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Ratings

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PostFinance AG

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PostFinance AG

SACP: a+ → **Support: +2** → **Additional factors: 0**

Anchor	a-	
Business position	Adequate	0
Capital and earnings	Very strong	+2
Risk position	Moderate	-1
Funding	Strong	+1
Liquidity	Strong	
CRA adjustment		0

ALAC support	0
GRE support	+2
Group support	0
Sovereign support	0

Issuer credit rating
AA/Negative/A-1+

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Issuer Credit Rating
AA/Negative/A-1+

Key strengths	Key risks
Very high likelihood of extraordinary group support from the Swiss government.	Business model with high cost base under pressure from changes in customer behavior and market conditions.
Franchise as a legally mandated provider of essential banking services in Switzerland.	Limited strategic options to improve weak shareholder returns under existing legal restrictions on extending loans to Swiss households and companies.
Superior capitalization, funding, and liquidity profile.	Large single-name and sector concentrations in the investment portfolio.

Our base-case scenario reflects the ongoing uncertainty in the political privatization process, which could bring PostFinance's privatization discussions to a halt. On several occasions the Swiss government has opened discussions to revise PostFinance's legal status, and we expect it to do so again in the medium term. This would change the bank's public service mandate on payment services and allow PostFinance to enter the loan business, in order to open new strategic options to improve weak shareholder returns, which legal restrictions have affected. We consider the political process highly unpredictable due to tenuous parliamentary majorities and the possibility of public votes with parliamentary consensus on the privatization of PostFinance being unlikely in the near term as it was already rejected in June 2022. We doubt that there will be a politically viable proposal among the current political majorities on the privatization of PostFinance with current political majorities.

Despite the changing interest rate environment, material improvement in efficiency is unlikely under PostFinance's current setup. Notwithstanding PostFinance's 2.6 million customer base and a solid 14% market share in customer deposits, we consider the bank's limited strategic options and high cost-to-income ratio as its key weakness, which prevents improved shareholder returns under the existing legal restrictions. However, we expect some improvement in the bank's net interest income over time, following a period of increased interest expense.

Outlook

The negative outlook reflects our opinion that we could lower the rating on PostFinance AG over the next 24 months if we conclude that the probability of privatization has increased or the ongoing discussions about the scope of activities otherwise indicate a reduced likelihood of extraordinary support on the back of a changed role for or link to the Swiss government. While the bank's transformation is likely to occur beyond our outlook horizon, we acknowledge discussions about the potential privatization and public service mandate of PostFinance, indicating that political willingness to act is still present.

Downside scenario

We could lower our ratings if we concluded that PostFinance's ties to the Swiss government are likely to deteriorate in light of the ongoing discussion about its public service mandate and scope of future business activities or if privatization will be again discussed and becomes effective. This would likely lead us to revise down the number of notches we factor in for government-related entity uplift or the bank's 'a+' stand-alone credit profile (SACP). However, we now consider a multiple-notch downgrade unlikely.

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. We view the likelihood of a positive rating action on PostFinance as extremely remote at this stage, because this would require a material strengthening of PostFinance's restricted business model.

Key Metrics

PostFinance AG--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2020a**	**2021a**	**2022f**	**2023f**	**2024f**
Growth in operating revenue	(7.6)	7.4	2.2-2.7	0.5-0.6	2.5-3.1
Growth in customer loans	3.4	(5.7)	(5.7)-(6.3)	(3.5)-(3.9)	(2.0)-(2.2)
Growth in total assets	(6.7)	3.8	1.5-1.8	1.3-1.5	(0.4)-(0.4)
Net interest income/average earning assets (NIM)	0.7	0.7	0.8-0.8	0.7-0.8	0.7-0.8
Cost-to-income ratio	91.4	87.4	86.3-90.6	86.8-91.1	85.7-90.0
Return on average common equity	2.1	3.6	2.7-3.0	2.7-2.9	2.8-3.1
Gross nonperforming assets/customer loans	0.5	0.5	0.5-0.6	0.5-0.6	0.5-0.6
Risk-adjusted capital ratio	20.3	21.6	21.4-22.5	22.2-23.4	22.4-23.5

All figures are S&P Global Ratings-adjusted. a--Actual. 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 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.

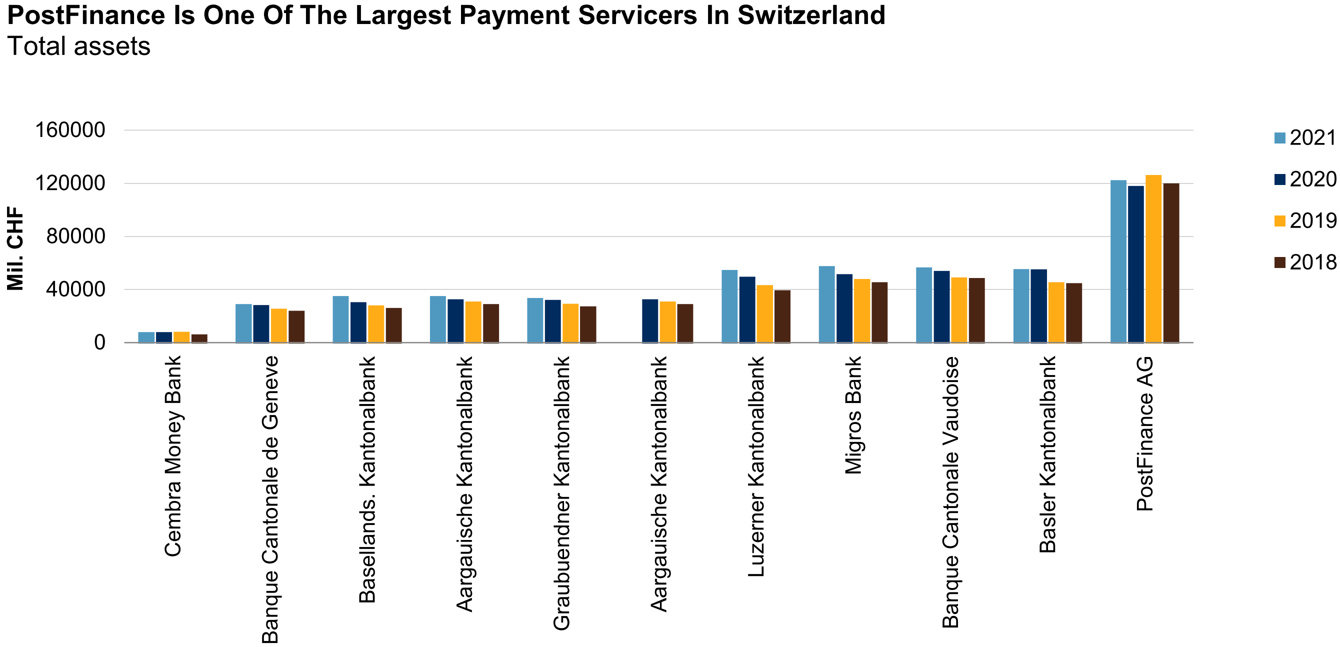
Despite a weaker economic outlook and further risks to the economic trajectory from the unclear consequences of the Russia-Ukraine conflict, we expect Swiss banks will demonstrate robust asset quality and lower credit losses than most peers, close to levels observed pre-pandemic. Strong resilience stems from the superior financial strength of both the household and corporate sectors, as well as banks' prudent underwriting standards focusing on collateralized lending, mainly in residential mortgages. We also do not expect material constraints on customers' debt service capacity from higher rates, given the dominance of fixed-rate mortgage contracts with an average 10-year interest period.

Our view of industry risk in Switzerland encompasses the stability of the domestic banking sector. We view positively that, despite high competitive pressure between local players, domestic banks can still earn their cost of capital. We expect that Swiss banks will see a net revenue benefit from rises in policy rates, but less so than peers, given that Swiss banks benefit from the central bank's broad exemption that sight deposits are subject to negative rates. We also note banks' high capitalization levels and their high reliance on stable customer deposits and equity for funding. In our view, the Swiss Financial Market Supervisory Authority is on top of both regulatory oversight and innovations and overall, we think Swiss banks face limited risks from technology disruption.

Business Position: One Of The 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 2.6 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 1.3 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 Postal network under its sole owner, Die Schweizerische Post AG (DSP).

Chart 1



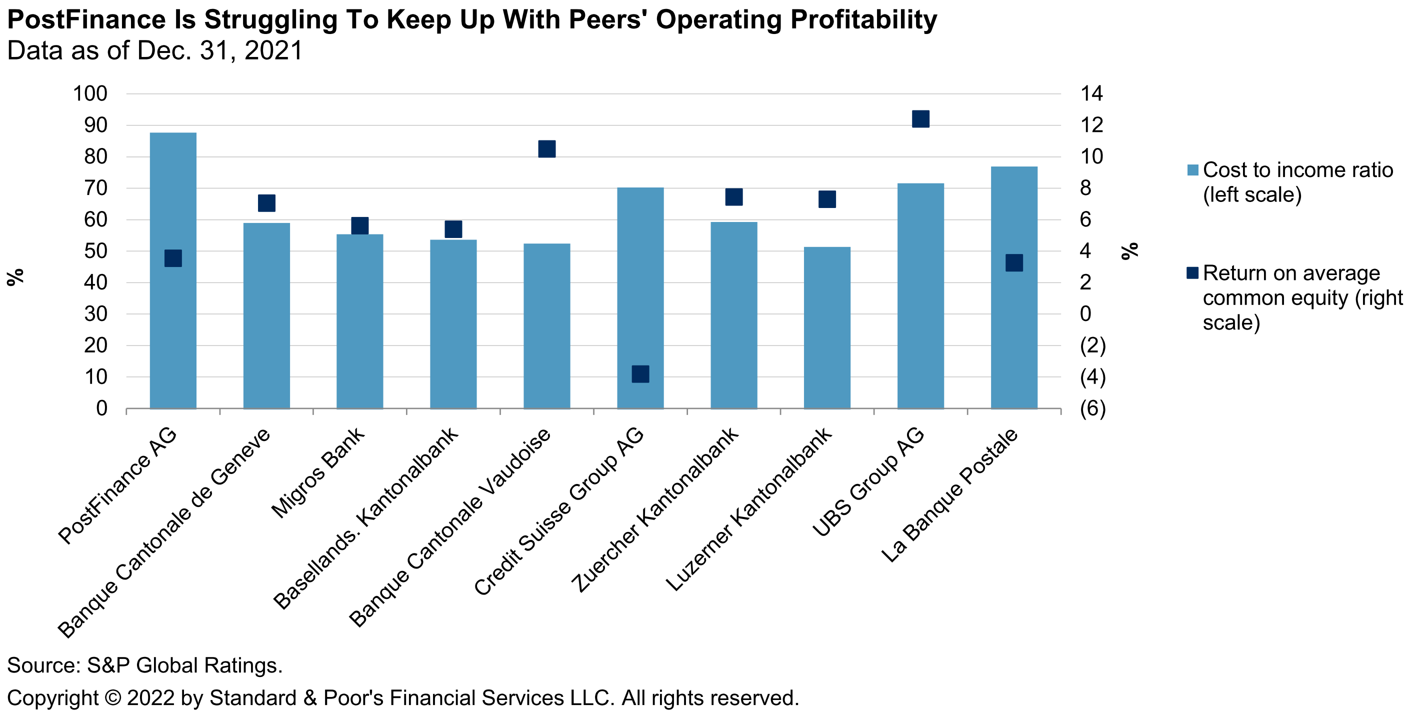
CHF--Swiss franc. Source: S&P Global Ratings.

We continue to believe that PostFinance's key weakness is its limited strategic options to improve weak shareholder returns under existing legal restrictions as long as Swiss politics has not decided on the bank's new mandate. Therefore, we believe that PostFinance will remain under significant pressure from a high cost-to-income ratio and decreasing net interest income compared with other Swiss peer banks. This is also shown by recent margin depressions as long as strategic options are limited to place its large deposit base.

However, PostFinance's half-year 2022 results showed improvements in net fee and commission as well as trading income from its securities portfolio. At the same time, business transformation is starting to pay off through lower administrative costs. We expect the bank's net interest margin to decrease further as interest expense will increase with rising interest rates. We expect PostFinance to profit from higher margins on its asset side only in the medium term.

In May 2022, PostFinance launched its joint banking app "Yuh" in collaboration with Swissquote, offering simplified access to a smartphone banking app. In our view, the bank's intention to increase its share of digital customers is beneficial to its objective of improving its cost and revenue base. However, eventual success has to be seen following the onboarding of 75,000 customers so far.

Chart 2



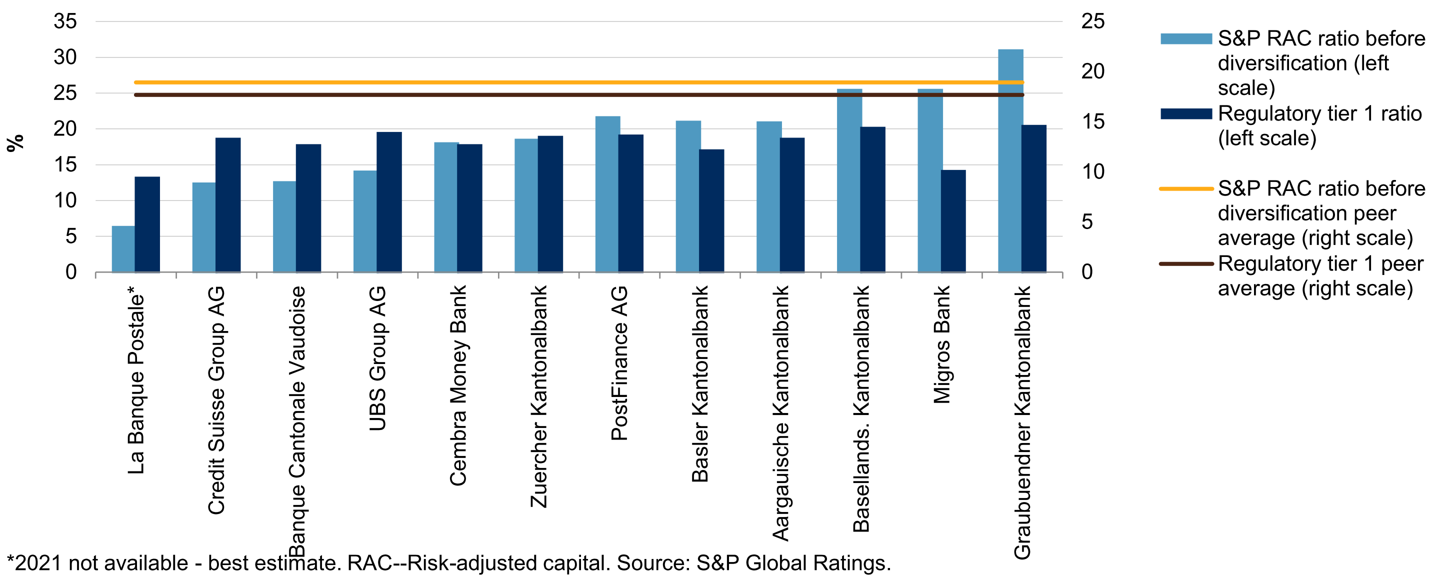
In our view, PostFinance's operating efficiency is weaker than that of Swiss peers', reflecting the limitations of its business model. We project a cost-to-income ratio of about 95% over the next two years.

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 ratio will be stable between 21.8% and 22.3%, from 21.64% at year-end 2021, comparing well in a global context. This is also driven by a possible balance sheet reduction in the medium term.

Chart 3

PostFinance's Capitalization Remains Very Strong Globally
S&P RAC ratio before diversification and regulatory tier 1 ratio



*2021 not available - best estimate. RAC--Risk-adjusted capital. Source: S&P Global Ratings.

We anticipate that PostFinance will continue to cautiously invest customer deposits 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 PostFinance's net interest income continues to shrink on the back of reduced net interest margins. We think it's unlikely that the bank's asset side will benefit in the same way, due to its low-yielding securities portfolio.

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 2022-2025 average earnings buffer to be in slightly negative territory, which indicates that its earnings have a weaker capacity to cover normalized losses.

Risk Position: Concentration Risks In The Investment Portfolio

We expect PostFinance's risk position to remain a weakness compared with many Swiss peers', reflecting the mainly 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 these 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.

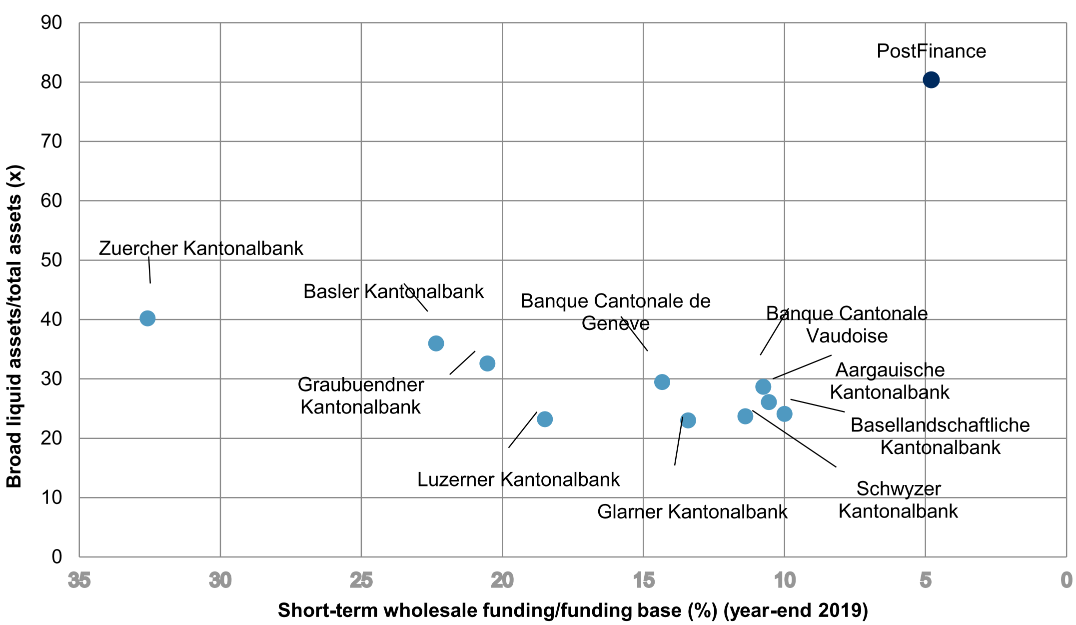
PostFinance's investments totaled about Swiss franc (CHF) 58.06 billion at year-end 2021, mainly comprising highly rated (68% rated 'AA-' or higher) public-sector and covered bonds. We expect the portfolio's quality to remain very high, in line with PostFinance's conservative investment policy, despite several downgrades due to the adverse macroeconomic environment. PostFinance records most of its financial assets as "held to maturity", which reduces earnings volatility.

Funding And Liquidity: Ample Liquidity From Customer Deposits

We consider PostFinance's funding and liquidity position 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 does not rely on wholesale funding, which is reflected in its high stable funding ratio of 426% as of Dec. 31, 2021.

Chart 4

PostFinance Continues To Show Superior Funding And Liquidity Profiles
Broad liquid assets/total assets (x, left axis) and short-term wholesale funding/funding base (%, bottom axis)



Source: S&P Global Ratings data.

We expect liquidity to remain superior as well, as demonstrated by PostFinance's extremely high ratio of net broad liquid assets to total assets of about 80.21x (as of Dec. 31, 2021). Furthermore, we expect that the group will maintain a substantial portfolio of unencumbered assets eligible for sale and repurchase transactions with the Swiss National Bank.

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 'a+' SACP.

The Swiss Council of States rejected the Federal Council's recent proposal in May 2022 to partially privatize PostFinance and grant the bank permission to enter the loan business to improve weak shareholder returns. However, we consider the political process as highly unpredictable and understand that parliamentary opinions are very heterogeneous with an unclear outcome.

The government has been asked to present another proposal on the future of PostFinance's public service mandate, which we still expect will happen. Both legislative chambers will need to approve the proposal, which will extend the legislative process. Also, any legislation might also 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 a proposal were to be accepted, which changes our view on PostFinance's relation to the Swiss government, we could lower the bank's SACP, in which we incorporate implicit ongoing benefits of its state ownership.

Until a final decision is reached, we expect this support will 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 Public Service Mandate

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	**S-1**	S-2	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

Environmental	Social	Governance
- N/A	- Public service mandate; - Financial inclusion; - Extensive branch network.	- N/A

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We view PostFinance's social factors as a positive consideration in our credit rating analysis.

The Swiss government is the ultimate owner of PostFinance and appoints members to the management and supervisory boards of its parent, Schweizerische Post AG.

In our opinion, its public mandate supports financial inclusion in the country and ensures broad public participation in basic financial services. Also, PostFinance's extensive branch network facilitates broad access of Switzerland's rural population to payments and other financial services.

At the same time, political influence into PostFinance's strategic setting is very high and comprises a risk for its business model.

Key Statistics

Table 1

PostFinance AG--Key Figures

	--Year ended Dec. 31--				
(Mil. CHF)	**YTD June 2022**	**2021**	**2020**	**2019**	**2018**
Adjusted assets	123,401.0	121,660.0	117,189.0	125,574.0	118,255.0
Customer loans (gross)	11,367.0	11,905.0	12,628.0	12,209.0	11,805.0
Adjusted common equity	6,117.0	6,188.0	6,123.0	5,929.0	5,758.0
Operating revenues	647.0	1,234.0	1,149.0	1,244.0	1,248.0
Noninterest expenses	520.0	1,078.0	1,050.0	1,091.0	1,165.0
Core earnings	121.6	155.2	58.2	128.9	141.2

CHF--Swiss franc. YTD--Year till date.

Table 2

PostFinance AG--Business Position

	--Year ended Dec. 31--				
(%)	**YTD June 2022**	**2021**	**2020**	**2019**	**2018**
Total revenues from business line (currency in millions)	679.0	1,303.0	1,222.0	1,330.0	1,383.0
Commercial and retail banking/total revenues from business line	100.0	100.0	100.0	100.0	100.0

Table 2

PostFinance AG--Business Position (cont.)

	--Year ended Dec. 31--				
(%)	**YTD June 2022**	**2021**	**2020**	**2019**	**2018**
Return on average common equity	4.9	3.6	2.1	2.0	2.2

YTD--Year till date.

Table 3

PostFinance AG--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**YTD June 2022**	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	20.9	20.3	19.1	19.3	17.6
S&P Global Ratings' RAC ratio before diversification	N/A	21.6	20.3	19.5	15.2
S&P Global Ratings' RAC ratio after diversification	N/A	16.4	16.0	15.1	12.3
Adjusted common equity/total adjusted capital	96.0	96.8	96.8	96.7	100.0
Net interest income/operating revenues	46.1	44.7	48.0	46.0	57.6
Fee income/operating revenues	32.0	32.3	29.9	27.8	22.1
Market-sensitive income/operating revenues	17.0	17.8	16.7	18.4	12.9
Cost-to-income ratio	80.4	87.4	91.4	87.7	93.3
Preprovision operating income/average assets	0.2	0.1	0.1	0.1	0.1
Core earnings/average managed assets	0.2	0.1	0.0	0.1	0.1

YTD--Year till date. RAC--Risk-adjusted capital. N/A--Not applicable.

Table 4

PostFinance AG--Risk Position

	--Year ended Dec. 31--				
(%)	**YTD June 2022**	**2021**	**2020**	**2019**	**2018**
Growth in customer loans	(9.0)	(5.7)	3.4	3.4	(4.6)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	31.8	26.8	29.0	23.7
Total managed assets/adjusted common equity (x)	20.2	19.7	19.1	21.2	20.7
New loan loss provisions/average customer loans	0.1	(0.0)	0.3	0.1	(0.6)
Gross nonperforming assets/customer loans + other real estate owned	0.0	0.5	0.5	0.1	0.0
Loan loss reserves/gross nonperforming assets	N/A	137.5	150.7	1,675.0	2,580.0

YTD--Year till date. RWA--Risk-weighted asset. N/A--Not applicable.

Table 5

PostFinance AG--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**YTD June 2022**	**2021**	**2020**	**2019**	**2018**
Core deposits/funding base	77.6	82.4	99.2	91.3	98.9
Customer loans (net)/customer deposits	12.6	12.5	11.5	11.1	10.6
Long-term funding ratio	78.4	83.2	99.1	91.6	99.1
Stable funding ratio	417.9	426.3	462.6	493.0	436.8
Short-term wholesale funding/funding base	22.8	17.8	1.0	8.8	1.0

Table 5

PostFinance AG--Funding And Liquidity (cont.)

	--Year ended Dec. 31--				
(%)	**YTD June 2022**	**2021**	**2020**	**2019**	**2018**
Regulatory net stable funding ratio	158.0	N/A	N/A	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	3.7	4.8	87.5	9.7	83.0
Broad liquid assets/total assets	80.5	80.2	78.5	81.4	76.9
Broad liquid assets/customer deposits	110.2	103.1	84.2	94.2	82.8
Net broad liquid assets/short-term customer deposits	80.8	81.6	83.2	84.5	81.8
Regulatory liquidity coverage ratio (LCR) (x)	155.0	N/A	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	100.8	100.0	99.2	99.9	93.9
Narrow liquid assets/3-month wholesale funding (x)	52.3	4.8	87.7	9.8	82.7

YTD--Year till date. N/A--Not applicable.

PostFinance AG--Rating Component Scores

Issuer Credit Rating	**AA/Negative/A-1+**
SACP	a+
Anchor	a-
Economic risk	2
Industry risk	2
Business position	Adequate
Capital and earnings	Very strong
Risk position	Moderate
Funding	Strong
Liquidity	Strong
Comparable ratings analysis	0
Support	+2
ALAC support	0
GRE support	+2
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Research Update: Swiss PostFinance 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative, June 9, 2022
- Research Update: Swiss PostFinance AG 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative On Ongoing Privatization Discussions, July 13, 2021
- Banking Industry Country Risk Assessment: Switzerland, May 30, 2022

Ratings Detail (As Of September 20, 2022)*	
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.