

SWISS CONFEDERATION

Rating Analysis - 12/26/18

*EJR Sen Rating(Curr/Prj) AAA/ AAA

*EJR CP Rating: A1+

EJR's 7 yr. Default Probability: 0.0%

The export-oriented economy's strong outlook is shadowed by the escalating international dispute initiated by Trump's trade tariffs, combined with the surge in CHF due to investor anxiety. This is confirmed by the Dec 13, 2018 decision by the Swiss National Bank of holding its benchmark interest rate at -0.75%. The rise in currency value reconfirms the view of CHF still being highly valued. The threat from rising exchange rates continues while GDP growth is likely to weaken somewhat in 2019 amid global political uncertainties and protectionist tendencies. On the other hand, Switzerland and the EU are currently negotiating a "framework agreement" that would replace the 120 existing treaties and would bring more long-term ease for trade between the two entities. This is a long drawn and extremely complicated process, and the Swiss opposition to such an agreement is strong. Despite trade issues, the country's credit quality remains robust and is expect to continue to be so. Affirming.

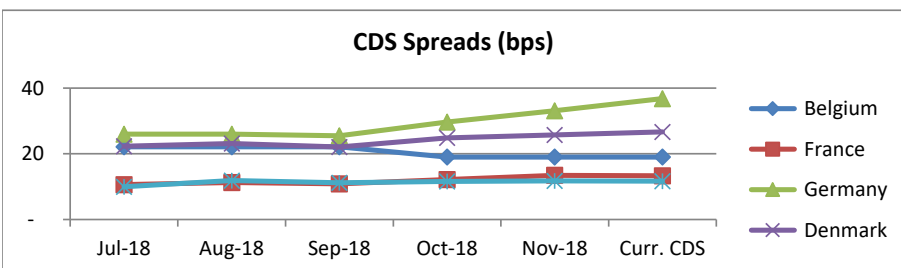
Annual Ratios (source for past results: IMF)

CREDIT POSITION	2015	2016	2017	P2018	P2019	P2020
Debt/ GDP (%)	30.0	29.1	29.7	34.5	38.5	41.8
Govt. Sur/Def to GDP (%)	0.3	0.1	0.5	0.2	0.3	0.3
Adjusted Debt/GDP (%)	30.0	29.1	29.7	34.5	38.5	41.8
Interest Expense/ Taxes (%)	4.2	2.5	2.1	1.9	1.8	1.7
GDP Growth (%)	0.7	0.9	1.2	2.2	2.2	1.7
Foreign Reserves/Debt (%)	282.4	336.7	369.3	350.3	339.3	338.7
Implied Sen. Rating	AA+	AA+	AA+	AA+	AA+	AA+

INDICATIVE CREDIT RATIOS

	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	64.1	1.0	64.1	4.4	3.7	AA
French Republic	AA	97.0	-2.5	97.0	6.3	2.8	A+
Kingdom Of Belgium	AA	103.1	-0.8	103.1	8.1	3.4	AA-
Kingdom Of Sweden	AAA	40.6	2.6	40.6	0.9	4.4	AAA
Kingdom Of Denmark	AAA	36.4	1.6	36.4	2.3	3.7	AA+

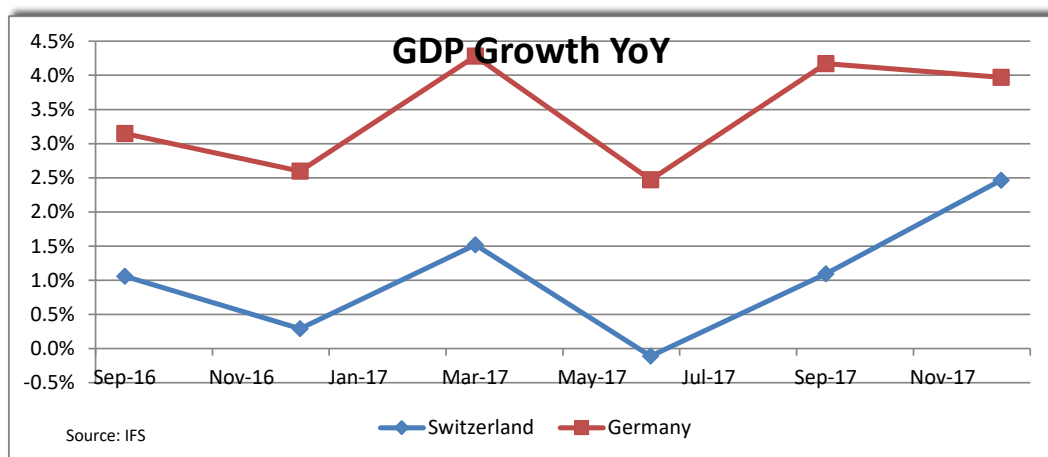


Country	CDS
Belgium	19
France	13
Germany	37
Denmark	27
Sweden	12

Economic Growth

The Swiss economy surprised the market with a contraction of 0.2% seq. in Q3 2018 after 0.9% QoQ growth in Q1 2018 and 0.7% growth in Q2 2018. The contraction of GDP is due to several negative elements - both domestic and external demand were drags to economic growth. Exports of goods fell by -4.2% QoQ and exports of services declined by 0.6% - this was linked to the weak growth observed in Q3 in Europe, and especially in Germany. With 19% of Swiss exports going to Germany.

In general, GDP growth has been buoyant in recent quarters and is projected to be about 1.5% the next two years. The central bank has trimmed its inflation projection for 2019 to 0.5% from 0.8%, lowering its forecast for 2020 to 1% from 1.2% - due to the slump in oil prices and moderate growth prospects.



Fiscal Policy

The Swiss Monetary policy has been expansionary since the financial crisis. Since late 2014, negative policy interest rates have been effective in boosting inflation and limiting capital inflows associated with the CHF's safe-haven status. Switzerland recorded a government debt equivalent to 29.70% of the country's GDP in 2017. Government Debt to GDP averaged 36.94% from 1982 until 2017, reaching an all time high of 48.90% in 1998 and a record low of 25.10% in 1982.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Switzerland	0.45	29.70	19.00
Germany	1.02	64.10	13.35
France	-2.54	97.00	36.81
Belgium	-0.79	103.10	26.67
Sweden	2.62	40.60	11.68
Denmark	1.59	36.40	11.95

Sources: Thomson Reuters and IFS

Unemployment

The digital revolution, globalisation and demographic changes are transforming labour markets at a time when policy makers are also struggling with slow productivity and wage growth and high levels of income inequality. Switzerland is the second best performer on measures of job quantity, particularly the employment rate. At present, the unemployment rate is below the OECD average and has been relatively steady over the past decade.

	Unemployment (%)	
	2016	2017
Switzerland	3.32	3.19
Germany	4.13	3.76
France	10.07	9.43
Belgium	7.86	7.16
Sweden	6.95	6.68
Denmark	6.19	5.72

Source: Intl. Finance Statistics

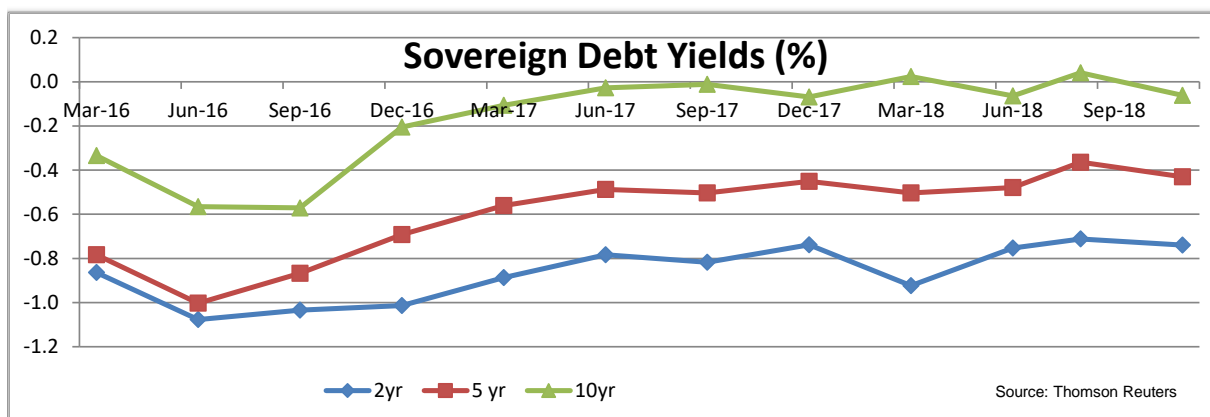
Banking Sector

As the Swiss financial centre adjusts to the loss of banking secrecy and possible fallout from Brexit, increased investment management is now being reported as the sector's cornerstone. The Swiss banks are back on the growth track. The aggregate annual profit of the 253 banks rose to CHF9.8B for the 8-month period ending Aug'18, up 24% YOY. Assets under management reached CHF 7.3 trillion. Switzerland remains the leader in global cross-border private banking.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
UBS AG-REG	915.64	5.13
UBS AG-REG	796.29	3.63
BANQUE CANTO-REG	45.42	14.20
BASLER KANTON-PC	40.77	0.99
BERNER KANTO-REG	<u>29.30</u>	<u>6.36</u>
Total	1,827.4	
EJR's est. of cap shortfall at 10% of assets less market cap		98.2
Switzerland's GDP		668.6

Funding Costs

The Swiss National Bank has reiterated it views the country's currency as highly valued and maintained its loose policy stance, rounding out a fourth year of ultra-low interest rates as it battles lacklustre price growth. Switzerland as had an interest rate of -0.75% since January 2015, when the SNB slashed its benchmark interest rate in an attempt to limit the appreciation of the franc and help support the country's exporters.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 33 (1 is best, 189 worst) is above average.

The World Bank's Doing Business Survey*			
	2018	2017	Change in
	Rank	Rank	Rank
Overall Country Rank:	33	31	-2
Scores:			
Starting a Business	73	71	-2
Construction Permits	62	68	6
Getting Electricity	7	7	0
Registering Property	16	16	0
Getting Credit	68	62	-6
Protecting Investors	108	106	-2
Paying Taxes	19	18	-1
Trading Across Borders	38	37	-1
Enforcing Contracts	45	39	-6
Resolving Insolvency	45	45	0

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Switzerland is strong in its overall rank of 81.7 for Economic Freedom with 100 being best.

Heritage Foundation 2018 Index of Economic Freedom				
World Rank 81.7*				
	2018	2017	Change in	World
	Rank**	Rank	Rank	Avg.
Property Rights	84.2	86.9	-2.7	51.5
Government Integrity	82.8	80.3	2.5	42.1
Judicial Effectiveness	82.1	77.6	4.5	46.9
Tax Burden	70.5	70.9	-0.4	76.7
Gov't Spending	65.4	67.5	-2.1	63.5
Fiscal Health	95.9	95.8	0.1	66.3
Business Freedom	75.7	76.8	-1.1	64.8
Labor Freedom	73.9	72.2	1.7	58.9
Monetary Freedom	85.2	84.4	0.8	76.0
Trade Freedom	90.0	90.0	0.0	75.9

*Based on a scale of 1-100 with 100 being the highest ranking.
**The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
Source: The Heritage Foundation

Credit Quality Driver: Taxes Growth:

SWISS CONFEDERATION has grown its taxes of 5.3% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 9.0% per annum over the next couple of years and 8.1% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

SWISS CONFEDERATION's total revenue growth has been more than its peers and we assumed no growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	4.6	5.3	9.0	8.1
Social Contributions Growth %	3.2	NMF		
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	5.8	9.0	7.0
Other Operating Income Growth%	0.0	(1.9)	(1.9)	(1.9)
Total Revenue Growth%	4.1	5.2	5.2	4.7
Compensation of Employees Growth%	0.0	2.3	2.3	2.3
Use of Goods & Services Growth%	2.1	0.4	0.4	0.4
Social Benefits Growth%	2.1	0.0		
Subsidies Growth%	3.0	0.0		
Other Expenses Growth%	0.0			
Interest Expense	1.8	0.7	0.7	
Currency and Deposits (asset) Growth%	0.0	0.0		
Securities other than Shares LT (asset) Growth%	8.2	0.0		
Loans (asset) Growth%	(0.7)	(1.4)	(1.4)	(1.4)
Shares and Other Equity (asset) Growth%	0.0	167.4	5.0	5.0
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	0.5	0.5	0.5
Other Accounts Receivable LT Growth%	0.0	(13.4)	(13.4)	(13.4)
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.0		(5.0)	(5.0)
Currency & Deposits (liability) Growth%	0.0	2.3	(3.0)	(3.0)
Securities Other than Shares (liability) Growth%	0.0	(2.8)	(2.8)	(2.8)
Loans (liability) Growth%	(2.7)	0.0		
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	0.0	0.0		
Additional ST debt (1st year)(millions CHF)	0.0	0.0		

ANNUAL INCOME STATEMENTS

Below are SWISS CONFEDERATION's annual income statements with the projected years based on the assumptions listed on page 5.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(MILLIONS CHF)					
	2014	2015	2016	2017	P2018	P2019
Taxes	60,469	62,964	63,113	66,485	72,469	78,991
Social Contributions					5	5
Grant Revenue						
Other Revenue	5,738	6,009	1,951	2,065	2,251	2,453
Other Operating Income			1,170	1,148	1,148	1,148
Total Revenue	66,207	68,973	66,234	69,698	75,873	82,597
Compensation of Employees	46,025	48,391	51,724	52,902	54,107	55,339
Use of Goods & Services	7,804	7,932	9,760	9,795	9,830	9,865
Social Benefits						
Subsidies						
Other Expenses	5,933	5,781		-1,243	-1,243	-1,243
Grant Expense			45,753	46,847	47,966	49,112
Depreciation	2,435	2,482	3,827	3,833	3,833	3,833
Total Expenses excluding interest	59,589	61,939	63,926	65,287	114,493	116,907
Operating Surplus/Shortfall	6,618	7,034	2,308	4,411	-38,621	-34,310
Interest Expense	<u>2,608</u>	<u>2,647</u>	<u>1,579</u>	<u>1,400</u>	<u>1,410</u>	<u>1,420</u>
Net Operating Balance	1,402	1,740	729	3,011	-40,030	-35,729

ANNUAL BALANCE SHEETS

Below are SWISS CONFEDERATION's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS (MILLIONS CHF)					
	2014	2015	2016	2017	P2018	P2019
ASSETS						
Currency and Deposits (asset)	12,133	12,676	16,963	21,085	21,085	21,085
Securities other than Shares LT (asset)	225	288				
Loans (asset)	9,412	8,755	5,598	5,520	5,443	5,367
Shares and Other Equity (asset)	53,548	53,954	8,016	21,436	22,508	23,633
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	20,968	20,988	15,682	15,760	15,838	15,917
Other Accounts Receivable LT	8,528	8,214	45,987	39,814	34,470	29,843
Monetary Gold and SDR's						
Other Assets					60,285	60,285
Additional Assets			<u>60,102</u>	<u>60,285</u>		
Total Financial Assets	104,814	104,875	152,348	163,900	159,629	156,130
LIABILITIES						
Other Accounts Payable	1,337	1,720				
Currency & Deposits (liability)	27,878	23,727	42,194	43,159	43,159	43,159
Securities Other than Shares (liability)	78,677	77,504	102,137	99,305	96,524	93,822
Loans (liability)	15,849	16,194			40,030	75,760
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities						
Liabilities	123,741	119,145	144,331	142,464	178,223	210,454
Net Financial Worth	-18,927	-14,270	8,017	21,436	-18,594	-54,324
Total Liabilities & Equity	104,814	104,875	152,348	163,900	159,629	156,130

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Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "AAA" whereas the ratio-implied rating for the most recent period is "AA+"; we expect results to improve.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer SWISS CONFEDERATION with the ticker of 344758Z SW we have assigned the senior unsecured rating of AAA. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the methodology available in our Form NRSRO Exhibit #2 dated Nov 5, 2018 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied upon in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.**10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:**

This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	9.0	13.0	5.0	AA+	AA+	AA+
Social Contributions Growth %		3.0	(3.0)	AA+	AA+	AA+
Other Revenue Growth %	9.0	12.0	6.0	AA+	AA+	AA+
Total Revenue Growth%	5.2	7.2	3.2	AA+	AA+	AA+
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	AA+	AA+	AA+

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

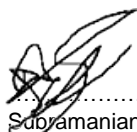
ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

Today's Date

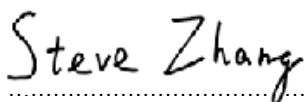


Subramanian NG
Senior Rating Analyst

December 26, 2018

Reviewer Signature:

Today's Date



Steve Zhang
Senior Rating Analyst

December 26, 2018

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.