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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: |
|---|---|
| • Extremely high likelihood of extraordinary support for the group from the Swiss government.<br>• Franchise as legally mandated provider of essential banking services in Switzerland.<br>• Superior capitalization, funding, and liquidity profile. | • Concentrated business model under severe pressure from expected lower-for-longer interest rate environment.<br>• Limited strategic options to improve weak shareholder returns under existing legal restrictions on extending loans to Swiss households and companies.<br>• Large single-name and sector concentrations in the investment portfolio. |

**Outlook: Stable**

S&P Global Ratings' outlook on Switzerland-based bank PostFinance AG, a core subsidiary of Die Schweizerische Post AG (DSP; together, the Swiss Post group) is stable. The outlook mirrors that on the ultimate owner, Switzerland (unsolicited AAA/Stable/A-1+), over our 24-month forecast horizon. 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 materially change in the foreseeable future. Moreover, the outlook reflects our view that the group will maintain a sound financial profile in an expected stable economic operating environment 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 the Swiss Post group operates essentially on behalf of the government, it provides key public services to the Swiss population, and it has a very strong and durable link with the government.

Consequently, we continue to closely monitor any material change of group members' roles and links with the government that could lead us to revise our assessment of their GRE status. This in turn could have one or more notches of negative rating implications for DSP, as the group's nonoperating holding company (NOHC), and for PostFinance. We acknowledge discussions about the potential privatization of PostFinance, but, in our base-case expectations, we think that there will be no changes to its GRE status in the foreseeable future.

We view the likelihood of a positive rating action for DSP and PostFinance as remote at this stage, because this would require a material strengthening of DSP's unsupported group credit profile (UGCP) by three notches or more to 'aa-' or better. A positive rating action would also depend on our view that a long-term equalization of the ratings on the Swiss Post group with those on Switzerland is appropriate in the absence of an explicit state guarantee.

## Rationale

Our ratings on PostFinance rest on its status as a GRE and its core group membership in the Swiss Post group, headed by DSP. Our ratings also reflect PostFinance's superior market franchise as one of the largest deposit-taking institutions and a provider of essential banking services in Switzerland. This is supported by our expectation of ongoing favorable conditions and low banking industry risk for Swiss banks. The bank also stands out with superior capitalization in global terms and a track record of sound risk governance and policies, albeit we do see some manageable large single-name and sector concentrations in the investment portfolio. Likewise, PostFinance's funding and liquidity will also remain a clear strength when compared globally considering its solid base of granular customer deposits, and its role as cash provider to the domestic interbank market.

We continue to expect that PostFinance's key weakness will remain its limited prudent strategic options to improve weak shareholder returns under existing legal restrictions. These prevent it from extending loans to Swiss households and companies. More than at any other Swiss Peer bank, PostFinance's concentrated business model therefore will remain under significant pressure from an expected lower-for-longer interest rate environment in the foreseeable future. In the absence of major strategic alternative options, we believe Postfinance needs to undergo increasing cost cuts and digitalization efforts to improve its efficiencies and substantiate its business profile.

The ratings on PostFinance continue to markedly benefit from our unchanged assessment that PostFinance is a GRE with an extremely high likelihood of receiving timely and sufficient extraordinary government support from the Swiss government, if necessary. We base this on PostFinance's critical role for and very strong link with Switzerland, which has plenty of resources to support the bank if needed.

### Anchor:'a-' to mainly reflect the exposures of PostFinance's operations in Switzerland

Our criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor stand-alone credit profile (SACP), the starting point in assigning an issuer credit rating (ICR). Our anchor for a bank like PostFinance 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 the countries that PostFinance is exposed to through its large investment portfolio and from its operations in Switzerland. About 20% of the portfolio relates to countries with comparatively higher economic risk than Switzerland. Therefore, the anchor is sensitive to an increase in exposure to 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, we also consider housing market risks. In our view, both house prices and household indebtedness remain historically high. The investment property segment (30% of the market) is a particular risk, in our view, where we have observed the first signs of a price correction. We expect imbalances to remain moderate in a global context, also due to the regulator's macro prudential measures to rein in growth in mortgage indebtedness and because of further strengthening of self-regulatory measures to prevent excessive risk taking in mortgage financing. We recognize that house price growth has cooled down materially since 2014 with lending growth remaining at moderate levels. We also take some comfort from the very high mortgage debt level being 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 relatively high share of deposit funding. In our view, the Swiss regulator's regulatory initiatives are more stringent than those in other European banking industries. 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 able to generate returns on core banking products that are adequate to meet their cost of capital. We consider risk for Swiss banks from technology disruption as limited as of today, given the population's preference for cash payments, the small size of the market with few foreign banks, own regulatory framework, and technologically well-equipped banks.

**Table 1**

PostFinance AG--Key Figures

| | --Year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(Mil. CHF)** | **2019*** | **2018** | **2017** | **2016** | **2015** |
| Adjusted assets | 118,405.0 | 118,255.0 | 120,633.0 | 119,179.0 | 114,289.0 |
| Customer loans (gross) | 11,735.0 | 11,805.0 | 12,380.0 | 13,385.0 | 11,255.0 |
| Adjusted common equity | 5,923.0 | 5,758.0 | 5,560.0 | 5,381.0 | 5,282.0 |

**Table 1**

**PostFinance AG--Key Figures (cont.)**

| | --Year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(Mil. CHF)** | **2019*** | **2018** | **2017** | **2016** | **2015** |
| Operating revenue | 638.0 | 1,315.0 | 1,510.0 | 1,547.0 | 1,572.0 |
| Noninterest expenses | 536.0 | 1,174.0 | 1,255.0 | 1,079.0 | 1,099.0 |
| Core earnings | 98.3 | 214.4 | 266.5 | 421.8 | 417.8 |

*Data as of June 30. CHF--Swiss franc.

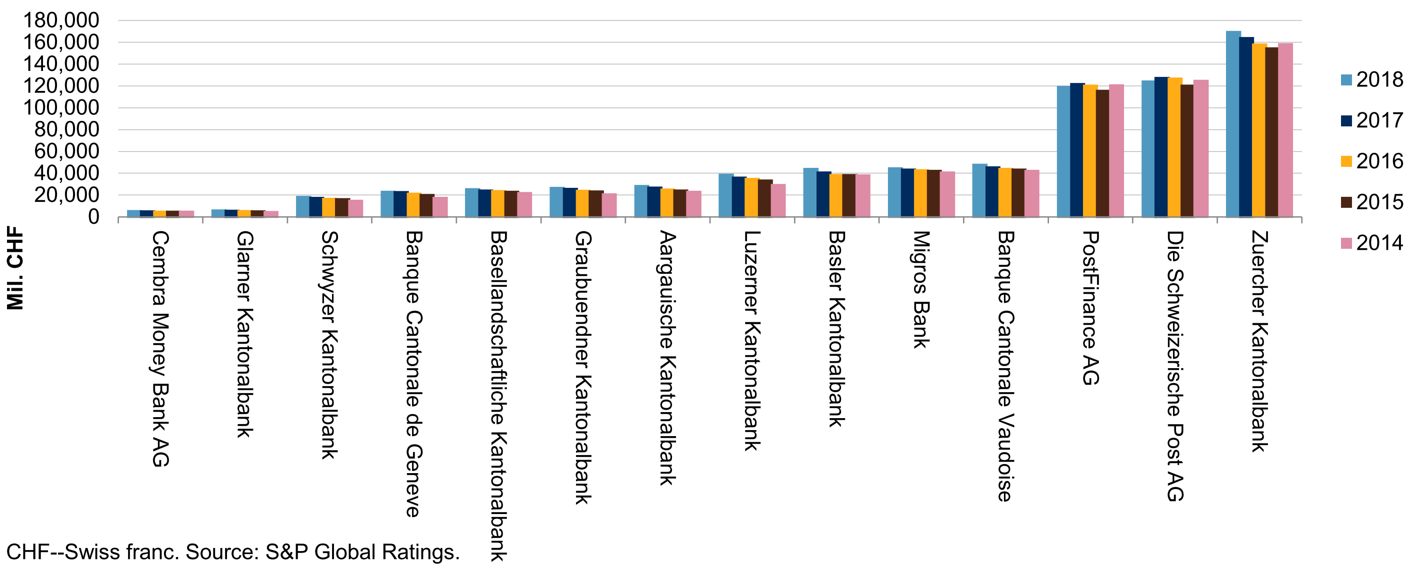
### Business position:A solid franchise as one of the largest retail banks in Switzerland, but weak profitability due to its narrow business model

We expect PostFinance will continue to defend its superior franchise as one of Switzerland's largest retail banks, with 2.8 million customers and a solid 14% market share in customer deposits. Moreover, PostFinance dominates about two-thirds of all noncash processing payments transactions in Switzerland, with about one trillion transactions annually. These numbers highlight PostFinance's legal mandate under Swiss postal law to provide basic services for payment transactions in Switzerland, which we do not expect to change. Apart from payment services we understand that PostFinance has no intention of expanding its business outside Switzerland.

Moreover, we consider Postfinance's franchise further supported by its role as a core member of the large DSP network. DSP is the incumbent postal operator in Switzerland. The company has a dense branch network and its revenue totaled Swiss franc (CHF) 3.5 billion in first-half 2019, compared with CHF3.8 billion in first-half 2018. DSP's assets totaled CHF127 billion as of June 30, 2019, and it is the third-largest employer in Switzerland, with more than 39,000 employees (full-time equivalent).

**Chart 1**

**DSP's Banking Subsidiary PostFinance Is One Of The Country's Largest Retail Banks**
Total assets



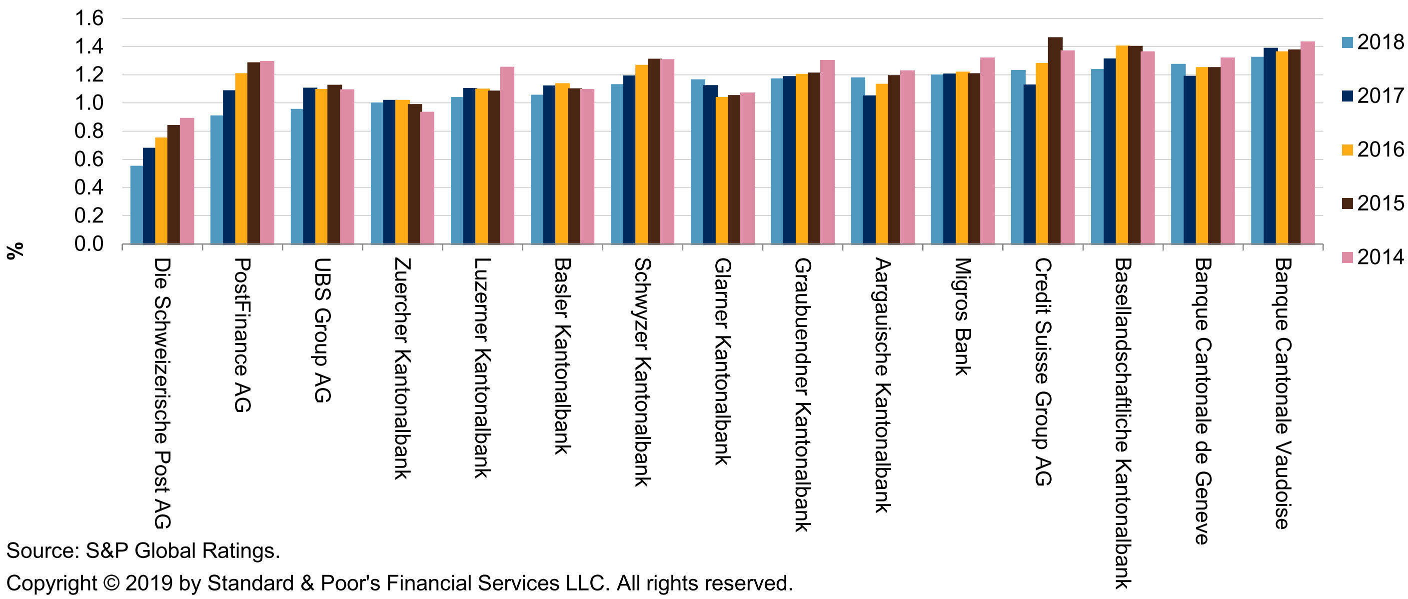

CHF--Swiss franc. Source: S&P Global Ratings.

We continue to believe PostFinance's key weakness will remain its limited strategic options to improve its weak shareholder returns under existing legal restrictions, which mean it invests excess liquidity in the Swiss National Bank (SNB) and in the international capital markets. Therefore, we believe PostFinance will remain under more significant pressure from an expected lower-for-longer interest rate environment than other Swiss peer bank, given we expect interest rates won't improve before 2023. In the absence of major strategic alternative options, we believe Postfinance needs to undergo increasing cost-cutting measures and digitalization efforts to improve its efficiencies and substantiate its business profile.

**Chart 2**

**PostFinance's Lending Restrictions Are A Significant Competitive Disadvantage**

Net interest income/average earning assets (NIM; %)




Source: S&P Global Ratings.

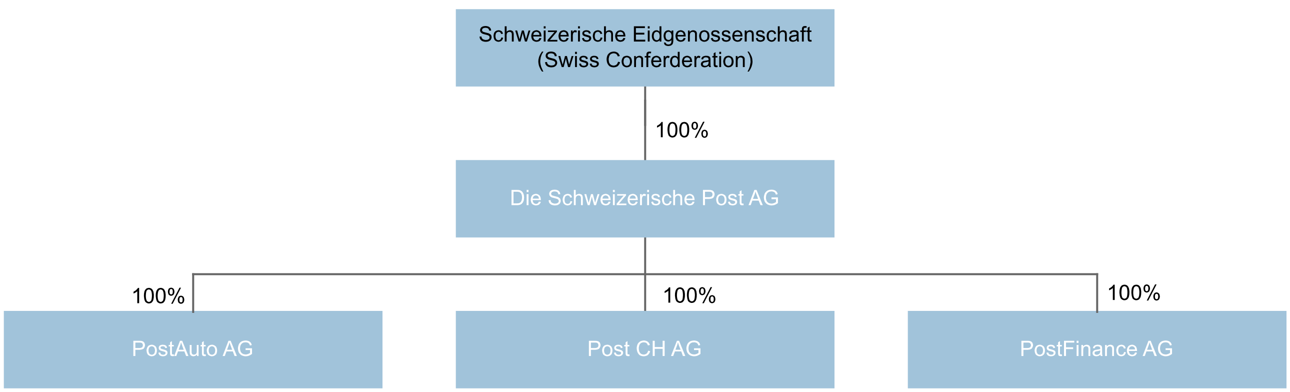


We believe PostFinance's earnings pressures are the main economic reason why the Swiss government announced in late 2018 that it will perform a feasibility study. Under this, PostFinance would be legally allowed to setup a nationwide lending business through a potential change to the law via a parliamentary process. The Swiss government indicated it would only be willing to privatize PostFinance partially if the company were allowed to lend to Swiss customers, but it also remains committed and legally obliged to hold at least a 51% stake. The government also publicly announced in late 2018 its strong commitment to maintain and extend PostFinance's legal mandate to provide basic services for payment transactions in Switzerland. From today's perspective, we believe a binding decision by the Swiss parliament on maintaining or changing PostFinance's lending restrictions, in conjunction with a privatization scenario, is unlikely to appear before 2021. Our base-case scenario for the parliament decision in 2021 is that there will be no changes to PostFinance's lending restrictions or state ownership. We take into account that a similar political initiative did not find parliamentary consensus back in 2008, and we believe parliament will also discuss a competitive landscape in which PostFinance competes nationwide with cantonal banks. If, around 2021, the Swiss parliament were to decide to change PostFinance's lending restrictions or ownership, we would need to consider a weakening of our GRE approach and potential effects on DSP's and PostFinance's SACP, even though the restructuring and privatization process would likely take another one-to-two years minimum.

The Swiss Post group comprises the holding company, DSP, and three main subsidiaries: PostFinance (financial services), Post CH AG (communication/logistic operations), and PostAuto AG (public passenger transport) (see chart 3).

**Chart 3**

**Swiss Post Group Organizational Structure**






Although DSP is an NOHC, we consider its probability of default not materially different from that of the group's core operating subsidiaries. This is because we believe that any extraordinary government support for core group members, such as PostFinance, would be supplied through DSP. Our view is supported by the current legal framework in Switzerland, under which DSP has an implicit financing agreement with the federal treasury that allows it to receive funding at very short notice if in distress. A capital injection would require approval from the Swiss parliament. We therefore do not 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 (CHF0.97 billion at year-end 2018). The diversity of the Swiss Post group's activities supports our equalization of the rating on DSP with that on PostFinance.

PostFinance has been regulated by the Swiss Financial Market Supervisory Authority (FINMA) since June 2013. We have used our bank rating methodology to determine Swiss Post's group credit profile (GCP) because the main subsidiary--PostFinance--is a major deposit-taking institution in Switzerland and dominates the group's balance sheet and operating profit (96% and 46%, respectively, as of year-end 2018). Nevertheless, we include the group's corporate activities in our overall assessment.

**Table 2**

| PostFinance AG--Business Position | | | | | |
|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | |
| (%) | 2019* | 2018 | 2017 | 2016 | 2015 |
| Total revenue from business line (mil. CHF) | 697.0 | 1,383.0 | 1,600.0 | 1,689.0 | 1,576.0 |
| Commercial & retail banking/total revenue from business line | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Return on average common equity | 1.4 | 1.0 | 2.0 | 4.5 | 3.2 |

*Data as of June 30. CHF--Swiss franc.

### Capital and earnings:PostFinance's very strong capitalization will gradually improve

We expect PostFinance's capital position will remain a particular rating strength that compares well in a global context. Our view is based primarily on our projection that the risk-adjusted capital (RAC) ratio will gradually increase to about 16.0% in the next 24 months, from 15.2% at year-end 2018.

In our base case, we expect PostFinance will generate relatively subdued net interest income of CHF650 million in 2019-2021 from placing its excess liquidity in the SNB and in international capital markets. We anticipate that PostFinance will continue to cautiously increase its investment activity in the capital markets in 2019, under its conservative investment policy. We expect net commission from payment services, PostFinance cards, sales of savings and investment products, and loan intermediation to generate about 25% of income, and other activity, including foreign currency trading, the remaining about 29%. Although we anticipate that the service and advisory business will gain importance over time, we don't expect that PostFinance's revenue structure will change significantly over the next two years.

As a result of a lower-for-longer interest rate environment we expect that the importance of PostFinance will further decline as a profit contributor to the Swiss Post group. We forecast that dividend upstream capacity will decline from a net annual profit of CHF60 million-CHF70 million (under Swiss bank accounting guidelines) in 2019-2020. However, we expect that 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 favorable, in our view, because its total adjusted capital (TAC), our measure of loss-absorbing capital, consists mainly of paid-in capital. We estimate PostFinance's three-year average (2018-2020) earnings buffer to be about 10 basis points, which indicates that its earnings have a very weak capacity to cover normalized losses. Also, reflecting limitations of the business model, PostFinance's operating efficiency is weaker than that of Swiss peers, in our view. We project a cost-to-income ratio of about 85% over the next two years.

**Table 3**

| PostFinance AG--Capital And Earnings | | | | | |
|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | |
| (%) | 2019* | 2018 | 2017 | 2016 | 2015 |
| Tier 1 capital ratio | 18.9 | 17.6 | 17.1 | 17.1 | 19.5 |
| S&P Global Ratings’ RAC ratio before diversification | N/A | 15.2 | 14.6 | 14.7 | N/A |
| S&P Global Ratings’ RAC ratio after diversification | N/A | 12.3 | 12.1 | 10.5 | N/A |
| Adjusted common equity/total adjusted capital | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

**Table 3**

| PostFinance AG--Capital And Earnings (cont.) | | | | | |
|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | |
| (%) | 2019* | 2018 | 2017 | 2016 | 2015 |
| Net interest income/operating revenue | 46.7 | 54.7 | 57.2 | 59.5 | 60.6 |
| Fee income/operating revenue | 26.3 | 21.0 | 16.9 | 14.7 | 12.6 |
| Market-sensitive income/operating revenue | 17.2 | 17.3 | 19.1 | 15.4 | 14.1 |
| Noninterest expenses/operating revenue | 84.0 | 89.3 | 83.1 | 69.7 | 69.9 |
| Preprovision operating income/average assets | 0.2 | 0.1 | 0.2 | 0.4 | 0.4 |
| Core earnings/average managed assets | 0.2 | 0.2 | 0.2 | 0.4 | 0.4 |

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

**Table 4**

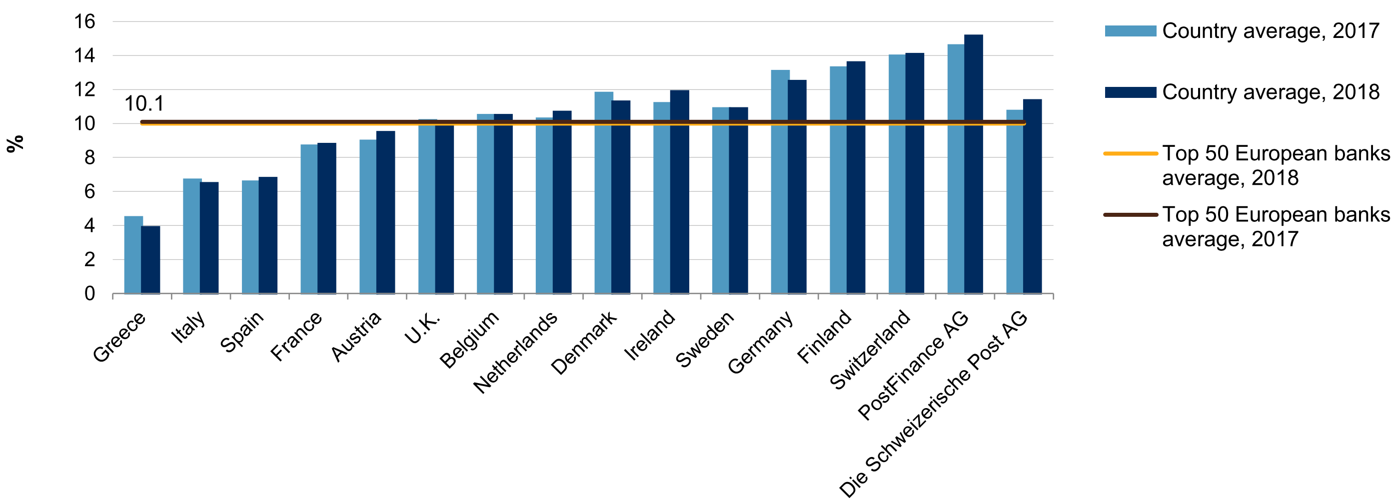
| PostFinance AG--Risk Adjusted Capital Framework Data | | | | | |
|---|---|---|---|---|---|
| (CHF 000s) | Exposure* | Basel III RWA | Average Basel III RW(%) | S&P Global Ratings RWA | Average S&P Global Ratings RW (%) |
| **Credit risk** | | | | | |
| Government & central banks | 38,198,206.0 | 228,034.7 | 0.6 | 20,946.2 | 0.1 |
| Institutions and CCPs | 59,464,925.9 | 9,522,875.0 | 16.0 | 10,096,102.5 | 17.0 |
| Corporate | 19,461,654.0 | 17,080,772.1 | 87.8 | 15,222,123.0 | 78.2 |
| Retail | 1,132,134.3 | 986,056.5 | 87.1 | 812,985.1 | 71.8 |
| Total credit risk | 118,256,920.1 | 27,817,738.3 | 23.5 | 26,152,156.9 | 22.1 |
| **Credit valuation adjustment** | | | | | |
| Total credit valuation adjustment | -- | 149,965.6 | -- | 0.0 | -- |
| **Market Risk** | | | | | |
| Equity in the banking book | 1,222,554.6 | 1,603,517.0 | 131.2 | 8,331,051.2 | 681.4 |
| Trading book market risk | -- | 367,482.3 | -- | 551,223.5 | -- |
| Total market risk | -- | 1,970,999.3 | -- | 8,882,274.6 | -- |
| **Operational risk** | | | | | |
| Total operational risk | -- | 2,655,405.9 | -- | 2,900,625.0 | -- |
| | Exposure | Basel III RWA | Average Basel II RW (%) | S&P Global Ratings RWA | % of S&P Global Ratings RWA |
| **Diversification adjustments** | | | | | |
| RWA before diversification | -- | 33,808,980.0 | -- | 37,935,056.5 | 100.0 |
| Total Diversification/ Concentration Adjustments | -- | -- | -- | 8,983,912.7 | 23.7 |
| RWA after diversification | -- | 33,808,980.0 | -- | 46,918,969.2 | 123.7 |
| | | Tier 1 capital | Tier 1 ratio (%) | Total adjusted capital | S&P Global Ratings RAC ratio (%) |
| **Capital ratio** | | | | | |
| Capital ratio before adjustments | | 5,948,680.5 | 17.6 | 5,758,000.0 | 15.2 |
| Capital ratio after adjustments‡ | | 5,948,680.5 | 17.6 | 5,758,000.0 | 12.3 |

**Table 4**

| PostFinance AG--Risk Adjusted Capital Framework Data (cont.) |
|---|
| *Exposure at default. §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 2018, S&P Global Ratings. |

**Chart 4**

**2018 RAC Ratio Before Diversification For The 50 Largest Rated European Banks By Country**




Note: Excluding countries where only one rated bank is part of the top-50 Western European banks.
RAC--Risk-adjusted capital. F--S&P Global Ratings' forecast. NIM--Net interest margin. Source: S&P Global Ratings.


## Risk position:Concentration risks in the investment portfolio

We expect PostFinance's risk position to remain a relative weakness compared with many Swiss peers, reflecting mainly its single-name and sector concentrations in its investment portfolio. Because PostFinance is not allowed to extend loans, it invests most of its liquidity in high-quality securities. Although the quality of the portfolio is very high, we believe concentrations result in higher sensitivity to tail events than for the Swiss banking peer average and other peers operating in a similar economic risk environment.

PostFinance's investments totaled about CHF79 billion (66% of total assets) at year-end 2018, comprising mainly covered bonds (25%) and public-sector bonds (42%). We expect the portfolio's quality to remain very high--48% rated 'AAA' or 94% at least 'A'--in line with PostFinance's conservative investment policy, although the risks from single-name exposures will likely stay high. We also note that PostFinance now has no exposure to bonds issued by sovereign governments on Europe's southern periphery.

PostFinance records most financial assets as "held to maturity", which reduces earnings volatility. Furthermore, it has no trading book, but is marginally exposed to market risk from foreign currency positions in international payment transactions.

**Table 5**

| PostFinance AG--Risk Position | | | | | |
|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | |
| (%) | 2019* | 2018 | 2017 | 2016 | 2015 |
| Growth in customer loans | (1.2) | (4.6) | (7.5) | 18.9 | 1.0 |
| Total diversification adjustment/S&P Global Ratings' RWA before diversification | N/A | 23.7 | 20.5 | 40.6 | N/A |
| Total managed assets/adjusted common equity (x) | 20.1 | 20.7 | 21.9 | 22.4 | 21.9 |
| New loan loss provisions/average customer loans | 0.1 | (0.6) | (0.2) | (0.1) | (0.0) |
| Gross nonperforming assets/customer loans + other real estate owned | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 |
| Loan loss reserves/gross nonperforming assets | N/A | 2,580.0 | 20,700.0 | 21,600.0 | 770.6 |

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

### Funding and liquidity:Ample liquidity from customer deposits

We consider PostFinance's funding and liquidity position to be a particular rating strength, reflecting its close ties to the Swiss government and superior funding and liquidity metrics to most global banks. With customer deposits of about CHF110 billion on June 30, 2019, representing 99% of its funding base, PostFinance is a cash provider in the domestic interbank market. Customer deposits comprise equal shares of granular and very stable retail and business accounts, and we believe customer confidence is very robust, thanks to PostFinance's government ownership. The group also doesn't rely on wholesale funding, which is reflected in its superior stable funding ratio of 485% at June 30, 2019.

We expect liquidity to remain superior as well, 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 extremely high ratio of broad liquid assets to short-term wholesale funding of about 73x as of June 30, 2019, which is superior to that of global banks. Since mid-year 2011, PostFinance has been placing excess liquidity with the SNB, where it now holds a liquidity buffer of more than CHF35 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 that 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-- | | | | |
| (%) | 2019* | 2018 | 2017 | 2016 | 2015 |
| Core deposits/funding base | 98.8 | 98.9 | 99.4 | 97.1 | 98.7 |
| Customer loans (net)/customer deposits | 10.6 | 10.6 | 10.7 | 12.0 | 10.3 |
| Long-term funding ratio | 98.9 | 99.1 | 99.5 | 97.3 | 98.8 |
| Stable funding ratio | 485.3 | 436.8 | 445.5 | 469.5 | 509.1 |
| Short-term wholesale funding/funding base | 1.2 | 1.0 | 0.5 | 2.8 | 1.2 |
| Broad liquid assets/short-term wholesale funding (x) | 72.9 | 83.0 | 167.3 | 30.0 | 68.4 |
| Net broad liquid assets/short-term customer deposits | 84.3 | 81.8 | 82.4 | 83.3 | 84.9 |

**Table 6**

| PostFinance AG--Funding And Liquidity (cont.) | | | | | |
|---|---|---|---|---|---|
| | --Year ended Dec. 31-- | | | | |
| (%) | 2019* | 2018 | 2017 | 2016 | 2015 |
| Short-term wholesale funding/total wholesale funding | 95.0 | 93.9 | 88.2 | 97.2 | 92.1 |
| Narrow liquid assets/3-month wholesale funding (x) | 85.9 | 82.7 | 169.9 | 29.9 | 68.9 |

*Data as of June 30.

### 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+'. We expect that, if needed, this support would be provided indirectly through the Swiss Post group's NOHC--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 has a legal mandate to provide essential services to the Swiss population. As such, in our view PostFinance remains 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 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.

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 [ALAC]) 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 ALAC. 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.

## Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing

Capacity, April 27, 2015

- 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: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

**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, 2019)***

| | |
|---|---|
| **PostFinance AG** | |
| Issuer Credit Rating | AA+/Stable/A-1+ |
| **Issuer Credit Ratings History** | |
| 28-Jun-2013 | AA+/Stable/A-1+ |
| **Sovereign Rating** | |
| Switzerland | 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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