S&P Global 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 / +1 |

+

| Support | +2 |
|---|---|
| ALAC Support | 0 |
| GRE Support | +2 |
| Group Support | 0 |
| Sovereign Support | 0 |

+

| Additional Factors | 0 |
|---|---|

**Issuer Credit Rating**

**AA/Negative/A-1+**

## Major Rating Factors

| Strengths: | Weaknesses: |
|---|---|
| • Very high likelihood of extraordinary support for the group from the Swiss government.<br>• Franchise as a 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 rates.<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: Negative**

The negative outlook reflects our opinion that we could lower the rating on PostFinance AG (Postfinance) over the next 12-24 months if we conclude that the probability of privatization has increased or the ongoing discussions otherwise indicate a reduced likelihood of government support to PostFinance. While the bank's transformation is likely to occur beyond our outlook horizon, we expect to gain clarity on the direction the transformation will take over the next two years.

### Downside scenario

We could lower the ratings if we conclude that PostFinance's ties to the Swiss Confederation has weakened or privatization in line with the current proposal becomes effective. This would likely lead us to reduce the uplift to the rating for extraordinarily government support and revise the stand-alone credit profile (SACP) downward, which would lead to a multi-notch downgrade.

### Upside scenario

We could revise the outlook on PostFinance to stable if the privatization does not go ahead and if we believe the bank's role for and link to the Swiss government is unlikely to deteriorate further.

## Credit Highlights

***We consider the Swiss government to be supportive until the final point of privatization.*** We believe that the Federal Council's proposal that recommends full privatization of PostFinance represents a further step toward reduced governmental support in the next few years. However, the political process remains highly unpredictable due to tenuous parliamentary majorities and some opposition in the population.

***Legal mandate secures market position as one of Switzerland's largest retail banks.*** 2.7 million customers and a solid 14% market share in customer deposits highlight PostFinance's legal mandate under Swiss postal law to provide basic services for payment transactions in Switzerland.

***The low interest environment increases pressure to widen strategic options.*** We consider PostFinance's limited strategic options as its key weakness, which prevents improved shareholder returns under the existing legal restrictions.

***Above average capitalization, funding, and liquitidy metrics with resilient performance through the cycle.*** PostFinance stands out with superior capitalization in global terms and a track record of sound risk governance and policies. Likewise, we believe PostFinance's funding and liquidity will remain a clear strength when compared globally considering its solid base of granular customer deposits.

**PostFinance AG--Key Ratios And Forecasts***

| | --Fiscal year ended December 31 -- | | | | |
|---|---|---|---|---|---|
| | 2019a | 2020a | 2021f | 2022f | 2023f |
| Growth in operating revenue (%) | (0.3) | (7.6) | (4.9)-(5.9) | (0.3)-(0.3) | (3.0)-(3.7) |
| Growth in customer loans (%) | 3.4 | 3.4 | (4.5)-(5.5) | (2.7)-(3.3) | (2.7)-(3.3) |
| Growth in total assets (%) | 5.5 | (6.7) | (1.5)-(1.8) | (2.5)-(3.1) | (1.7)-(2.1) |
| Net interest income/average earning assets (NIM) (%) | 0.7 | 0.7 | 0.6-0.7 | 0.6-0.6 | 0.5-0.6 |

| PostFinance AG--Key Ratios And Forecasts* (cont.) | | | | | |
|---|---|---|---|---|---|
| | --Fiscal year ended December 31 -- | | | | |
| | **2019a** | **2020a** | **2021f** | **2022f** | **2023f** |
| Cost to income ratio (%) | 87.7 | 90.4 | 91.3-96.0 | 90.7-95.3 | 92.9-97.7 |
| Return on equity (%) | 2.0 | 2.1 | 0.7-0.8 | 1.2-1.3 | 1.0-1.1 |
| Gross nonperforming assets/customer loans (%) | 0.1 | 0.5 | 0.6-0.6 | 0.4-0.5 | 0.2-0.2 |
| Risk adjusted capital ratio (%) | 19.5 | 20.3 | 19.6-20.6 | 20.0-21.0 | 20.2-21.3 |

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

## 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.

Switzerland's economy contracted materially in 2020 due to the spread of COVID-19, but we expect it to fully recover over the coming two years. Under this base case, we think the Swiss banking sector will remain resilient, supported by very high household income and a stress-resilient corporate sector. We think Swiss authorities' material support measures should cushion the short-term effect on Swiss banks' loan books. Additionally, we view as positive 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 lows.

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 the negative impact from the pandemic will remain contained. We view positively the limited presence of foreign players, as well as banks' high capitalization in an international comparison and low reliance on capital markets for funding.

## Business position: One of largest deposit and payment franchises in Switzerland, but weak profitability due to its narrow business model

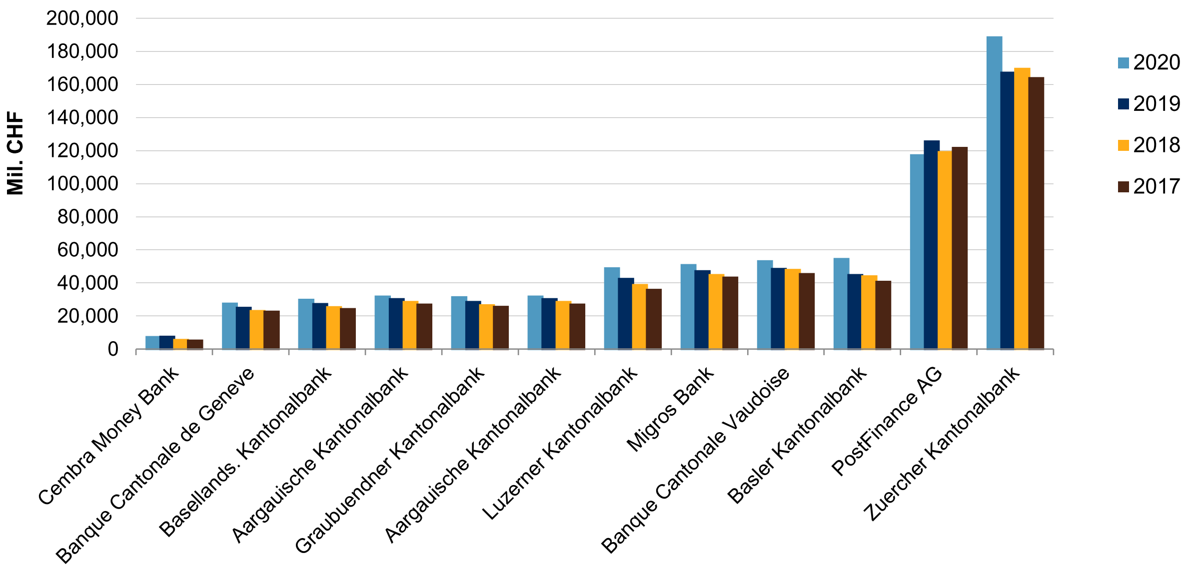
We expect PostFinance will continue to defend its franchise as one of Switzerland's largest retail banks, with 2.7 million customers and a market share of 14% in customer deposits. Moreover, PostFinance dominates about two-thirds of all noncash processing payments transactions in Switzerland, with about 1 trillion transactions annually.

These numbers highlight PostFinance's legal mandate under Swiss postal law to provide basic services for payment transactions in Switzerland. Although, the mandate might change positively or negatively in the future as part of parliamentary discussions. 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 member of the large DSP network.

**Chart 1**

**PostFinance Is One Of The Largest Payment Servicers In Switzerland**

Total assets




Source: S&P Global Ratings.



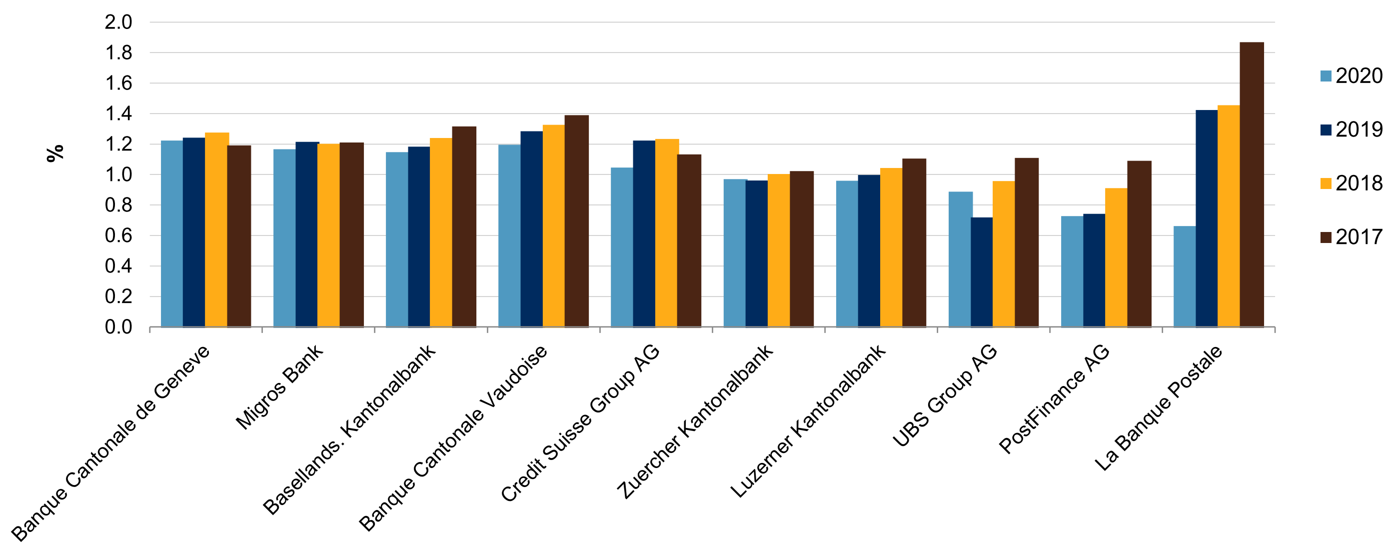
We continue to believe PostFinance's key weakness will remain its limited strategic options to improve its weak shareholder returns under existing legal restrictions as long as Swiss politics has not decided on the bank's new mandate. Therefore, we believe PostFinance will remain under more significant pressure from an expected lower-for-longer interest rate environment than other Swiss peer banks, as also shown by recent margin depressions.

The Federal Council's recent proposal would allow PostFinance–-in tandem with a possible privatization--to engage in the loan and mortgage market and to broaden its revenue sources as well as franchise composition.

**Chart 2**

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

Net interest income/average earning assets (NIM)




NIM--Net interest margin. Source: S&P Global Ratings.



However, we consider the political process as highly unpredictable due to tenuous parliamentary majorities and some opposition in the population, which could block the parliamentary decision in a subsequent referendum. We understand that parliamentary opinions are very heterogeneous and do not necessarily reflect those of the Swiss Federal Council. Both legislative chambers will need to approve the proposal. Also, even if approved, the legislation might be subject to a referendum, the outcome of which is unpredictable. We also think that it might prove challenging to find a new private sector owner for the bank if profitability remains very low.

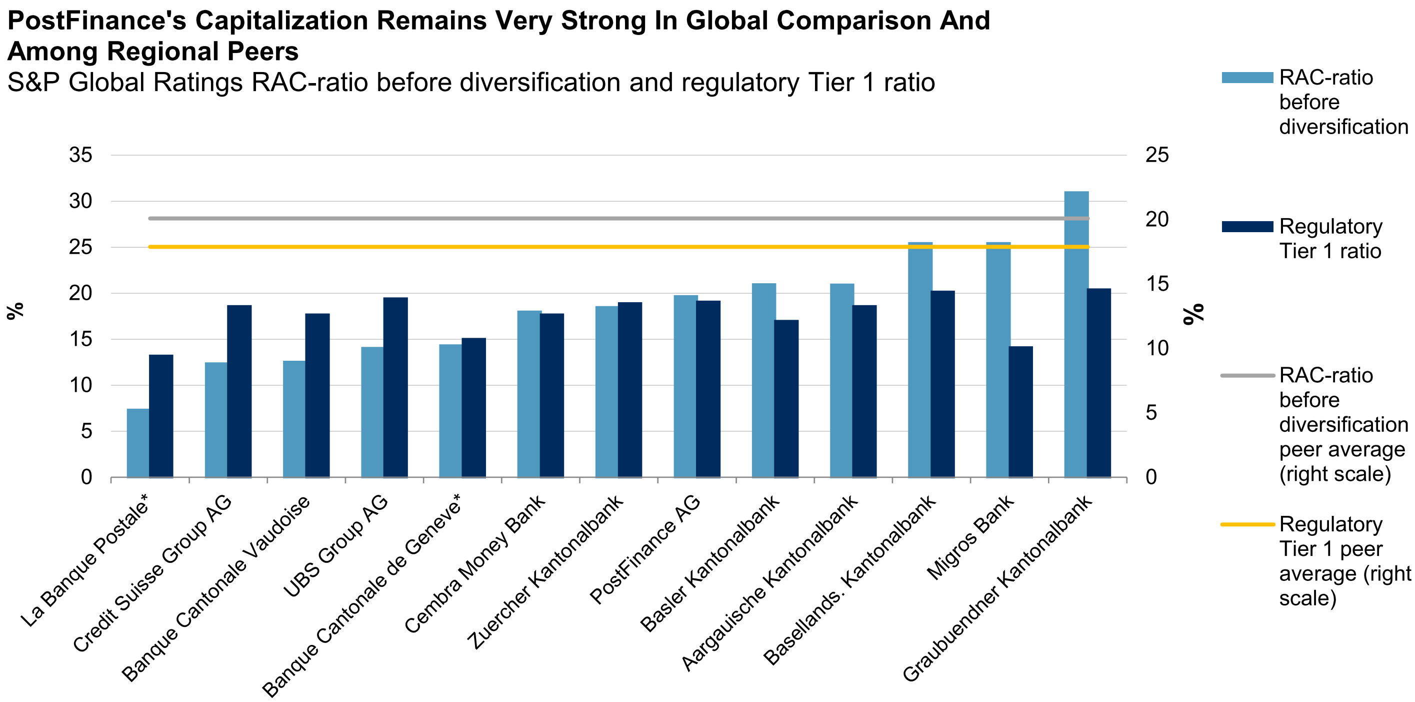
If the proposal was to be accepted, we could lower the bank's SACP, in which we incorporate implicit ongoing benefits of its state ownership.

## 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 be stable at around 20%, from 20.33% at year-end 2020, comparing well in a global context. This is also driven by a possible balance sheet reduction in the medium-term.

We anticipate that PostFinance will continue to cautiously invest customer deposit in its securities portfolio, without deviation from its conservative investment policy. We expect net commission from payment services to play a more important role in the future as the bank's net interest income continues to shrink on the back of reduced net interest margins

**Chart 3**

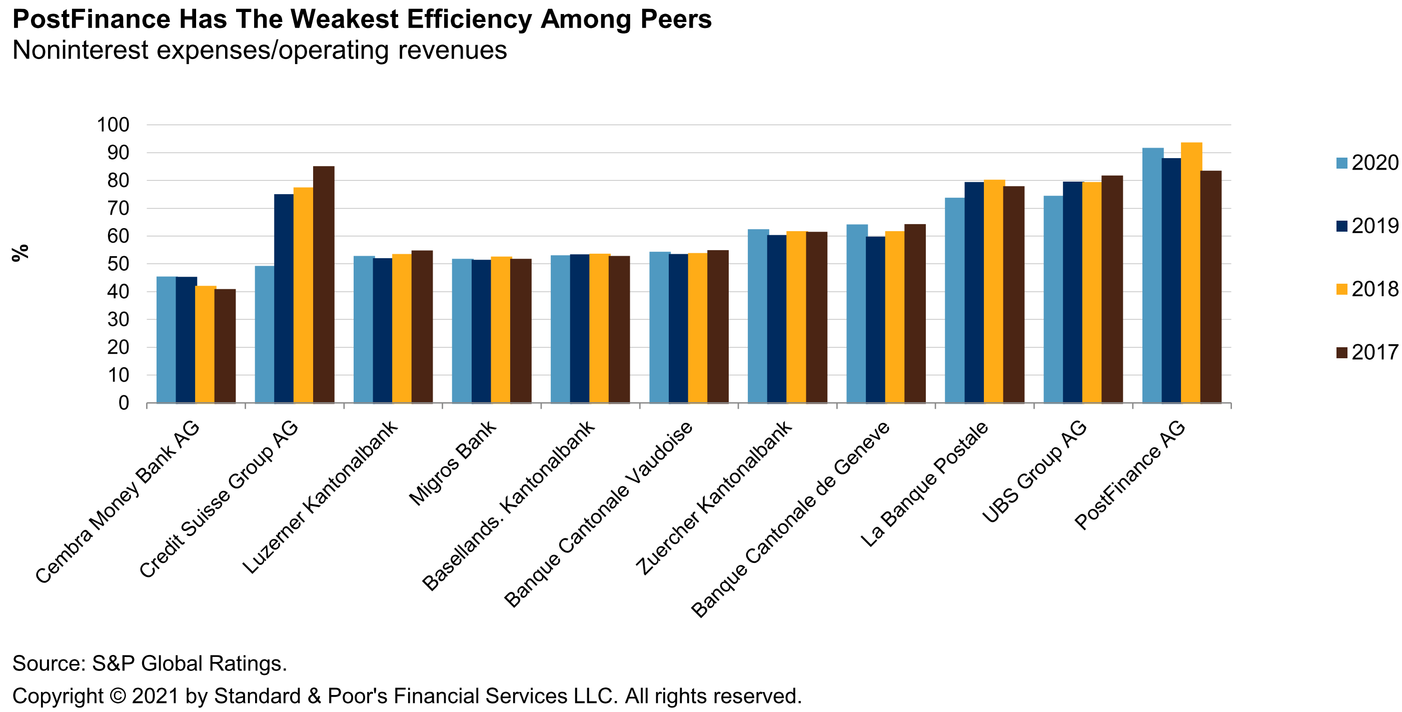



*Data as of December 2019. SACP--Stand-alone credit profile. RAC--Risk-adjusted capital. Source: S&P Global Ratings



PostFinance's quality of equity 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 (2021-2024) 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.

**Chart 4**




## 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 CHF60.47 billion at year-end 2020, comprising mainly covered bonds (24%) and public-sector bonds (42%). We expect the portfolio's quality to remain very high--50% rated 'AAA' or 80% 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. (Spielt das wirklich eine Rolle?)

## 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 CHF109 billion at year-end 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 462% at Dec. 31, 2020.

We expect liquidity to remain superior as well, as demonstrated by PostFinance's extremely high ratio of net broad liquid assets to short-term customer deposits of about 83.21x (as of Dec. 31, 2020). 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.

## Support: Two notches of uplift for potential government support

We consider PostFinance to be a government-related entity (GRE) with a very high likelihood of extraordinary government support, which adds two 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:

- Very important role for the government as part of the Swiss Post group, which has a legal mandate to provide essential services to the Swiss population. However, we consider the bank as a profit-seeking enterprise in a competitive environment, and believe that, supported by the rapid change in and customer use of new technologies, a privately owned entity could provide the same services.
- Very strong link with the Swiss government, which owns PostFinance through DSP and approves its strategy. We regard the potential governmental guarantee as positive to our assessment and believe that PostFinance will be supported until the final point of privatization.

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: 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.

**Table 1**

| PostFinance AG--Key Figures | | | | | |
|---|---|---|---|---|---|
| | --Fiscal year end Dec. 31-- | | | | |
| (Mil. CHF) | 2020 | 2019 | 2018 | 2017 | 2016 |
| Adjusted assets | 117,189 | 125,574 | 118,255 | 120,633 | 119,179 |
| Customer loans (gross) | 12,628 | 12,209 | 11,805 | 12,380 | 13,385 |
| Adjusted common equity | 6,123 | 5,929 | 5,758 | 5,560 | 5,381 |
| Operating revenues | 1,149 | 1,244 | 1,248 | 1,510 | 1,547 |
| Noninterest expenses | 1,050 | 1,091 | 1,165 | 1,255 | 1,079 |
| Core earnings | 58 | 129 | 141 | 266 | 422 |

CHF--Swiss franc.

**Table 2**

| PostFinance AG--Business Position | | | | | |
|---|---|---|---|---|---|
| | --Fiscal year end Dec. 31-- | | | | |
| (%) | 2020 | 2019 | 2018 | 2017 | 2016 |
| Total revenues from business line (currency in millions) | 1,222 | 1,330 | 1,383 | 1,600 | 1,689 |
| Commercial and retail banking/total revenues from business line | 100 | 100 | 100 | 100 | 100 |
| Return on average common equity | 2.1 | 2.0 | 2.2 | 2.0 | 4.5 |

**Table 3**

| PostFinance AG--Capital And Earnings | | | | | |
|---|---|---|---|---|---|
| | --Fiscal year end Dec. 31-- | | | | |
| (%) | 2020 | 2019 | 2018 | 2017 | 2016 |
| Tier 1 capital ratio | 19.1 | 19.3 | 17.6 | 17.1 | 17.1 |
| S&P Global Ratings' RAC ratio before diversification | 20.3 | 19.5 | 15.2 | 14.6 | 14.7 |
| S&P Global Ratings' RAC ratio after diversification | 16.0 | 15.1 | 12.3 | 12.1 | 10.5 |
| Adjusted common equity/total adjusted capital | 96.8 | 96.7 | 100.0 | 100.0 | 100.0 |
| Net interest income/operating revenues | 48.0 | 46.0 | 57.6 | 57.2 | 59.5 |
| Fee income/operating revenues | 29.9 | 27.8 | 22.1 | 16.9 | 14.7 |
| Market-sensitive income/operating revenues | 16.7 | 18.4 | 12.9 | 19.1 | 15.4 |
| Cost to income ratio | 91.4 | 87.7 | 93.3 | 83.1 | 69.7 |
| Preprovision operating income/average assets | 0.1 | 0.1 | 0.1 | 0.2 | 0.4 |
| Core earnings/average managed assets | 0.0 | 0.1 | 0.1 | 0.2 | 0.4 |

RAC--Risk-adjusted capital.

**Table 4**

| PostFinance AG--Risk Position | | | | | |
|---|---|---|---|---|---|
| | --Fiscal year end Dec. 31-- | | | | |
| (%) | 2020 | 2019 | 2018 | 2017 | 2016 |
| Growth in customer loans | 3.4 | 3.4 | (4.6) | (7.5) | 18.9 |
| Total diversification adjustment/S&P Global Ratings' RWA before diversification | 26.8 | 29.0 | 23.7 | 20.5 | 40.6 |
| Total managed assets/adjusted common equity (x) | 19.1 | 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) |

**Table 4**

**PostFinance AG--Risk Position (cont.)**

| | --Fiscal year end Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(%)** | **2020** | **2019** | **2018** | **2017** | **2016** |
| Gross nonperforming assets/customer loans + other real estate owned | 0.5 | 0.1 | 0.0 | 0.0 | 0.0 |
| Loan loss reserves/gross nonperforming assets | 150.7 | 1,675.0 | 2,580.0 | 20,700.0 | 21,600.0 |

RWA--Risk-weighted assets.

**Table 5**

**PostFinance AG--Funding And Liquidity**

| | --Fiscal year end Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(%)** | **2020** | **2019** | **2018** | **2017** | **2016** |
| Core deposits/funding base | 99.2 | 91.3 | 98.9 | 99.4 | 97.1 |
| Customer loans (net)/customer deposits | 11.5 | 11.1 | 10.6 | 10.7 | 12.0 |
| Long-term funding ratio | 99.1 | 91.6 | 99.1 | 99.5 | 97.3 |
| Stable funding ratio | 462.6 | 493.0 | 436.8 | 445.5 | 469.5 |
| Short-term wholesale funding/funding base | 1.0 | 8.8 | 1.0 | 0.5 | 2.8 |
| Broad liquid assets/short-term wholesale funding (x) | 87.5 | 9.7 | 83.0 | 167.3 | 30.0 |
| Net broad liquid assets/short-term customer deposits | 83.2 | 84.5 | 81.8 | 82.4 | 83.3 |
| Short-term wholesale funding/total wholesale funding | 99.2 | 99.9 | 93.9 | 88.2 | 97.2 |
| Narrow liquid assets/3-month wholesale funding (x) | 87.7 | 9.8 | 82.7 | 169.9 | 29.9 |

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- 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: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Swiss PostFinance AG 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative On Ongoing Privatization Discussions, Jul. 13, 2021
- PostFinance Downgraded As Privatization Discussions Reveal Its Weaker Role For The Swiss State; Outlook Negative, Feb. 10, 2021
- Banking Industry Country Risk Assessment: Switzerland, Jan. 6, 2021

**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 September 16, 2021)***

| | |
|---|---|
| **PostFinance AG** | |
| Issuer Credit Rating | AA/Negative/A-1+ |
| **Issuer Credit Ratings History** | |
| 10-Feb-2021 | AA/Negative/A-1+ |
| 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.