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Ratings

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PostFinance AG

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

S&P Global Ratings' 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.

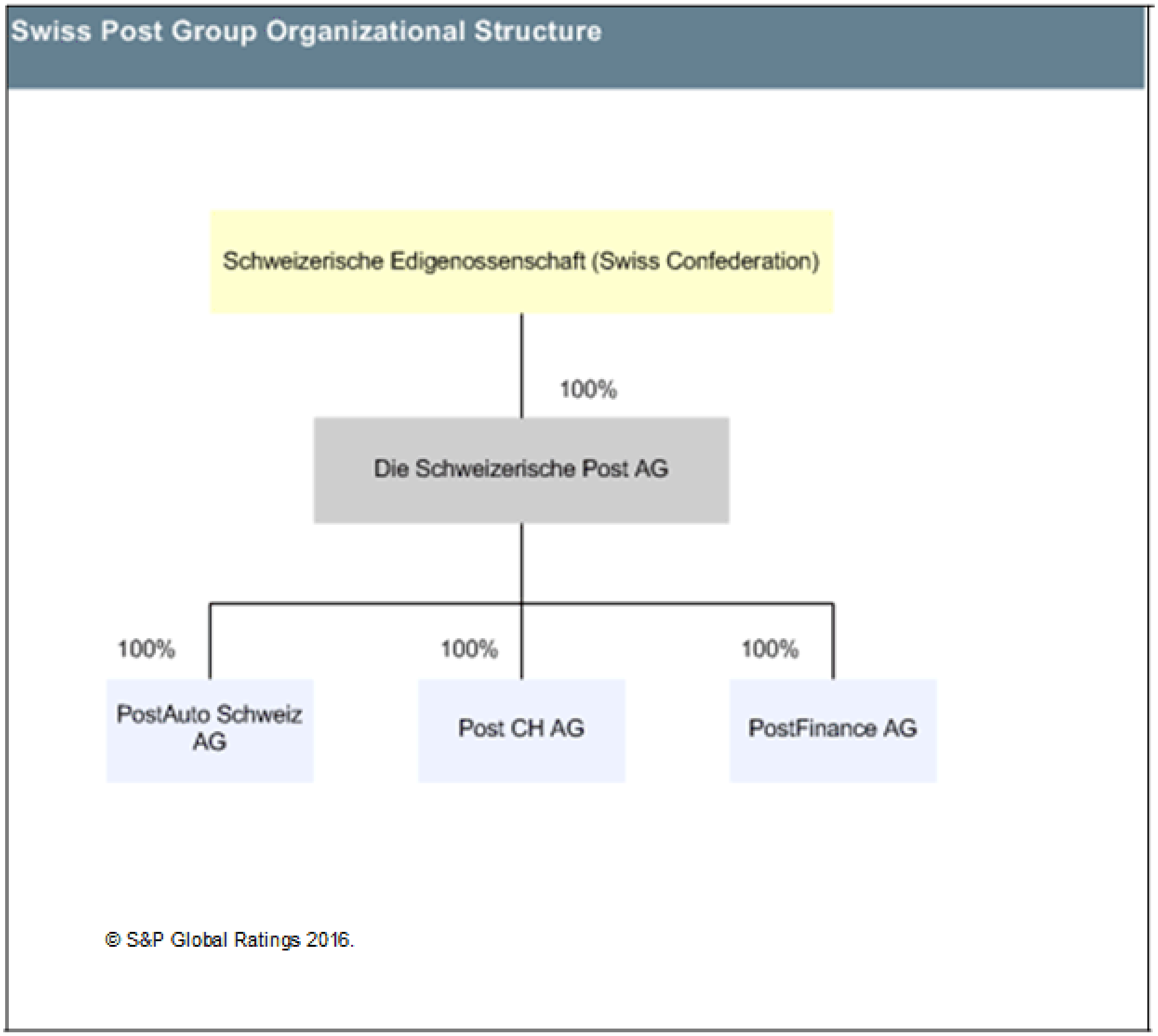
We regard core members of the Swiss Post group, such as PostFinance, as government-related entities (GREs) with an extremely high likelihood of receiving extraordinary government support if needed. Since Swiss Post group operates essentially on behalf of the government, it provides key public services 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 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 16% 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 stand-alone credit profile (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. 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 (FINMA) 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 operating profit (96% and 53%, respectively as of year-end 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 criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating (ICR). Our anchor for a bank operating mainly in Switzerland is 'a-'. We view the trends for both economic and industry risk as stable.

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 10% 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.

Our economic risk score of '2' for Switzerland is supported by the country's highly diversified and competitive economy, very high household income levels, and banks' prudent loan underwriting standards. However, it also reflects that risks have increased, owing to the cumulative rise in Swiss house prices and domestic lending over past several years. Although these imbalances are still low in a global context, they have also led the regulator to enact macroprudential measures to rein in robust growth in mortgage indebtedness. We recognize that house price and lending growth have cooled since the beginning of 2014. However, in our view, house prices and household indebtedness remain historically high, in particular when considering the low rate of home ownership in Switzerland. The very high mortgage debt level is mitigated by the large amount of financial assets, including pensions, held by households in Switzerland.

Our industry risk score of '2' primarily reflects the banking sector stability and a high share of deposit funding. Banks' net interest margins continue to decline gradually, given the pressure on deposit margins from the negative yield environment. This is partly offset, however, by higher margins on lending products, fee income from investment advisory-related activities, and cost management. As a result, banks are still able to generate returns on core banking products that are adequate to meet their cost of capital. Moreover, in our view, the Swiss regulator's regulatory initiatives are more stringent than those in other European banking industries.

Table 1

PostFinance AG Key Figures				
		--Year-ended Dec. 31--		
(Mil. CHF)	**2016***	**2015**	**2014**	**2013**
Adjusted assets	120,704	114,289	118,846	115,218
Customer loans (gross)	11,494	11,006	11,139	9,895
Adjusted common equity	5,510	5,282	5,082	4,907
Operating revenues	783	1,572	1,519	1,481
Noninterest expenses	519	1,099	1,017	992
Core earnings	171	418	361	410

*Data as of June 30. 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 14% in customer deposits. Moreover, PostFinance provides two-thirds of all payment transactions in Switzerland, reflecting its public mandate to provide essential banking services in Switzerland and under Swiss postal law.

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) 122 billion as of June 30, 2016.

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. PostFinance was legally separated from DSP on June 26, 2013. Since receiving a full banking license in 2013, it has been regulated by FINMA and member of the Swiss Deposit Protection scheme.

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, net interest income from its large bond portfolio is the main source (60%-65%) of its comparatively stable revenue. 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--		
(%)	**2016***	**2015**	**2014**	**2013**
Total revenues from business line (mil. CHF)	856	1,576	1,526	1,552
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0
Return on equity	3.7	3.2	2.4	N/A

*Data as of June 30. N/A--Not applicable. CHF--Swiss franc.

Capital and earnings: Very strong capitalization to gradually improve further

We view PostFinance's very strong capital and earnings position, in a domestic and global context, as a key rating strength. Our view is based primarily on our projection that PostFinance's RAC ratio will gradually increase to about 16.0% in the next 24 months, from 15.4% at year-end 2015. Our RAC ratio forecast is lower than we anticipated in previous years, reflecting mainly increased transparency on regulatory operational risk reporting under FINMA, and some shifts in the customer group and geographic split reporting.

In our base case, we expect PostFinance will generate relatively stable net interest income of Swiss franc (CHF) 950 million-CHF1,100 million (about €830 million-€1,015 million) in 2016-2018 from its investment portfolio. We anticipate PostFinance will continue to cautiously increase its investment activity in the capital markets in 2016, 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 2016-2018. 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 (2016-2018) earnings buffer to be higher than 110 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 66% over the next two years.

Table 3

PostFinance AG Capital And Earnings

		--Year-ended Dec. 31--		
(%)	**2016***	**2015**	**2014**	**2013**
Tier 1 capital ratio	17.6	19.5	20.1	N/A
S&P Global Ratings' RAC ratio before diversification	N.M.	15.4	16.7	29.3
S&P Global Ratings' RAC ratio after diversification	N.M.	11.8	12.0	28.1
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0
Net interest income/operating revenues	60.7	60.6	63.5	63.1
Fee income/operating revenues	12.6	12.6	11.5	10.7
Market-sensitive income/operating revenues	15.6	14.1	13.4	11.7
Noninterest expenses/operating revenues	66.3	69.9	67.0	67.0
Preprovision operating income/average assets	0.4	0.4	0.4	N/A
Core earnings/average managed assets	0.3	0.4	0.3	N/A

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful. RAC--Risk-adjusted capital.

Table 4

PostFinance AG Risk-Adjusted Capital Framework Data

(CHF 000s)	Exposure at default	Basel II RWA	Average Basel II RW (%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Government and central banks	43,372,856	224,625	1	1,301,186	3
Institutions	57,025,611	9,363,125	16	10,159,362	18
Corporate	10,126,906	9,713,263	96	7,713,034	76
Retail	992,898	974,750	98	654,840	66
Of which mortgage	0	0	0	0	0
Securitization*	0	0	0	0	0
Other assets	290,342	290,338	100	287,231	99
Total credit risk	111,808,613	20,566,100	18	20,115,653	18
Market risk					
Equity in the banking book§	1,755,665	2,410,150	142	11,195,355	638
Trading book market risk	--	58,563	--	87,844	--
Total market risk	--	2,468,713	--	11,283,199	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	2,599,900	--	2,803,849	--
		Basel II RWA		**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification		25,634,713		34,202,701	100
Total Diversification/Concentration Adjustments		--		10,595,454	31
RWA after diversification		25,634,713		44,798,155	131
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		5,282,294	20.6	5,282,000	15.4
Capital ratio after adjustments‡		5,282,294	20.6	5,282,000	11.8

*Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. §Exposure and S&P Global Ratings' 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, 2015, 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 CHF73 billion (59% of total assets) on June 30, 2016, comprising mainly covered bonds (31% of investment portfolio) and public-sector bonds (47%). We expect the portfolio's quality to remain very high--47% rated 'AAA' or 89% 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 6% 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 aimed 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. In the meantime, PostFinance has settled its legal dispute with the U.S.-related accounts by making a minor onetime payment of CHF2 million.

Table 5

PostFinance AG Risk Position

		--Year-ended Dec. 31--		
(%)	**2016***	**2015**	**2014**	**2013**
Growth in customer loans	8.9	(1.2)	12.6	N.M.
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N.M.	31.0	39.1	4.1
Total managed assets/adjusted common equity (x)	22.1	21.9	23.7	23.8
New loan loss provisions/average customer loans	1.3	(0.0)	0.9	N/A
Gross nonperforming assets/customer loans + other real estate owned	N/A	0.3	0.0	N/A

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful. RWA--Risk-weighted assets.

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 CHF112 billion on June 30, 2016, 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 520% as of June 30, 2016.

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 33x as of June 30, 2016, 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--		
(%)	**2016***	**2015**	**2014**	**2013**
Core deposits/funding base	97.3	98.7	97.4	97.7
Customer loans (net)/customer deposits	10.3	10.3	9.9	9.1
Long-term funding ratio	97.5	98.8	97.6	97.9
Stable funding ratio	519.9	509.1	534.3	564.6
Short-term wholesale funding/funding base	2.6	1.2	2.5	2.2
Broad liquid assets/short-term wholesale funding (x)	32.9	68.4	34.6	38.9
Net broad liquid assets/short-term customer deposits	85.2	84.9	85.8	86.6
Short-term wholesale funding/total wholesale funding	96.5	92.1	95.4	96.3
Narrow liquid assets/3-month wholesale funding (x)	32.9	68.9	34.6	39.6

*Data as of June 30.

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 that came 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: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 06, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: 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 19, 2016)

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+
Related Entities	
Die Schweizerische Post AG	
Issuer Credit Rating	AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' 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.

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