S&P Global
Ratings

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PostFinance AG

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PostFinance AG

SACP	a+

+

Support	+3

+

Additional Factors	0

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

ALAC Support	0
GRE Support	+3
Group Support	0
Sovereign Support	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. • Franchise as legally mandated provider of essential banking services in Switzerland. • Superior capitalization, funding, and liquidity profile.	• Concentrated business model under severe pressure from expected lower-for-longer interest rates. • Limited strategic options to improve weak shareholder returns under existing legal restrictions on extending loans to Swiss households and companies. • 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 PostFinance's very close links to the state, and its ownership will not materially change in the foreseeable future. We continue to closely monitor any material developments that could lead us to revise our assessment of extraordinary government support to the group. We acknowledge discussions about the potential privatization of PostFinance, indicating that the political willingness to act has increased, but we think that a deterioration of the government support likelihood over the outlook horizon is unlikely.

While we see increasing pressure on PostFinance's financial profile, our current base case is that the bank will successfully manage its transformation program to compensate for decreasing revenues amid low interest rate conditions and COVID-19 induced headwinds.

Downside scenario

We could lower our issuer credit rating if the group's ties to the Swiss Confederation were to weaken or if changes to the respective legislation were to be made. This could have one or more notches of negative rating implications for PostFinance. We would revise the outlook to negative or lower the ratings if we perceived an increased likelihood of a transition. In any case, we do not expect legislative changes to come into effect before 2023.

We expect that potential deterioration of the groupwide stand-alone credit profile (group SACP) would be buffered by government support and would not trigger a lowering of the issuer credit rating on PostFinance. We could revise down PostFinance's SACP if we concluded that its restructuring is unlikely to sufficiently address ongoing earnings deterioration in the case of increasing headwinds. The same holds true if we were to conclude that the business model is no longer supported by the government to the same extent, increasingly exposing the group to competitive pressures.

Upside scenario

We view the likelihood of a positive rating action for PostFinance as extremely remote at this stage.

Rationale

Our ratings on PostFinance rest on its status as a government related entity (GRE) and its core group membership in the Swiss Post group, headed by DSP. Our ratings also reflect PostFinance's market franchise as one of the largest deposit-taking institutions and a provider of essential banking services in Switzerland.

We continue to see the group's key weakness as its limited strategic options to improve weak shareholder returns under existing legal restrictions. These prevent the bank from extending loans to Swiss households and companies. More than at any other Swiss peer bank, PostFinance's concentrated business model will remain under significant pressure from expected lower-for-longer interest rate conditions 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.

With the announcement to create a new digital bank, PostFinance expects to catch up to digital competitors, increasing client retention and cross-selling capacity. The organizational reshaping, also including new platform business, should allow for a more diversified revenue base. In our view, an expansion outside its public mandate on retail banking can provide additional benefit to PostFinance's net interest margin.

At the same time, we see high execution risks in the bank's new strategy, given the delayed market entry and high investment costs.

On a positive note, PostFinance is less affected by the COVID-induced economic crisis due to its high-quality investment portfolio, for which we only expect minor losses.

The bank also stands out with superior capitalization in global terms and a track record of sound risk governance and policies. Likewise, PostFinance's funding and liquidity will remain a clear strength when compared globally considering its solid base of granular customer deposits.

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. 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.

We expect Switzerland's economy to fully recover in 2021 and 2022 from its shock in 2020. We think the Swiss banking sector will remain resilient, supported by the country's diversified and competitive economy, very high household income levels, and a proven stress-resilient corporate sector. We think Swiss authorities' material support measures for domestic firms and households should cushion the short-term effect on Swiss banks' loan books. In addition, we view positively banks' prudent loan underwriting standards and high collateralization of residential mortgage loans, which dominate most banks' customer portfolios. Considering these factors, we expect only a limited increase in credit losses, from historical low levels. We also expect affordability risk in the housing market might slightly reduce over the coming years given price growth in the owner-occupied segment is likely to remain muted in the wake of the pandemic.

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 higher economic risk than Switzerland. Therefore, the anchor is sensitive to an increase in exposure to such countries.

Our view of industry risk in Switzerland encompasses the stability of the domestic banking sector and our expectation that damage from the COVID-19 pandemic will remain contained. We view positively the limited presence of foreign players, the banks' high capitalization levels in an international comparison, and their low reliance on capital markets for funding. In our view, the Swiss regulator's initiatives remain more stringent than those in other European banking sectors. We expect that banks' net interest margins will further decline gradually in a permanent low interest-rate environment, as higher-yield assets mature and retail deposit rates remain mainly floored at zero. However, we expect that repricing of lending products, additional fee income from investment advisory-related activities, and ongoing cost management can offset some of the pressure. We consider risk for Swiss banks from tech disruption as currently limited, given the population's preference for cash payments, the small size of the market with high barriers of entry, and technologically well-equipped banks.

Table 1

PostFinance AG--Key Figures

	--Year ended Dec. 31--				
(Mil. CHF)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	136,439.0	125,574.0	118,255.0	120,633.0	119,179.0
Customer loans (gross)	12,277.0	12,209.0	11,805.0	12,380.0	13,385.0
Adjusted common equity	6,082.0	5,929.0	5,758.0	5,560.0	5,381.0
Operating revenues	571.0	1,244.0	1,248.0	1,510.0	1,547.0
Noninterest expenses	488.0	1,091.0	1,165.0	1,255.0	1,079.0
Core earnings	58.7	128.9	141.2	266.5	421.8

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

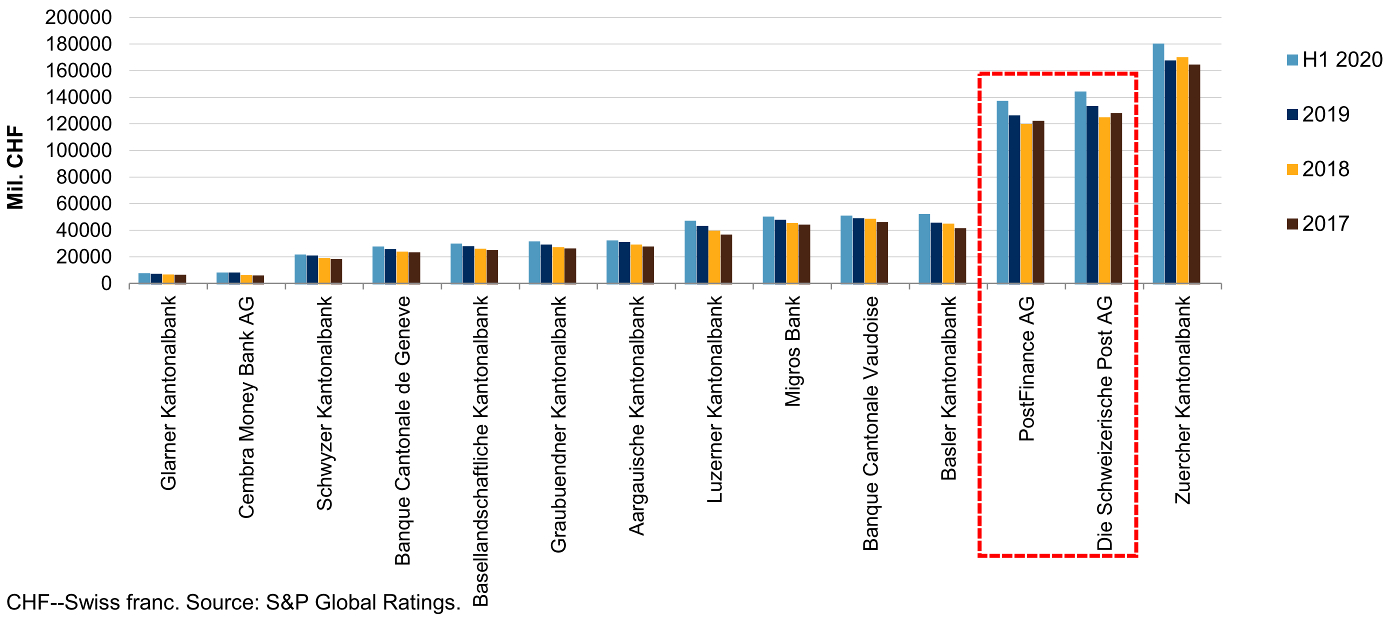
Business position: A solid franchise as one of the largest retail banks in Switzerland, but weak profitability due to its narrow business model

We expect PostFinance will continue to defend its franchise as one of Switzerland's largest retail banks, with 2.7 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 1 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.

Chart 1

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

Asset size of the DSP, PF and Peers



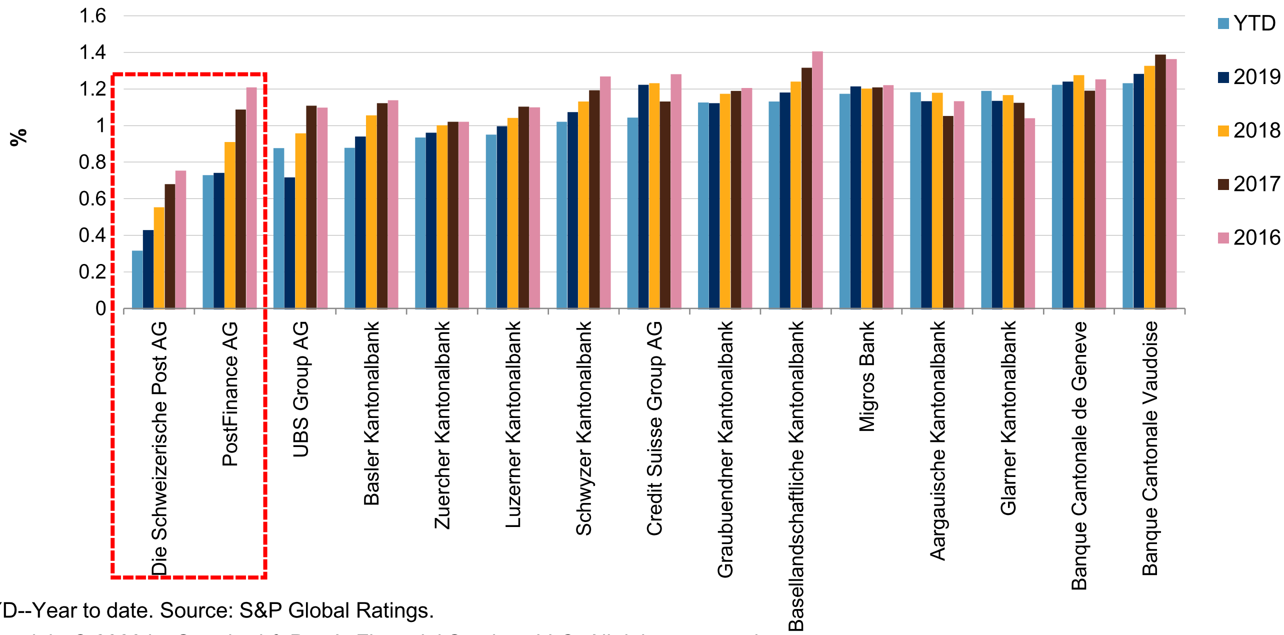
CHF--Swiss franc. Source: S&P Global Ratings.

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 means 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 banks, given we expect interest rates won't improve in the next few years.

Chart 2

PostFinance's Lending Restrictions Are A Significant Competitive Disadvantage

Net interest income/average earning assets (NIM)



TYD--Year to date. Source: S&P Global Ratings.

We believe PostFinance's earnings pressures are the main economic reason why on June 5, 2020, the Swiss Federal Council started consultation on a partial amendment of the Postal Organization Act that would allow PostFinance to engage in the Swiss loan market. This would allow the bank to broaden its revenue sources and franchise composition. The proposal also includes partial privatization of PostFinance, which would see the government potentially reduce its indirect stake in the bank to a minimum of 51% and retract its state guarantee. Given the differing interests of the Swiss government and its cantons, we understand the legislative process would be lengthy and complex and consider chances of success relatively low. We do not expect a first decision in the process before mid-2021 and should the cantons' representatives be willing to accept the proposal, it would likely not come into effect before 2023. If the Swiss parliament accepts the legislative proposal, we would reassess PostFinance's link to and role for Switzerland and potential impact on the group's stand-alone credit profile.

Table 2

PostFinance AG--Business Position

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	603.0	1,330.0	1,383.0	1,600.0	1,689.0
Commercial & retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0
Return on average common equity	2.9	2.0	2.2	2.0	4.5

*Data as of June 30.

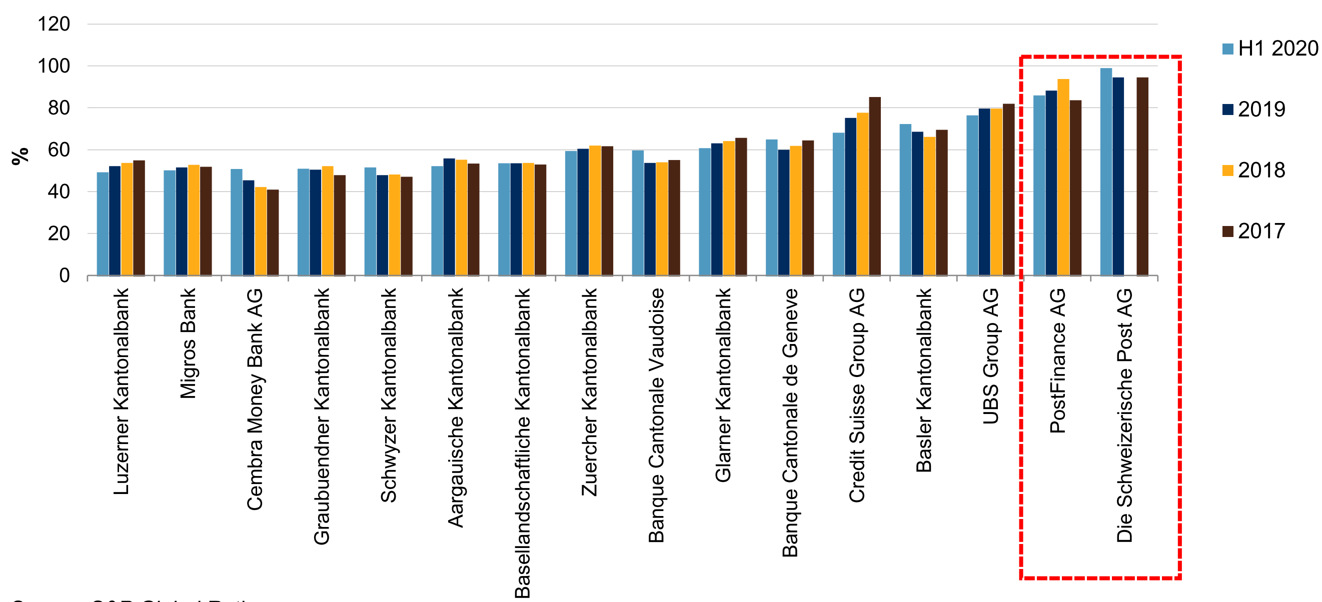
Capital and earnings: Strong capital buffer to remain a rating strength

We expect PostFinance's capital position will remain a rating strength. Our view is based primarily on our projection that the risk-adjusted capital (RAC) ratio will decrease to about 17.0% in the next 24 months, from 18.8% at yearend 2019, but still remain at a very strong level that compares well in a global context.

In our base case, we expect net interest income to remain subdued in 2020-2022 at Swiss franc (CHF) 550 million 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 2020, without deviation from 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 30% of income, and other activity, including foreign currency trading, to make up the remainder at about 22%. Although we anticipate that the bank's new strategy may lead to a shift in revenues over time, we do not expect that its revenue structure will change significantly over the next two years.

Chart 3

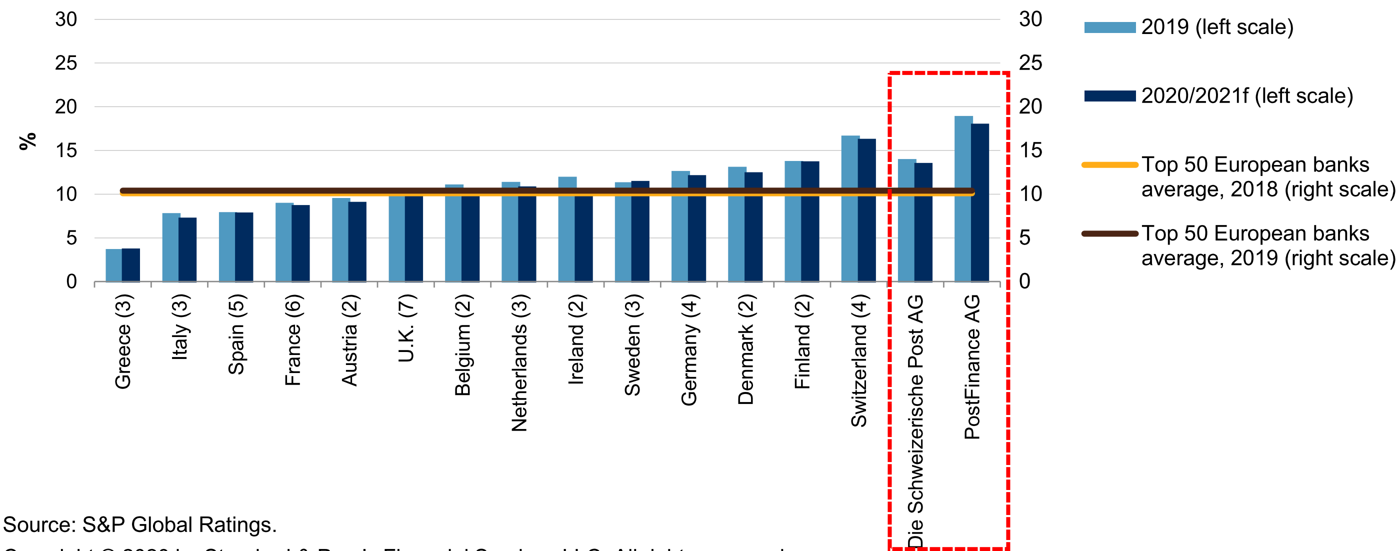
DSP And PF Have Weaker Operating Efficiency Among Its Regional Peers
Noninterest expenses/operating revenues



Source: S&P Global Ratings.

Chart 4

2019 RAC Ratio Before Diversification For The 50 Largest Rated European Banks By Country



Source: S&P Global Ratings.

We forecast that dividend upstream capacity will decline from a net annual profit of CHF50 million (under Swiss bank accounting guidelines) in 2020-2021. PostFinance's goodwill has been already fully amortized by the end of 2019.

PostFinance's quality of capital is favorable, in our view, because its total adjusted capital, our measure of loss-absorbing capital, consists mainly of paid-in capital. We estimate PostFinance's three-year average (2019-2021) earnings buffer to be in negative territory, 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 95% over the next two years.

Table 3

PostFinance AG--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	18.7	19.3	17.6	17.1	17.1
S&P Global Ratings' RAC ratio before diversification	N/A	18.8	15.2	14.6	14.7
S&P Global Ratings' RAC ratio after diversification	N/A	14.6	12.3	12.1	10.5
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	48.9	46.0	57.6	57.2	59.5
Fee income/operating revenues	29.1	27.8	22.1	16.9	14.7
Market-sensitive income/operating revenues	16.1	18.4	12.9	19.1	15.4
Cost to income ratio	85.5	87.7	93.3	83.1	69.7
Preprovision operating income/average assets	0.1	0.1	0.1	0.2	0.4

Table 3

PostFinance AG--Capital And Earnings (cont.)

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core earnings/average managed assets	0.1	0.1	0.1	0.2	0.4

*Data as of June 30. RAC--Risk adjusted capital. 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 RWA	Average S&P Global RW (%)
Credit risk					
Government & central banks	52,107,122	198,800	0	291,779	1
Of which regional governments and local authorities	0	0	0	0	0
Institutions and CCPs	63,536,743	9,382,865	15	9,235,821	15
Corporate	19,320,202	18,001,857	93	15,045,052	78
Retail	773,654	622,438	80	489,276	63
Of which mortgage	0	0	0	0	0
Securitization§	0	0	0	0	0
Other assets†	1,827,733	49,554	3	1,808,150	99
Total credit risk	137,565,454	28,255,513	21	26,870,079	20
Credit valuation adjustment					
Total credit valuation adjustment	--	118,907	--	0	--
Market Risk					
Equity in the banking book	253,572	385,556	152	1,679,845	662
Trading book market risk	--	67,848	--	101,772	--
Total market risk	--	453,403	--	1,781,617	--
Operational risk					
Total operational risk	--	2,592,696	--	2,831,250	--
(CHF 000s)	**Exposure**	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	32,601,875	--	31,482,946	100
Total Diversification/ Concentration Adjustments	--	--	--	9,125,129	29
RWA after diversification	--	32,601,875	--	40,608,074	129
(CHF 000s)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		6,303,728	19.3	5,929,000	18.8
Capital ratio after adjustments‡		6,303,728	19.3	5,929,000	14.6

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 2019', S&P Global Ratings.

Risk position: Concentration risks in the investment portfolio

We expect PostFinance's risk position to remain a 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 CHF76 billion (61% of total assets) at year-end 2019, comprising mainly covered bonds (24%) and public-sector bonds (42%). We expect the portfolio's quality to remain very high--48% rated 'AAA' or 77% at least 'A'--in line with PostFinance's conservative investment policy, despite several downgrades due to the worldwide economic contraction. 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.

Table 5

PostFinance AG--Risk Position

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	1.1	3.4	(4.6)	(7.5)	18.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	29.0	23.7	20.5	40.6
Total managed assets/adjusted common equity (x)	22.4	21.2	20.7	21.9	22.4
New loan loss provisions/average customer loans	0.3	0.1	(0.6)	(0.2)	(0.1)
Gross nonperforming assets/customer loans + other real estate owned	0.0	0.1	0.0	0.0	0.0
Loan loss reserves/gross nonperforming assets	N/A	1,675.0	2,580.0	20,700.0	21,600.0

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

Funding and liquidity: Ample liquidity from customer deposits

We consider PostFinance's funding and liquidity position to be a rating strength, reflecting customer confidence reinforced by the bank's close ties to the Swiss government and superior funding and liquidity metrics. With customer deposits of about CHF110 billion on June 30, 2020, representing 85% 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. The group doesn't rely on wholesale funding, which is reflected in its high stable funding ratio of 497% at June 30, 2020.

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 net broad liquid assets to short-term customer deposits of about 84.78% as of June 30, 2020. Since midyear 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 call 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--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	84.9	91.2	98.9	99.4	97.1
Customer loans (net)/customer deposits	11.1	11.1	10.6	10.7	12.0
Long-term funding ratio	85.6	91.6	99.1	99.5	97.3
Stable funding ratio	497.0	493.0	436.8	445.5	469.5
Short-term wholesale funding/funding base	15.1	8.8	1.0	0.5	2.8
Broad liquid assets/short-term wholesale funding (x)	5.8	9.7	83.0	167.3	30.0
Net broad liquid assets/short-term customer deposits	84.8	84.5	81.8	82.4	83.3
Short-term wholesale funding/total wholesale funding	100.0	99.9	93.9	88.2	97.2
Narrow liquid assets/3-month wholesale funding (x)	143.1	9.8	82.7	169.9	29.9

*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 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 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.

We consider GRE support to be the stronger external support element. In our view, the Swiss resolution framework does not impede state or cantonal owners' ability to provide extraordinary support to the group.

Environmental, social and governance factors: Government ownership with close regulatory oversight

We view PostFinance's environmental and social standards to be in line with those of the Swiss banking sector. The Swiss government is the ultimate owner of PostFinance and appoints members to the management and supervisory boards of its parent, Schweizerische Post AG. Its board of directors, which consists solely of nonpoliticans, supervises the fulfillment of its public service and we view government ownership beneficial for the group's adherence to general governance and environmental standards. At the same time, political influence into PostFinance's strategic setting remains very high and comprises a risk for its business model.

Related Criteria

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017

Related Research

- Bulletin: Proposed Legal Framework For PostFinance Could Lead To Downgrade In The Future, Jun 10, 2020
- COVID-19: Swiss Banking Sector To Remain Resilient, Jun 17, 2020
- Tech Disruption In Retail Banking: Swiss Banks Are In No Rush To Become Digital Frontrunners, Feb 13, 2020
- Banking Industry Country Risk Assessment: Switzerland, Nov 20, 2019

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 7, 2021)*	
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.