STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

PostFinance AG

Primary Credit Analyst:
Harm Semder, Frankfurt (49) 69-33-999-158; harm.semder@standardandpoors.com

Secondary Contact:
Salla von Steinaecker, Frankfurt (49) 69-33-999-164; salla.vonsteinaecker@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

ALAC Support	0
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 on extending 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. We expect that the Swiss Post group's very close links to the state, its ownership, and its mandate to provide key public services will not change in the foreseeable future. Moreover, the outlook reflects our view that the group will maintain a sound financial profile that will be relatively resilient against increasing economic imbalances in Switzerland.

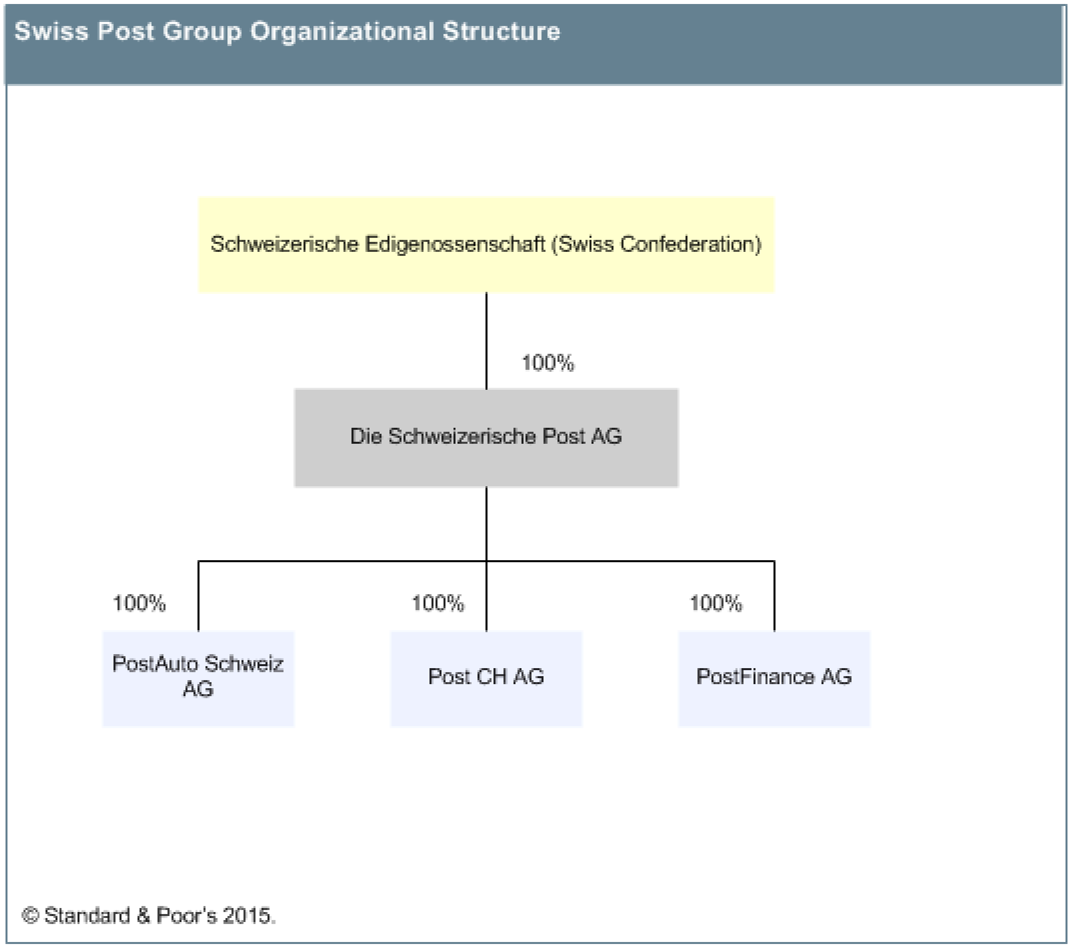
We regard core members of the Swiss Post group, including PostFinance, as government-related entities (GREs) with an extremely high likelihood of receiving extraordinary government support if needed, since Swiss Post group operates essentially on behalf of the government, provides key public services to the Swiss population, and has a very strong and durable link with the Swiss government. Consequently, any change of group members' roles and links with the government could lead us to revise our assessment of their GRE status. This, in turn, could have negative rating implications for Die Schweizerische Post (DSP) as the group's non-operating holding company (NOHC). We consider such a scenario as remote, however. We also view the likelihood of a positive rating action as remote at this stage.

Rationale

The starting point for our ratings on PostFinance is the 'a-' anchor, which reflects 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 20% 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 '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.

As of June 26, 2013, DSP's legal form changed to a special-law joint-stock company from that of a public-law institution. Simultaneously, the main operating divisions were legally segregated from DSP, which will remain their full owner. The Swiss Post group now comprises the holding company, DSP, and three main subsidiaries: PostFinance AG (financial services), Post CH AG (communication/logistic operations), and PostAuto AG (public passenger transport) (see chart 1).



Although DSP is an NOHC, its probability of default is not materially different from that of the group's core operating subsidiaries, in our view. This is because we believe any extraordinary government support for core group members, such as PostFinance AG, would be supplied through DSP. Our view is supported by the current legal framework, under which DSP has an implicit financing agreement with the federal treasury that allows it to receive funding within very short notice if in distress. A capital injection would require approval from the Swiss parliament. We therefore don't consider DSP to be structurally subordinated to the operating entities.

As an NOHC, DSP relies on distributions from its operating subsidiaries, including dividend payments and license fees, to repay its outstanding debt--Swiss francs (CHF) 1.3 billion June 30, 2015. The diversity of the Swiss Post group's activities supports our equalization of the rating on DSP with that on PostFinance, although PostFinance has been regulated by the Swiss Financial Market Supervisory Authority since June 2013.

We have used our bank rating methodology to determine the Swiss Post's group credit profile because the main subsidiary--PostFinance AG--is a major deposit-taking institution in Switzerland and dominates the group's balance sheet and profitability (96% and 36%, respectively as of June 30, 2015). Nevertheless, we include the group's corporate activities in our overall assessment.

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 that large parts of the Swiss banking market demonstrate a conservative risk and lending culture, which has accompanied 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 30% of the portfolio relates to countries with comparatively higher economic risk than Switzerland. Therefore, the anchor 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

		--Year-ended Dec. 31--	
(Mil. CHF)	**2015***	**2014**	**2013**
Adjusted assets	115,788.0	118,846.0	115,218.0
Customer loans (gross)	10,865.0	11,139.0	9,895.0
Adjusted common equity	5,336.0	5,082.0	4,907.0
Operating revenues	784.0	1,519.0	1,481.0
Noninterest expenses	511.0	1,017.0	992.0
Core earnings	252.4	361.4	410.3

*Data as of June 30. CHF--CHF-Swiss Franc. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

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 14% 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) 117 billion as of June 30, 2015. PostFinance was legally separated from DSP on June 26, 2013. Since receiving a full banking license in 2013, it has been regulated by the Swiss Financial Market Supervisory Authority and 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 about 1,500 post offices, including through 43 PostFinance branches in larger post centers.

We do not expect PostFinance's business model will change over the medium term. PostFinance is legally not permitted to lend, but indirectly 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 will expand beyond the current scope. We view positively PostFinance's efforts to diversify into new products, as demonstrated by the establishment of its subsidiary, TWINT AG, which is active in the development of new mobile payment systems. We expect this will be key to remaining competitive amid extremely rapid changes in payment systems.

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 (60%-65%) 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 will change significantly over the next two years.

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

Table 2

PostFinance AG Business Position

		--Year-ended Dec. 31--	
(%)	**2015***	**2014**	**2013**
Total revenues from business line (currency in millions)	786.0	1,526.0	1,552.0
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0
Return on equity	4.5	2.4	3.9

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Capital and earnings: Very strong capitalization to gradually improve further

We view PostFinance's capital and earnings as "very strong", because we project its risk-adjusted capital (RAC) ratio will be about 20% over the next 18-24 months. This follows a drop in the ratio to 18.5% as of Dec. 31, 2014, from 29.3% as of Dec. 31, 2013. The significant ratio deterioration was attributable to increased transparency on regulatory exposures under reporting to the Swiss Financial Market Supervisory Authority (FINMA), and shifts in the customer group and geographic split reporting.

In our base case, we expect PostFinance will generate relatively stable net interest income of CHF950 million-CHF1,100 million in 2015-2017 from its investment portfolio. We anticipate PostFinance will continue to cautiously increase its investment activity in the capital markets in 2015, under its conservative policy, which will also mitigate the early 2015 decision by the Swiss National Bank (SNB) to introduce negative interest rates on sight deposits placed at the central bank. PostFinance will, in our view, remain the main profit contributor to the Swiss Post group and we expect it will upstream a major part of its net annual profit of CHF200 million-CHF250 million (under

Swiss bank accounting guidelines) to DSP in 2015-2017. However, we expect amortization of goodwill (CHF200 million annually until 2022) will allow PostFinance to build up its capital over the next few years until goodwill is fully amortized.

PostFinance's quality of capital is very strong, in our view, because its total adjusted capital (TAC), our measure of loss-absorbing capital, consists mainly of paid-in capital. 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 150 basis points, which indicates that its earnings have an excellent capacity to cover normalized losses. However, PostFinance's operating efficiency is somewhat weaker than that of Swiss peers, in our view; we project the cost-to-income ratio at about 65% over the next two years.

Table 3

PostFinance AG Capital And Earnings

		--Year-ended Dec. 31--	
(%)	**2015***	**2014**	**2013**
Tier 1 capital ratio	19.6	20.1	N/A
S&P RAC ratio before diversification	N.M.	18.5	29.3
S&P RAC ratio after diversification	N.M.	13.6	28.1
Adjusted common equity/total adjusted capital	100.0	100.0	100.0
Net interest income/operating revenues	62.2	63.5	63.1
Fee income/operating revenues	11.2	11.5	10.7
Market-sensitive income/operating revenues	14.4	13.4	11.7
Noninterest expenses/operating revenues	65.2	67.0	67.0
Preprovision operating income/average assets	0.5	0.4	N/A
Core earnings/average managed assets	0.4	0.3	N/A

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

PostFinance AG RACF [Risk-Adjusted Capital Framework] Data

(CHF 000s)	**Exposure***	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk			
Government and central banks	44,611,921	1,338,358	3
Institutions	57,974,473	10,420,156	18
Corporate	7,950,497	6,055,058	76
Retail	791,048	405,563	51
Of which mortgage	276,867	66,448	24
Securitization§	0	0	0
Other assets	308,785	305,476	99
Total credit risk	111,636,723	18,524,611	17
Market risk			
Equity in the banking book†	1,339,520	8,671,998	647
Trading book market risk	--	310,144	--
Total market risk	--	8,982,142	--

Table 4

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

Insurance risk			
Total insurance risk	--	0	--
Operational risk			
Total operational risk	--	2,328	--
(CHF 000s)		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments			
RWA before diversification		27,509,081	100
Total Diversification/Concentration Adjustments		9,838,038	36
RWA after diversification		37,347,119	136
(CHF 000s)		Total adjusted capital	Standard & Poor's RAC ratio (%)
Capital ratio			
Capital ratio before adjustments		5,082,000	18.5
Capital ratio after adjustments‡		5,082,000	13.6

*Exposure at default. §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, 2014, 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 extend loans, it invests most of its liquidity in high quality securities.

PostFinance's investments totaled about CHF70 billion (59% of total assets) on June 30, 2015, comprising mainly covered bonds (37% of investment portfolio) and public-sector bonds (51%). We expect the portfolio's quality to remain very high--52% rated 'AAA' or 96% at least 'A'--in line with PostFinance's conservative investment rules, although the risks from single-name exposures will likely stay high. We note also that PostFinance's exposure to bonds issued by sovereign governments on Europe's southern periphery, mainly Spain (CHF317 million) and Italy (CHF36 million), has decreased to a manageable 7% of TAC.

PostFinance records most of the financial assets as "held to maturity," which reduces earnings volatility. Furthermore, 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 will face any significant financial risks from potential prosecution and expect it will easily manage these risks with its earnings capacity.

Table 5

PostFinance AG Risk Position			
	--Year-ended Dec. 31--		
(%)	**2015***	**2014**	**2013**
Growth in customer loans	(4.9)	12.6	N.M.
Total diversification adjustment / S&P RWA before diversification	N.M.	35.8	4.1
Total managed assets/adjusted common equity (x)	22.0	23.7	23.8
New loan loss provisions/average customer loans	(0.4)	0.9	N/A

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Funding and liquidity: Ample liquidity from customer deposits

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 CHF110 billion on June 30, 2015, representing 97% of total liabilities, PostFinance is a cash provider in the domestic interbank market. Customer deposits comprise equal shares of granular and very stable retail and business accounts.

In our view, PostFinance's sensitivity to customer confidence is very low, thanks to the ownership structure and a partial state guarantee on deposits under the Swiss Postal Law, as demonstrated by the constant net new money inflow. 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 above 576% as of June 30, 2015.

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. This is demonstrated by PostFinance's ratio of broad liquid assets to short-term wholesale funding of about 27x as of June 30, 2015, which is superior to that of global banks. Since mid-2011, PostFinance has been placing excess liquidity with the SNB, where it now holds a liquidity buffer of more than CHF40 billion. We do not expect a significant reduction in PostFinance's liquidity position at the SNB in the short term, despite the negative interest on sight deposits at SNB. Furthermore, we expect the group will maintain a substantial portfolio of unencumbered assets eligible for sale and repurchase transactions with the SNB.

Table 6

PostFinance AG Funding And Liquidity			
	--Year-ended Dec. 31--		
(%)	**2015***	**2014**	**2013**
Core deposits/funding base	96.5	97.4	97.7
Customer loans (net)/customer deposits	10.2	9.9	9.1
Long term funding ratio	96.9	97.6	97.9
Stable funding ratio	576.0	578.5	614.2
Short-term wholesale funding/funding base	3.3	2.5	2.2
Broad liquid assets/short-term wholesale funding (x)	26.8	35.2	39.6

Table 6

PostFinance AG Funding And Liquidity (cont.)			
Net broad liquid assets/short-term customer deposits	87.3	87.3	88.1
Short-term wholesale funding/total wholesale funding	94.2	95.4	96.3
Narrow liquid assets/3-month wholesale funding (x)	26.8	35.2	40.3

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

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 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.

Based on enhancements to the Swiss bank resolution regime coming into effect on Jan. 1, 2016, we consider it uncertain that the Swiss sovereign would provide extraordinary government support to systemically important commercial banks, like PostFinance. We also consider the Swiss resolution regime to be effective--that is, likely to ensure an orderly bail-in of liabilities to ensure that stressed systemically important institutions remain a going concern. We can therefore include notches of uplift for systemically important commercial banks that we expect will build sizable bail-in capacity buffers (additional loss-absorbing capacity) over the coming two to four years.

However, we consider GRE support to be the stronger external support element given that it provides more notches of uplift than any uplift potentially available under our criteria for additional loss-absorbing capacity. Moreover, in our view the Swiss resolution framework does not impede state or cantonal owners' ability to provide extraordinary support to banks that we consider to be GREs.

Additional rating factors: None

No additional factors affect this rating.

Related Criteria And Research

Related Criteria

- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Financial Institutions - Banks: Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 04, 2010
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Commercial Paper I: Banks, March 23, 2004

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 December 17, 2015)

PostFinance AG	
Counterparty Credit Rating	AA+/Stable/A-1+
Counterparty Credit Ratings History	
28-Jun-2013	AA+/Stable/A-1+
Sovereign Rating	
Swiss Confederation	AAA/Stable/A-1+

Ratings Detail (As Of December 17, 2015) (cont.)	
Related Entities	
Die Schweizerische Post AG	
Issuer Credit Rating	AA+/Stable/A-1+
Swiss Confederation	
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. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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