.scoperatings.com). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case, the deviation was due to the recent revision of Scope's Sovereign Rating Methodology and the subsequent placement of ratings under review, in order to conclude the review and disclose ratings in a timely manner, as required by Article 10(1) of the CRA Regulation.

Rating Committee: the main points discussed were: (1) Switzerland's growth potential, (2) SNB's monetary policy, (3) Swiss franc's recent developments, (4) fiscal performance, (5) public debt sustainability, (6) debt brake mechanism, (7) peers consideration.

Solicitation, key sources and quality of information

The rating was initiated by Scope and was not requested by the rated entity or its agents. The rated entity and/or its agents did not participate in the ratings process. Scope had no access to accounts, management and/or other relevant internal documents for the rated entity or related third party.

The following material sources of information were used to prepare the credit rating: public domain and third parties. Key sources of information for the rating include: The Swiss National Bank (SNB), Swiss Federal Statistical Office, State Secretariat for Economic Affairs, European Commission, Eurostat, ECB, IMF, OECD, WB and Haver Analytics.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds upon which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Conditions of use / exclusion of liability

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