STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

PostFinance AG

Primary Credit Analyst:
Salla von Steinaecker, Frankfurt (49) 69-33-999-164; salla.vonsteinaecker@standardandpoors.com

Secondary Contact:
Dirk Heise, Frankfurt (49) 69-33-999-163; dirk.heise@standardandpoors.com

Table Of Contents

PostFinance AG

SACP	a+
Anchor	a-	
Business Position	Adequate	0
Capital and Earnings	Very Strong	+2
Risk Position	Moderate	-1
Funding	Above Average	+1
Liquidity	Strong	

+

Support	+3
GRE Support	+3
Group Support	0
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating
AA+/Stable/A-1+

Major Rating Factors

Strengths:

- Legally mandated provider of essential banking services in Switzerland.
- Robust capitalization underpinned by sound earnings.
- Above-average funding profile and superior liquidity position.

Weaknesses:

- Narrow business model, due to a legal restriction to extend loans to Swiss households and companies.
- Large single-name and sector concentrations in the investment portfolio.

Outlook: Stable

Standard & Poor's Ratings Services' stable outlook on PostFinance AG reflects that on its ultimate owner, the Swiss Confederation. The outlook also reflects our view of PostFinance as a government-related entity (GRE) with an "extremely high" likelihood of receiving extraordinary government support if needed, which we expect will continue over the next two years. We also anticipate that the company will maintain a sound stand-alone credit profile (SACP).

In the unlikely event of a change in PostFinance's role for and link with the Swiss government, we may review our assessment of PostFinance as a GRE.

We could revise the SACP downward if PostFinance adopted less prudent capital and investment policies, leading to higher risks in its investment portfolio. However, the ratings would be unaffected as long as the SACP is at or above 'bb+' according to our GRE criteria.

Rating upside is remote at this stage because we do not believe the bank is able to adjust its comparatively concentrated business model over the medium term.

Rationale

The starting point for our ratings on PostFinance is the 'a-' anchor, which reflects PostFinance's blended economic risk from investment exposures and its operation in Switzerland. We consider PostFinance to have an "adequate" business position, as our criteria define this term, as one of the largest deposit-taking institutions in Switzerland. It also has "very strong" capital and earnings, mainly based on our projection of a risk-adjusted capital (RAC) ratio of about 30% over the next 12-18 months. Moreover, PostFinance has a "moderate" risk position, owing to single-name and sector concentrations in its large investment portfolio; "above-average" funding; and "strong" liquidity as cash provider to the domestic interbank market. The SACP is at 'a+'.

We consider that PostFinance plays a "critical" role for the Swiss government and that it has a "very strong" link with the state. Consequently, we see an "extremely high" likelihood of extraordinary government support for PostFinance and add three notches of uplift to the SACP.

Anchor: 'a-' to reflect economic risk in the investment portfolio and industry risk in Switzerland

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in Switzerland is 'a'.

The BICRA score includes our evaluation of economic risk. In this respect, we view Switzerland as a highly diversified and competitive economy, benefiting from one of the highest GDPs per capita in the world and very robust government finances. We believe Switzerland demonstrates a conservative risk and lending culture, which has accompanied recent moderate growth of house prices and loan portfolios.

Because PostFinance has no lending business, we consider the weighted-average economic risk in countries PostFinance is exposed to through its large investment portfolio. About 45% of the portfolio relates to countries with comparatively higher economic risk than Switzerland. Therefore the anchor for PostFinance is one notch lower than that for banks operating only in Switzerland, and it is sensitive to an increase of exposures in such countries.

The Swiss banking industry is supported by its sizable and very stable customer deposit base. Pure domestic Swiss banks have not loosened credit standards in recent years, thanks to sound earnings potential from core products. We consider regulatory standards to be more stringent than in other developed countries.

Table 1

PostFinance AG Key Figures

(Mil. CHF)	As of June 30, 2013
Adjusted assets	113,031
Customer loans (gross)	9,172
Adjusted common equity	4,930
Operating revenues	748
Noninterest expenses	589
Core earnings	217

CHF--Swiss franc.

Business position: One of the largest retail banks in Switzerland, but with a narrow business model

We regard PostFinance's business position as "adequate." This reflects our view of PostFinance as one of Switzerland's largest retail banks, with 2.9 million customers and a solid market share of 13% in customer deposits. The bank has a public mandate to provide essential banking services in Switzerland.

PostFinance is a fully-owned subsidiary of Die Schweizerische Post AG (DSP; nonoperating holding company of the Swiss Post group), and its assets totaled Swiss franc (CHF) 115 billion (about €93 billion) as of June 30, 2013. PostFinance was legally separated from DSP on June 26, 2013. Since receiving a full banking license, it is now regulated by the Swiss Financial Market Supervisory Authority and has become a member of the Swiss Deposit Protection Scheme. Under Swiss postal law, PostFinance provides basic services for payment transactions on behalf of DSP and is party to two-thirds of the payment transactions in Switzerland. PostFinance's services are available in the Swiss Post group's 1,800 post offices, including through 45 PostFinance branches in larger post centers.

We do not expect PostFinance's business model to change in the medium term. Although by law, PostFinance is not permitted to lend, it provides mortgages and other loans through partner banks, which act as risk-takers, to complement its product offering. Foreign operations are limited to payment transactions abroad and we don't expect PostFinance to expand beyond the current scope.

Without lending business, PostFinance will likely continue placing its excess liquidity at the Swiss National Bank and in international capital markets. Consequently, the main source (65%-70%) of its comparatively stable revenue is net interest income from its large bond portfolio. Net commission income from payment services, PostFinance cards, sale of savings and investment products, and loan intermediation generates 20% of income; and other activity, including foreign currency trading, the remaining 10%. Although we anticipate that the service and advisory business will gain importance over time, we don't expect PostFinance's revenue structure to change significantly.

In our view, management demonstrates a low risk appetite and we expect it to maintain its conservative investment policy. The owner's targets are reasonable and support our assessment of PostFinance's prudent management and strategy.

Table 2

PostFinance AG Business Position

(%)	As of June 30, 2013
Loan market share in country of domicile	0
Deposit market share in country of domicile	13.00
Total revenues from business line (mil. CHF)	790
Commercial & retail banking/total revenues from business line	100.00
Return on equity	4.41

CHF--Swiss franc.

Capital and earnings: Robust capitalization following the separation from DSP

We view PostFinance's capital and earnings as "very strong," primarily because we project the RAC ratio to reach about 30% over the next 18-24 months, after 7.9% on Dec. 31, 2012. The forecast RAC ratio is one of the highest among all banks we rate globally. We incorporate the group's reported capital of CHF6.65 billion after the legal separation into our projection, as well as CHF2 billion of goodwill on PostFinance's balance sheet, which we deduct from total adjusted capital (TAC), our measure of loss-absorbing capital.

In our base case, we expect PostFinance to generate relatively stable net interest income from its investment portfolio over the next two years. Nevertheless, we anticipate a gradual increase of net commission and fee income from growth in the current activities. PostFinance will, in our view, remain the main profit contributor to the Swiss Post group and we expect it to upstream a major part of its net annual profit of CHF200 million-CHF250 million (under Swiss bank accounting guidelines) to DSP in 2013-2014. However, the expected amortization of goodwill (CHF200 million annually) could allow PostFinance to build up capital over the next 10 years.

We believe PostFinance's earnings will remain stronger than the industry average, supporting the bank's solid capital position. We estimate PostFinance's three-year average earnings buffer to be higher than 200 basis points, which indicates that its earnings have a strong capacity to cover normalized losses. However, PostFinance's operating efficiency is weaker than that of Swiss peers, in our view; we project the cost-to-income ratio at 65%-70% over the next two years.

PostFinance's quality of capital is very strong, in our view, because its TAC consists mainly of paid-in capital. We understand that PostFinance's core capital ratio of 19.25% as of Jan. 1, 2013, will comfortably fulfill Swiss regulatory requirements.

Table 3

PostFinance AG Capital And Earnings

(%)	As of June 30, 2013
Tier 1 capital ratio*	19.25
S&P RAC ratio before diversification§	7.91
S&P RAC ratio after diversification§	7.62
Adjusted common equity/total adjusted capital	100.00
Double leverage	N.M.
Net interest income/operating revenues	64.44
Fee income/operating revenues	9.63
Market-sensitive income/operating revenues	11.36
Noninterest expenses/operating revenues	65.37
Preprovision operating income/average assets	0.28
Core earnings/average managed assets	0.20

*As of Jan. 1, 2013. §Standard & Poor's RAC ratios refer to the PostFinance division of Die Schweizerische Post as of Dec. 31, 2012. RAC--Risk-adjusted capital. N.M.--Not meaningful.

Table 4

PostFinance AG RACF [Risk-Adjusted Capital Framework] Data

(Mil. CHF)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	36,469	0	0	2,072	6
Institutions	26,283	0	0	3,200	12

Table 4

PostFinance AG RACF [Risk-Adjusted Capital Framework] Data (cont.)

Corporate	2,333	0	0	1,629	70
Retail	0	0	0	0	0
Of which mortgage	0	0	0	0	0
Securitization§	24	0	0	5	20
Other assets	38	0	0	34	90
Total credit risk	65,147	0	0	6,940	11
Market risk					
Equity in the banking book†	613	0	0	4,295	701
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	4,295	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	0	--	2,936	--
(Mil. CHF)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		0		14,171	100
Total Diversification/Concentration Adjustments		--		550	4
RWA after diversification		0		14,721	104
(Mil. CHF)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		0	0.0	1,121	7.9
Capital ratio after adjustments‡		0	0.0	1,121	7.6

*Exposures in PostFinance's investment portfolio. §Securitisation exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. CHF--Swiss franc. Sources: Company data as of Dec. 31, 2012, Standard & Poor's.

Risk position: Large concentration risks in the investment portfolio

Our assessment of PostFinance's overall risk position as "moderate" mainly reflects single-name and sector concentrations in its ample investment portfolio. Because PostFinance is not allowed to lend, it invests most of its liquidity, mainly in high-quality securities. PostFinance's investments totaled CHF64 billion on June 30, 2013, comprising mainly covered bonds and public-sector bonds rated 'AAA' (62%) or at least 'A' (97%).

We note sizable exposure to bonds issued by sovereign governments on Europe's periphery, mainly Spain and Ireland, but in our view this is manageable at CHF920 million or 18.7% of TAC. We expect the portfolio's quality to remain very high in line with PostFinance's conservative investment rules, although the risks from single-name exposures will likely stay high.

The slightly longer average duration of assets than liabilities represents a potential risk if interest rates start increasing. However, we understand PostFinance aims to improve the asset-liability match. Furthermore, it records most of the financial assets as "held to maturity," which reduces earnings volatility. PostFinance has no trading book, but is marginally exposed to market risk from foreign currency positions in international payment transactions.

We understand PostFinance has never engaged in cross-border business, and wealth management is not part of its business strategy. However, in December 2013 PostFinance registered as a "Category 2" bank with a program of the U.S. Department of Justice (DOJ) and Swiss officials that aims to resolve investigations into tax-related offenses of Swiss banks connected with undeclared U.S.-related accounts. Banks in Category 2 could face prosecution and fines depending on the size of undeclared U.S. client assets. We do not expect PostFinance to face any significant financial risks from potential prosecution and expect it to easily manage these risks with its earnings capacity.

Table 5

PostFinance AG Risk Position

(%)	As of June 30, 2013
Growth in customer loans	N.M.
Total diversification adjustment / S&P RWA before diversification	3.88
Total managed assets/adjusted common equity (x)	23.31

N.M.--Not meaningful.

Funding and liquidity: Ample liquidity, owing to customer deposits of more than CHF104 billion

We consider PostFinance's funding "above average" and its liquidity position "strong," reflecting its close ties to the Swiss government and its superior funding and liquidity metrics.

With customer deposits of about CHF104 billion on June 30, 2013, representing 90% of total liabilities, PostFinance is a cash provider in the domestic interbank market. The company's customer deposits comprise equal shares of granular and very stable retail and business accounts.

Sensitivity to customer confidence is, in our view, very low, thanks to the ownership structure and a partial state guarantee on deposits under the Swiss Postal Law. The Swiss government guarantees up to CHF100,000 of a customer's deposit until 2018 (in addition to amounts under the Swiss Deposit Protection Scheme), as well as obligations existing when the current postal law went into effect, until maturity. PostFinance doesn't rely on wholesale funding, which is reflected in its superior stable funding ratio of about 660% as of June 30, 2013.

We consider liquidity "strong" because PostFinance's liquidity sources would allow it to operate for more than 12 months in the event of sudden customer withdrawals, without resorting to the debt capital markets. Since midyear 2011, PostFinance has been placing excess liquidity with the Swiss National Bank, where it now holds a liquidity buffer of more than CHF40 billion. In addition, we expect the group to maintain a substantial portfolio of unencumbered assets eligible for sale and repurchase transactions with the Swiss National Bank. The strong liquidity position is also demonstrated by PostFinance's ratio of broad liquid assets to short-term wholesale funding of 26x as of June 30, 2013, which is superior to that of global banks.

Table 6

PostFinance AG Funding And Liquidity	
(%)	**As of June 30, 2013**
Core deposits/funding base	96.34
Customer loans (net)/customer deposits	8.85
Long term funding ratio	96.66
Stable funding ratio	663.22
Short-term wholesale funding/funding base	3.50
Broad liquid assets/short-term wholesale funding (x)	25.65
Net broad liquid assets/short-term customer deposits	89.48
Short-term wholesale funding/total wholesale funding	95.53
Narrow liquid assets/3-month wholesale funding (x)	25.52

External support: Three notches of uplift for potential government support

We consider PostFinance to be a GRE with an "extremely high" likelihood of extraordinary government support, which adds three notches of uplift to the SACP of 'a+'. However, we expect that, if needed, this support would be provided indirectly through the Swiss Post group's nonoperating holding company--DSP--in line with the legal framework in place.

Our view of an "extremely high" likelihood of extraordinary support reflects our assessment of PostFinance's:

- "Critical" role for the government as part of the Swiss Post group, which is to fulfil the legal mandate of providing essential banking services to the Swiss population. As such, PostFinance remains in our view one of the most important GREs in Switzerland, with a central role of meeting the government's political objectives; and
- "Very strong" link with the Swiss government, which owns PostFinance through DSP and approves its strategy. We believe that PostFinance will remain a core member of the Swiss Post group in the foreseeable future. We consider the possibility of a full or partial privatization of PostFinance to be very remote over the medium to long term, even though Swiss Postal Law allows a minority shareholding by a third-party investor.

Disruptions of PostFinance's services could severely hamper Switzerland's banking system; therefore we view PostFinance as systemically important. However, we factor in only the higher outcome from our support framework, based on PostFinance's GRE status.

Additional rating factors: None

No additional factors affect this rating.

Related Criteria And Research

Related Criteria

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related Research

- Banking Industry Country Risk Assessment: Switzerland, Dec. 6, 2013
- Swiss Financial Services Provider PostFinance AG Assigned 'AA+/A-1+' Ratings; Outlook Stable, June 28, 2013
- Swiss Confederation, Feb. 20, 2013

Anchor Matrix

Industry Risk	Economic Risk									
	1	**2**	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	**a-**	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of January 23, 2014)

PostFinance AG	
Counterparty Credit Rating	AA+/Stable/A-1+
Counterparty Credit Ratings History	
28-Jun-2013	AA+/Stable/A-1+
Sovereign Rating	
Swiss Confederation (Unsolicited Ratings)	AAA/Stable/A-1+
Related Entities	
Die Schweizerische Post AG	
Issuer Credit Rating	AA+/Stable/A-1+
Swiss Confederation (Unsolicited Ratings)	
Issuer Credit Rating	AAA/Stable/A-1+
Transfer & Convertibility Assessment	AAA

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com