

SWISS CONFEDERATION

Rating Analysis - 10/24/16

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

*EJR CP Rating: A1+

EJR's 7 yr. Default Probability: 0.0%

Other NRSRO Rating: AAA

With a healthy budget surplus and the sovereign debt equal to only 16.27% of the GDP, Switzerland has a fairly strong credit profile. Switzerland's balance of trade has been positive for the past ten years, although there has been a deceleration due to the termination of the exchange rate peg to the Euro (+0.9% in 2015 vs 19.03% in 2013). The current account surplus represents approximately 50% of GDP.

Despite the country's strong economic model, downside risks remain relative to the Swiss currency appreciation and immigration issues. The strength of the Swiss franc enhances deflationary pressures - inflation was -1.1% in 2015 compared to -0.0% in 2014. The GDP declined slightly in 2015, but has picked up in the recent quarters. Ageing population and the recent international initiatives to address illegal banking activities will affect the business environment in the long term. Affirming.

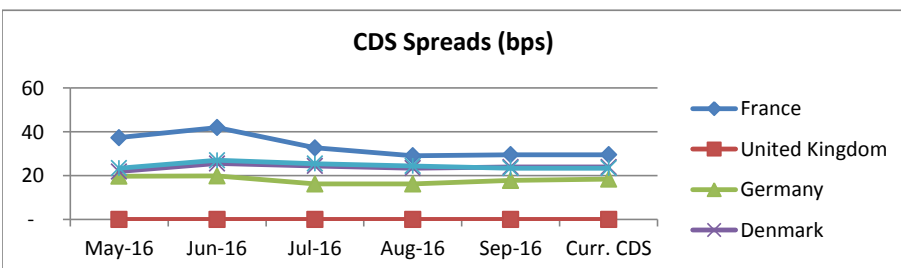
Annual Ratios (source for past results: IMF)

CREDIT POSITION	2013	2014	2015	P2016	P2017	P2018
Debt/ GDP (%)	17.6	16.8	16.3	15.3	14.2	13.1
Govt. Sur/Def to GDP (%)	0.2	0.2	0.3	0.7	0.8	0.8
Adjusted Debt/GDP (%)	17.6	16.8	16.3	15.3	14.2	13.1
Interest Expense/ Taxes (%)	4.9	4.3	4.2	4.1	4.1	4.0
GDP Growth (%)	1.8	2.0	-1.4	0.8	0.8	1.0
Foreign Reserves/Debt (%)	354.1	394.9	486.3	521.7	556.5	597.5
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 % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	71.2	0.6	71.2	6.9	4.1	AA
French Republic	AA	96.1	-3.4	96.1	6.9	1.9	A+
United Kingdom	AAA	89.2	-3.3	89.2	8.7	4.0	AA
Kingdom Of Denmark	AAA	40.4	-1.1	40.4	3.5	3.4	AA+
Kingdom Of Sweden	AAA	43.0	1.0	43.0	1.2	6.2	AA+

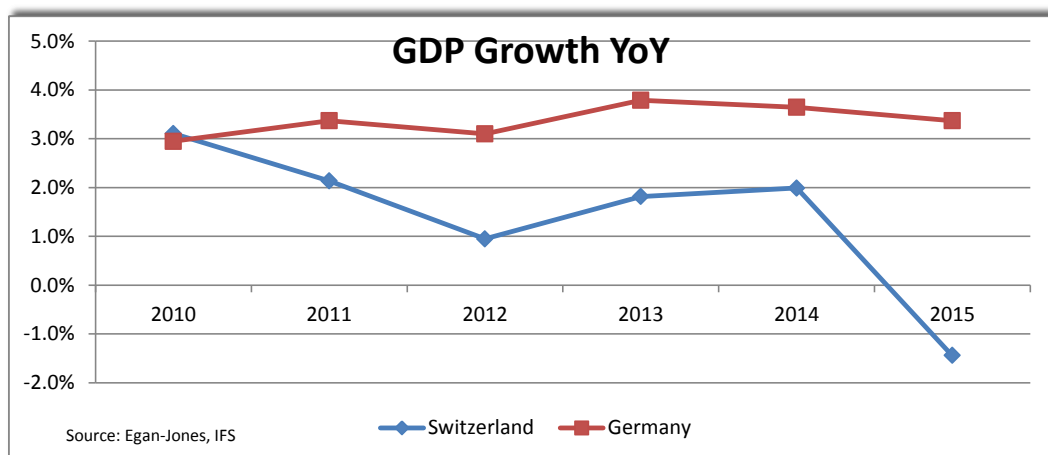


Country	CDS
France	30
United Kingdom	N/A
Germany	18
Denmark	24
Sweden	23

Economic Growth

Switzerland has a historically stable economic growth. However, in 2015 the GDP declined 1.5% compared to a 3% gain in 2010, primarily due to the termination of the CHF-EUR exchange rate peg in early 2015. As Europe accounts for over 40% of total exports, the appreciation of Swiss franc (+22% relative to Euro in two days after the announcement, or +10% to date) poses a risk for exporters and feeds potential deflationary pressure.

On the positive side, private consumption is a major driver of growth. The country's specialization in manufacturing of high value-added and luxury goods also offers some assurance due to the relatively low demand elasticity. Watch for productivity pressures associated with the aging population.



Fiscal Policy

With a Surplus-to-GDP ratio of 0.27%, the Swiss government is self-sufficient. As shown in the chart to right, the level of Switzerland sovereign debt is much lower than that of other peer countries, at a comfortable 16.27% of the GDP, a rate which continues to decline. Switzerland's 5-year CDS spread is also one of lowest among its peers.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Switzerland	0.27	16.27	19.00
Germany	0.57	71.22	18.35
France	-3.35	96.15	29.57
United Kingdc	-3.31	89.24	38.99
Denmark	-1.09	40.42	23.94
Sweden	0.97	43.01	23.45

Sources: Thomson Reuters and IFS

Unemployment

Switzerland's unemployment rate is among the lowest in Europe, in part thanks to the government's management of immigration policy which counters any volatility in the domestic job market. Pressures from EU on the immigration free movement is a long-term concern, especially after the Brexit referendum as Brussels might toughen its stance.

Unemployment (%)		
	2014	2015
Switzerland	3.16	3.18
Germany	6.70	6.01
France	10.30	10.40
United Kingd	6.14	5.33
Denmark	4.93	4.93
Sweden	7.93	7.40

Source: Intl. Finance Statistics

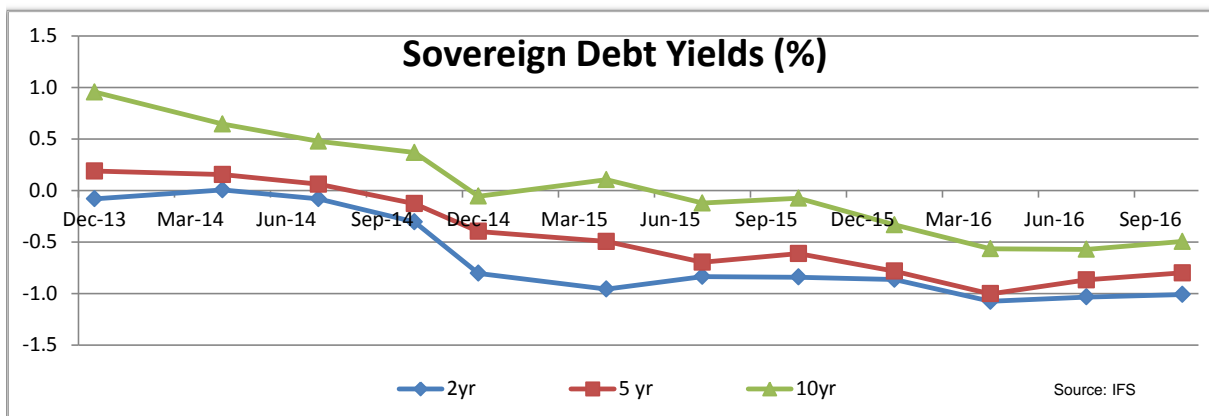
Banking Sector

History has shown that country and bank obligations are linked during times of economic distress. The overall size of the top five banks in Switzerland is huge, with total assets equaling approximately 293% of GDP. One reassuring factor is that the banking sector is relatively healthy. Non-performing loan ratio rose from 0.72% in 2014 to 0.75% in 2015, but remained relatively low.

Bank Assets (billions of local currency)		
	Assets	Cap/ Assets %
UBS AG-REG	942.82	5.33
CREDIT SUISS-REG	820.81	3.44
BANQUE CANTO-REG	43.42	12.31
BASLER KANTON-PC	38.51	0.77
BERNER KANTO-REG	<u>28.03</u>	<u>5.97</u>
Total	1,873.6	
EJR's est. of cap shortfall at 10% of assets less market cap		101.6
Switzerland's GDP		639.0

Funding Costs

Switzerland's funding costs have been declining in the recent years due to the prevailing low interest rates in Europe. As shown in the chart below, the 2-year, 5-year and 10-year sovereign debt yields have all entered the negative territory. We are expecting the interest rates to remain low in the foreseeable future.



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 26 (1 is best, 189 worst) is strong.

The World Bank's Doing Business Survey*			
	2015	2014	Change in
	Rank	Rank	Rank
Overall Country Rank:	26	26	0
Scores:			
Starting a Business	69	66	-3
Construction Permits	56	55	-1
Getting Electricity	5	5	0
Registering Property	16	17	1
Getting Credit	59	52	-7
Protecting Investors	105	104	-1
Paying Taxes	19	18	-1
Trading Across Borders	40	40	0
Enforcing Contracts	46	47	1
Resolving Insolvency	44	42	-2

* 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 80.5 for Economic Freedom with 100 being the best.

Heritage Foundation 2015 Index of Economic Freedom				
World Rank 80.5*				
	2015 Rank**	2014 Rank	Change in Rank	World Avg.
Property Rights	90	90	0	42.2
Freedom from Corruption	85	88.1	-3.1	41.9
Fiscal Freedom	70.3	68.9	1.4	77.4
Government Spending	65.1	65.7	-0.6	61.7
Business Freedom	78.1	75.4	2.7	64.1
Labor Freedom	75.3	87.4	-12.1	61.3
Monetary Freedom	86.3	85.2	1.1	75.0
Trade Freedom	90	90	0	75.4
Investment Freedom	85	85	0	54.8
Financial Freedom	80	80	0	48.6

*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

Valuation Driver: Taxes Growth:

SWISS CONFEDERATION has grown its taxes of 4.1% per annum in the last fiscal year which is disappointing. We expect tax revenues will grow approximately 4.1% per annum over the next couple of years and 4.1% per annum for the next couple of years thereafter.

Valuation Driver: Total Revenue Growth:

SWISS CONFEDERATION's total revenue growth has been more than its peers and we assumed a 4.0% growth in total revenue growth over the next two years.

Income Statement	Peer Median	Co. Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	4.1	4.1	4.1	4.1
Social Contributions Growth %	3.9	NMF		
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	4.7	3.7	3.7
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	3.9	4.2	4.0	4.0
Compensation of Employees Growth%	1.4	5.1	5.1	5.1
Use of Goods & Services Growth%	2.3	1.6	1.6	1.6
Social Benefits Growth%	1.8	0.0		
Subsidies Growth%	8.0	0.0		
Other Expenses Growth%	(47.2)	(47.2)	(10.0)	(10.0)
Interest Expense	0.0	2.5	2.5	
Currency and Deposits (asset) Growth%	(51.9)	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(1.2)	(7.0)		
Shares and Other Equity (asset) Growth%	(0.7)	0.8	0.8	0.8
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	0.1	0.1	0.1
Other Accounts Receivable LT Growth%	1.6	(3.7)	(3.7)	(3.7)
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	28.6	15.0	10.0
Currency & Deposits (liability) Growth%	3.9	(14.9)	0.5	0.5
Securities Other than Shares (liability) Growth%	1.1	(1.5)	(1.0)	(1.0)
Loans (liability) Growth%	0.6	2.2	2.2	2.2
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 3.

	ANNUAL REVENUE AND EXPENSE STATEMENT					
	(MILLIONS CHF)					
	2012	2013	2014	2015	P2016	P2017
Taxes	58,580	60,623	60,469	62,964	65,546	68,233
Social Contributions					5	5
Grant Revenue						
Other Revenue	6,866	6,352	5,738	6,009	6,231	6,461
Other Operating Income						
Total Revenue	65,446	66,975	66,207	68,973	71,781	74,699
Compensation of Employees	44,416	45,983	46,025	48,391	50,879	53,494
Use of Goods & Services	7,277	7,801	7,804	7,932	8,062	8,194
Social Benefits						
Subsidies						
Other Expenses	5,847	6,888	5,933	3,134	2,821	2,539
Grant Expense						
Depreciation	2,390	2,350	2,435	2,482	2,482	2,482
Total Expenses excluding interest	56,829	60,056	59,589	61,939	64,243	66,709
Operating Surplus/Shortfall	8,617	6,919	6,618	7,034	7,538	7,990
Interest Expense	<u>3,101</u>	<u>2,966</u>	<u>2,608</u>	<u>2,647</u>	<u>2,714</u>	<u>2,783</u>
Net Operating Balance	5,516	3,953	4,010	4,387	4,824	5,206

ANNUAL BALANCE SHEETS

Below are SWISS CONFEDERATION's balance sheets with the projected years based on the assumptions listed on page 3.

	ANNUAL BALANCE SHEETS					
	(MILLIONS CHF)					
Base Case	2012	2013	2014	2015	P2016	P2017
ASSETS						
Currency and Deposits (asset)	11,556	13,737	12,133	12,676	12,676	15,164
Securities other than Shares LT (asset)	373	224	225	288	288	288
Loans (asset)	9,621	9,365	9,412	8,755	8,755	8,755
Shares and Other Equity (asset)	52,218	52,650	53,548	53,954	54,363	54,775
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)	19,970	20,063	20,968	20,988	21,008	21,028
Other Accounts Receivable LT	7,086	7,257	8,528	8,214	7,912	7,620
Monetary Gold and SDR's						
Other Assets						
Additional Assets						
Total Financial Assets	100,824	103,296	104,814	104,875	105,002	107,631
LIABILITIES						
Other Accounts Payable	1,276	1,422	1,337	1,720	1,978	2,275
Currency & Deposits (liability)	30,408	29,928	27,878	23,727	19,581	17,508
Securities Other than Shares (liability)	79,489	79,297	78,677	77,504	76,695	75,895
Loans (liability)	13,576	15,261	15,849	16,194	11,370	6,164
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities						
Liabilities	124,749	125,908	123,741	119,145	114,448	111,871
Net Financial Worth	<u>-23,925</u>	<u>-22,612</u>	<u>-18,927</u>	<u>-14,270</u>	<u>-9,446</u>	<u>-4,240</u>
Total Liabilities & Equity	100,824	103,296	104,814	104,875	105,002	107,631

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Comments on the Difference between the Model and Assigned Rating

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 May 10, 2015 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%	4.1	8.1	0.1	AA+	AA+	AA+
Social Contributions Growth %		(3.0)	3.0	AA+	AA+	AA+
Other Revenue Growth %	3.7	0.7	6.7	AA+	AA+	AA+
Total Revenue Growth%	4.0	2.0	6.0	AA+	AA+	AA+
Monetary Gold and SDR's Growth %	5.0	3.0	7.0	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:

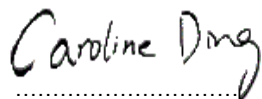


Mina Ding
Rating Analyst

Today's Date

October 24, 2016

Reviewer Signature:



Caroline Ding
Rating Analyst

Today's Date

October 24, 2016

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.