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PostFinance AG

Primary Credit Analyst:
Lukas Freund, Frankfurt + 49-69-3399-9139; lukas.freund@spglobal.com

Secondary Contact:
Anna Lozmann, Frankfurt + 49 693 399 9166; anna.lozmann@spglobal.com

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PostFinance AG

Rating Score Snapshot

Issuer Credit Rating
AA/Stable/A-1+

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

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

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

Issuer credit rating
AA/Stable/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

Overview

Key strengths	Key risks
Very high likelihood of extraordinary support for the parent, Die Schweizerische Post AG, from the Swiss government.	Business model with high cost base under pressure from changing customer behavior and market conditions.
Franchise as 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.	

After the rejection of a proposal to partially privatize PostFinance, our base-case scenario continues to reflect group support from PostFinance AG's sole owner, Die Schweizerische Post AG (DSP). The Swiss Council of States, together with the National Parliament, did not accept the Federal Council's proposal to partially privatize PostFinance AG and grant it permission to enter the loan business. Considering current political majorities and rising interest rates, we do not believe that privatization will be discussed again in parliament in the foreseeable future. We therefore believe that changes to DSP's group structure are now unlikely, so we continue to base our ratings on PostFinance on group support. We expect extraordinary government support of PostFinance to flow through its parent, if needed, because we see it is a highly strategic subsidiary of DSP.

Despite the changing interest rate environment, material improvements in efficiency are needed under PostFinance's current setup. While PostFinance's investment portfolio, consisting mostly of highly rated securities, has contributed to a recovery in net interest income as interest rates rise, the bank is encountering increasing challenges from changes in customer behavior, shifts in demographics, moves toward digitization, and increasing competitive pressures on its fee-generating business. We consider PostFinance's limited strategic options and high cost-to-income ratio to be key weaknessss that are preventing 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.

PostFinance AG's digital initiatives support its future importance to the government and may help transform its monoline revenue model. In 2021, PostFinance, with Swissquote, launched its digital bank Yuh, which is already one of the fastest growing finance apps in Switzerland. With about 150,000 customers, we consider the offering an important step in safeguarding PostFinance's retail business model provided the bank is successful and creates additional value. The bank has also announced its intention to launch a retail stablecoin, intended to maintain its value relative to the Swiss franc. In our view, the bank's efforts to digitize and expand its business model support its importance to the government, and we think it will benefit PostFinance's monoline business model if it succeeds as intended.

Outlook

The stable outlook reflects our expectation that PostFinance will receive timely group support from its sole owner DSP, if needed, and currently mirrors the outlook on DSP.

We see PostFinance as a highly strategic subsidiary of DSP group, and any rating action on the parent would lead to a similar action on the bank. We do not expect its ownership to change over the next 24 months. We also acknowledge future discussions about the bank's public-service mandate but do not expect the changes--if any--would weaken PostFinance's status within the DSP group.

Downside scenario

We could lower our ratings if we conclude that the Swiss government's commitment to provide support to PostFinance through DSP has weakened or if PostFinance's importance for DSP group deteriorates. This could happen, for example, if we perceive an increased likelihood of a transition toward privatization, or if we observe discussions about its public-service mandate weakening the bank's business model, increasingly exposing the group to competitive pressures. This would likely lead us to revise down the number of notches we factor in as group support and the bank's 'a+' stand-alone credit profile.

Upside scenario

We view the likelihood of a positive rating action on PostFinance as extremely remote because this would require a material strengthening of its restricted business model, alongside there being no doubt as to its ongoing importance to DSP and the Swiss government's strong commitment of support.

Key Metrics

PostFinance AG -Key ratios and forecasts					
	--Fiscal year ended Dec. 31--				
(%)	2021a	2022a	2023f	2024f	2025f
Growth in operating revenue	7.4	(2.7)	0.5-0.6	0.2-0.3	2.2-2.7
Growth in total assets	3.8	(6.0)	(0.5)-(0.6)	0.8-1.0	0.7-0.9
Net interest income/average earning assets (NIM)	0.7	0.7	0.7-0.7	0.7-0.8	0.7-0.8
Cost to income ratio	87.4	86.3	84.7-89.1	85.9-90.3	85.5-89.9
Return on average common equity	3.6	3.0	3.0-3.3	2.8-3.1	2.9-3.2
Return on assets	0.2	0.2	0.2-0.2	0.2-0.2	0.2-0.2
Risk-adjusted capital ratio	21.6	21.0	21.5-22.6	21.4-22.5	21.4-22.5

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'a-' Reflecting PostFinance's Exposure To Switzerland

Our anchor for banks operating mainly in Switzerland, like for PostFinance, is 'a-'. We consider the trend for economic and industry risk in Switzerland to be stable.

The Swiss private sector has proven its resilience to multiple external stress scenarios. We expect Swiss households and corporates to maintain credit strength despite the worsening economic outlook. This reflects the superior financial strength of Swiss households and corporations, and banks' prudent underwriting standards (which focus on collateralized lending, mainly residential mortgages or Lombard loans). Overall, we see limited risk to Swiss households' debt-servicing capacity from rising rates. We also believe the deceleration in house price rises should remain manageable for Swiss banks' mortgage exposures. This is because banks' existing stock of mortgage loans are predominately fixed-rate and underwriting standards already integrate much higher interest rates into affordability assessments. In any case, we believe that the strong Swiss labor market, tight and inelastic housing supply, and ongoing high demand due to persistently high immigration support house prices.

Our view of industry risk in Switzerland encompasses the stability of the domestic banking sector, despite the failure of Credit Suisse. In general, we do not observe a loss in customer confidence in Swiss banking, as many domestic banks profited from inflows of assets under management and deposits from Credit Suisse after outflows escalated in 2022. We believe supervision of non-systemically important institutions has been generally effective. Also, the country's regulatory requirements with respect to gone-concern capital exceed international norms.

Business Position: Weak Profitability And Low Cost Efficiency Persist Because Of The Narrow Business Model

We expect PostFinance will continue to defend its franchise as one of Switzerland's largest retail banks, with 2.5 million customers and a market share of 14% of customer deposits. PostFinance leads the Swiss payment transactions market, with about two-thirds of all noncash processing payments transactions in Switzerland--about 1.3 billion transactions annually.

These numbers highlight PostFinance's legal mandate under Swiss postal law to provide basic services for payment transactions in Switzerland. The mandate might someday change as part of parliamentary discussions, but we see this as unlikely in the medium term. Apart from payment services, we understand that PostFinance has no intention of expanding its business outside Switzerland. Moreover, we consider PostFinance's franchise to be further supported by its role as a member of the large Postal network under its sole owner, Die Schweizerische Post AG (DSP).

We continue to believe that PostFinance's key weakness is its limited strategic options to improve weak shareholder returns under existing legal restrictions. In first-half 2023, net interest income fell by CHF46 million year-on-year. The higher income from interest on credit balances at the SNB and positive returns from new investment tranches due to SNB's decision was counterbalanced by higher refinancing costs as repo transactions at negative rates have been discontinued. Also, PostFinance had increased customer interest rates on various products several times, resulting in a sharp rise in costs due to interest payable. Despite its stabilizing interest income over time, we believe that PostFinance will remain under pressure from a high cost-to-income ratio and decreasing net fee and commission income from a decline in physical payment transactions and lower investment and trading business volumes.

PostFinance's half-year 2023 results showed a downturn in net fee and commission income as well as lower trading income from its securities portfolio. Over-the-counter payment transactions fell by 21% in the first half of 2023, and the accelerated decline in physical payment transactions at Swiss Post branches was not offset by the expansion of the product range--for example, the combination of the PostFinance Card with Debit Mastercard. But the business transformation is starting to pay off through lower administrative costs. We expect the bank's net interest margin to improve slightly as interest expenses on larger customer deposits will be offset by interest income from new financial investments. We expect PostFinance to profit from higher margins on its asset side only in the medium term.

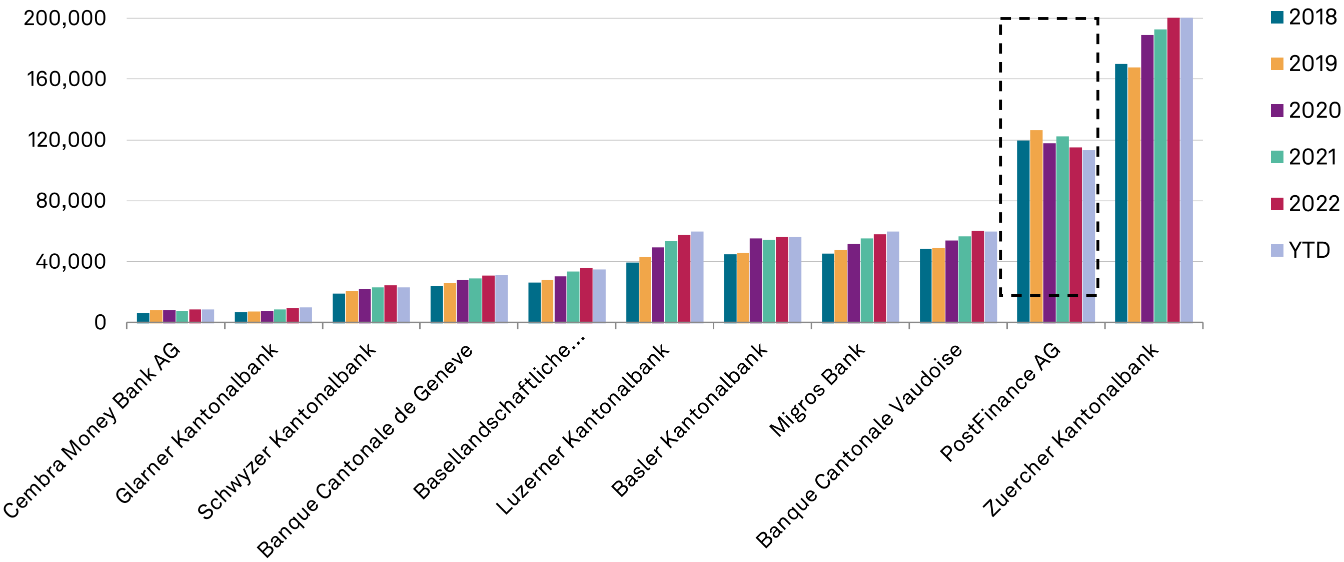
PostFinance's digital initiatives, if successful, could support its future importance to the government and may help transform its monoline revenue model. In May 2022, PostFinance launched its joint banking app Yuh in collaboration with Swissquote, offering simplified access to a smartphone banking app. Yuh is already the fastest growing finance app in Switzerland with more than 150,000 registered users. In our view, the bank's intention to increase its share of digital customers and planned stablecoin issue could help improve its cost and revenue base.

In our view, PostFinance's operating efficiency is to remain weaker than that of Swiss peers', reflecting the limitations of its business model. We project a cost-to-income ratio of about 87%-88% over the next two years.

Chart 1

PostFinance is one of the largest payment servicers in Switzerland

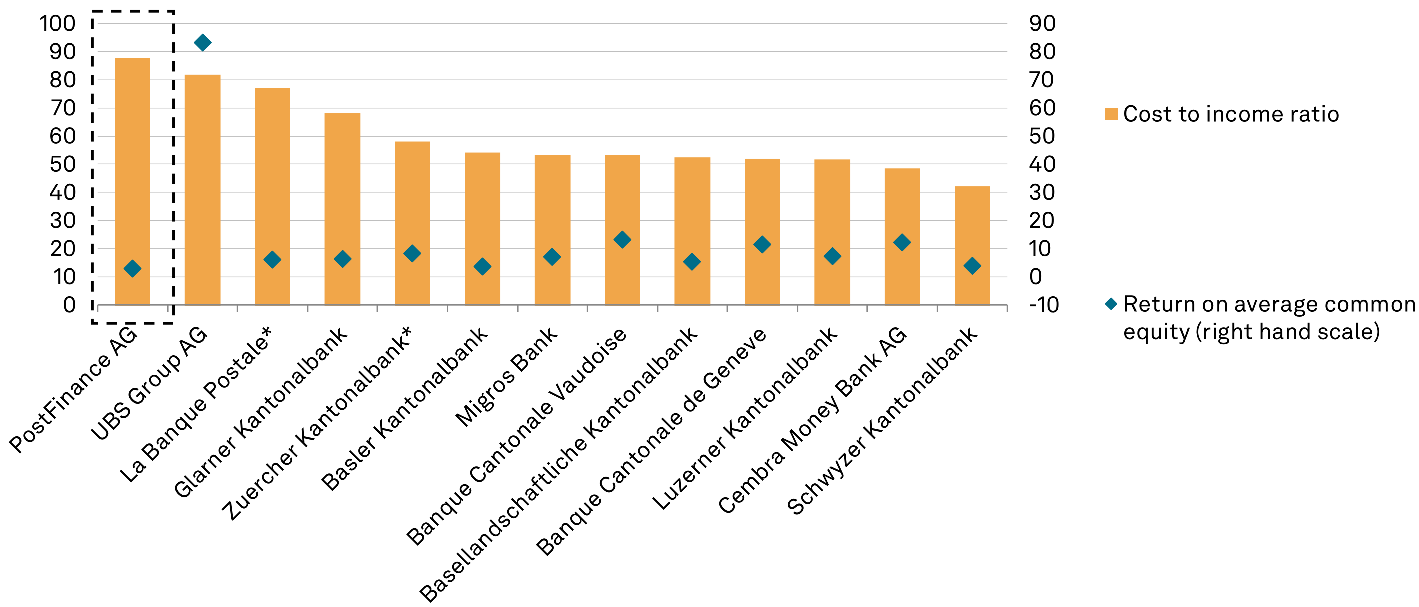
Total assets (Mil. CHF)



CHF--Swiss franc. YTD--Year-to-date. Source: S&P Global Ratings.

Chart 2

PostFinance's struggle to keep up with peers' operating profitability
As of end June 2023 (%)



Source: S&P Global Ratings. *H1 2023 data not available yet, hence data is as of Dec-22.

Capital And Earnings: Strong Capital Buffer To Remain A Rating Strength

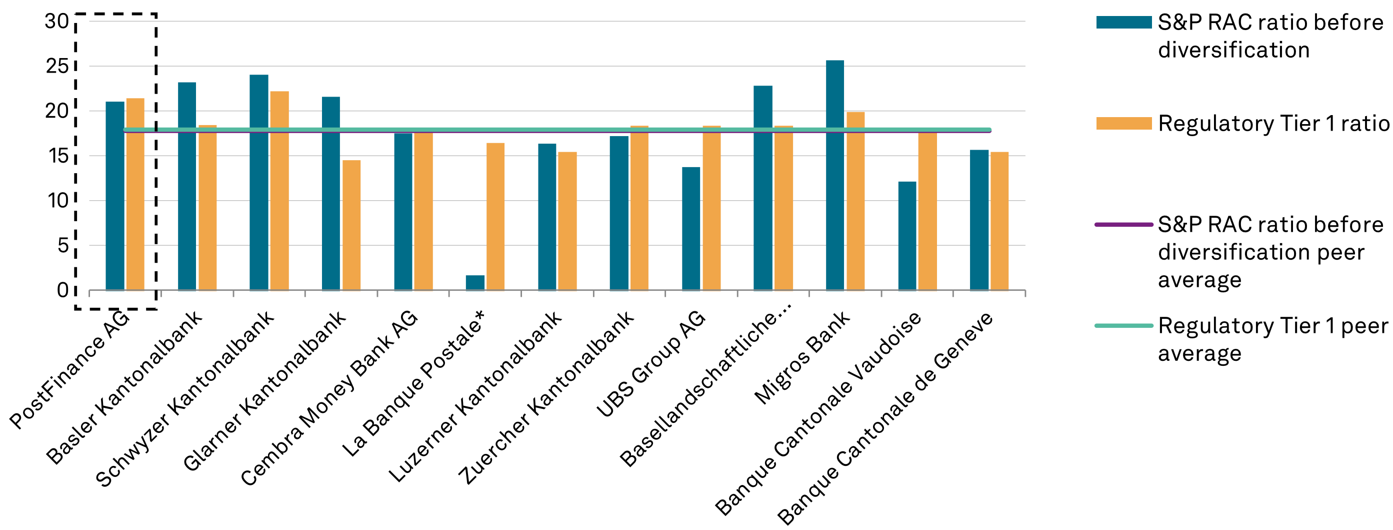
Our view is based primarily on our projection that the risk-adjusted capital ratio will be a stable 22.73%-22.79%, from 20.95% at year-end 2022, which compares well globally. This is also driven by slight increase in net interest margin and a possible balance-sheet reduction in the medium term.

We anticipate that PostFinance will continue to cautiously invest customer deposits in its securities portfolio, without deviating from its conservative investment policy. We expect net commission from payment services to play an important role in the future along with PostFinance's net interest income, which will grow on the back of increased net interest margins. We think that the bank's asset side will see its securities portfolio benefit amid the positive interest rate environment.

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. The bank has currently put on hold its plan to issue AT1 hybrid instruments to public investors given the turbulences in the Swiss AT1 market in beginning of the year. We estimate PostFinance's 2023-2025 average earnings buffer to be in positive territory, although low at around 8 bps which indicates that its earnings have a weaker capacity to cover normalized losses.

Chart 3

PostFinance's capitalization remains very strong in a global comparison
S&P RAC ratio before diversification & regulatory Tier 1 ratio (%)



*2022 not available - best estimate. Source: S&P Global Ratings.

Risk Position: Concentration Risks In The Investment Portfolio Are Mitigated By A Focus On Highly Rated Securities

We expect PostFinance's risk position to remain a neutral factor, 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 CHF60.11 billion at year-end 2022, mainly comprising highly rated (67.5% rated 'AA-' or higher) public-sector and covered bonds. PostFinance's top 20 exposures are mainly to Swiss covered bonds and bonds from municipalities, and of the total portfolio, 93% of exposures are to Swiss counterparties, with the remaining 7% to North America. 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. Despite a larger amount of unrealized losses, we consider risk to be contained given that the bank is not required to sell its assets.

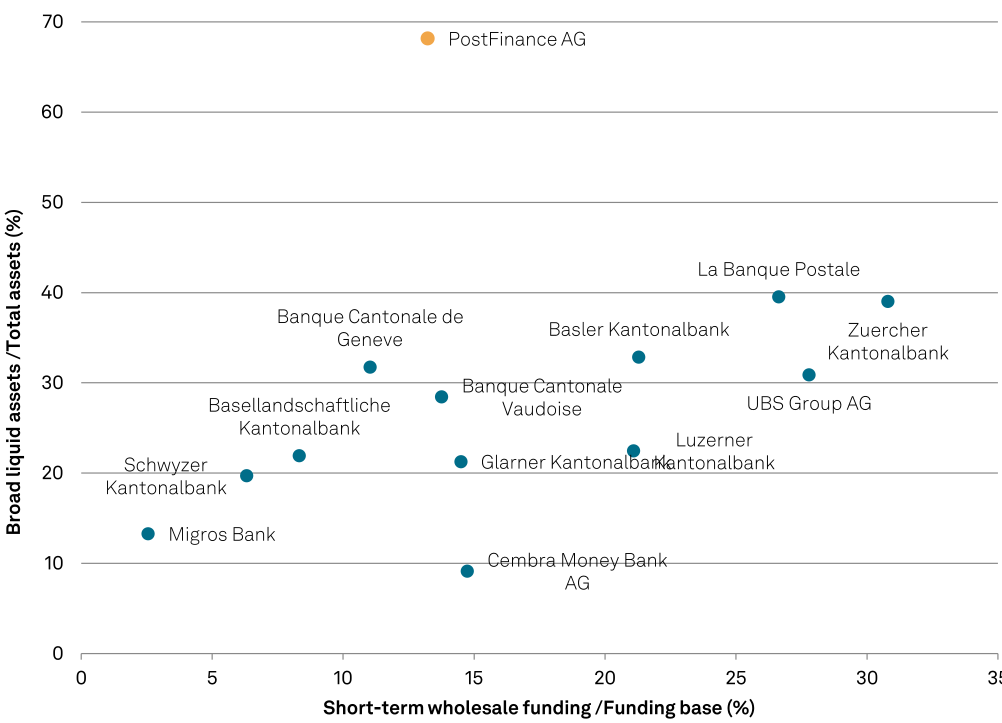
Funding And Liquidity: Ample Liquidity From Customer Deposits

We consider PostFinance's funding and liquidity position a rating strength, reflecting customer confidence reinforced by the bank's close ties with the Swiss government and superior funding and liquidity metrics. With customer deposits of about CHF91.6 billion at half year-end 2023, representing 87% 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. Given its public mandate, its customer base consists mostly of small retail deposits in Switzerland that are secured by the deposit insurance scheme up to CHF100,000. The group does not rely on wholesale funding, which is reflected in its high stable funding ratio of 281% as of June 30, 2023.

We expect liquidity to remain superior as well, as demonstrated by PostFinance's extremely high ratio of broad liquid assets to total assets of about 68.15% (as of June 30, 2023). As of March 2023, its high quality liquid assets were CHF25 billion. Furthermore, we expect the group will maintain a substantial portfolio of unencumbered assets eligible for sale and repurchase transactions with the Swiss National Bank.

Chart 4

PostFinance continues to show superior funding and liquidity profile



Source: S&P Global Ratings.

Support: Two Notches Of Uplift For Group Support

We base our ratings on PostFinance on group support from Schweizerische Post, which limits ratings downside risks. We see PostFinance as a highly strategic subsidiary of DSP group, reflecting the capital share of the overall group. We use our supported group credit profile (GCP), including extraordinary support, as a starting point, because support from the Swiss government in times of stress would be expected to flow through to DSP at any time.

We see the privatization of PostFinance as unlikely for the foreseeable future. Moreover, we consider PostFinance a cash generator for the group to help finance investments in the logistics and mobility business.

Environmental, Social, And Governance: Government Ownership With Public Service Mandate

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 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 of PostFinance's strategic settings is very high and could pose a risk to its business model.

Additionally, PostFinance assumes responsibility toward its stakeholders as part of its corporate responsibility strategy, and discloses its CO2 footprint while aiming to systematically reduce it to achieve the groupwide target of net zero emissions by 2040.

Key Statistics

Table 1

PostFinance AG--Key figures

	--Year ended Dec. 31--				
(Mil. CHF)	2023*	2022	2021	2020	2019
Adjusted assets	112,717	114,374	121,660	117,189	125,574
Customer loans (gross)	12,095	11,549	11,905	12,628	12,209
Adjusted common equity	6,060	6,154	6,188	6,123	5,929
Operating revenues	582	1,201	1,234	1,149	1,244
Noninterest expenses	509	1,037	1,078	1,050	1,091
Core earnings	61	127	155	58	129

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

Table 2

PostFinance AG--Business position

	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Total revenues from business line (currency in millions)	615	1,265	1,303	1,222	1,330
Commercial & retail banking/total revenues from business line	100.00	100.00	100.00	100.00	100.00
Return on average common equity	2.88	3.01	3.55	2.09	1.98

*Data as of June 30.

Table 3

PostFinance AG--Capital and earnings

	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Tier 1 capital ratio	21.5	21.3	20.3	19.1	19.3
S&P Global Ratings' RAC ratio before diversification	N/A	20.95	21.6436566	20.33310189	19.47721186
S&P Global Ratings' RAC ratio after diversification	N/A	4.26	16.41987909	16.0341633	15.10044521
Adjusted common equity/total adjusted capital	93.2	96.1	96.8	96.8	96.7
Net interest income/operating revenues	43.5	42.2	44.7	48.0	46.0
Fee income/operating revenues	32.5	33.7	32.3	29.9	27.8
Market-sensitive income/operating revenues	18.0	18.4	17.8	16.7	18.4
Cost to income ratio	87.5	86.3	87.4	91.4	87.7
Preprovision operating income/average assets	0.1	0.1	0.1	0.1	0.1
Core earnings/average managed assets	0.1	0.1	0.1	0.0	0.1

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

Table 4

PostFinance AG--Risk-adjusted capital framework data

	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government & central banks	40,014,154.6	14,794.2	0.0	128,464.0	0.3
Of which regional governments and local authorities	0.0	0.0	0.0	0.0	0.0
Institutions and CCPs	51,650,458.5	8,853,682.4	17.1	8,506,401.6	16.5
Corporate	19,684,361.5	16,046,338.3	81.5	15,138,904.9	76.9
Retail	447,447.8	358,714.5	80.2	295,734.4	66.1
Of which mortgage	0.0	0.0	0.0	0.0	0.0
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	1,356,095.7	29,108.5	2.1	1,412,366.7	104.1
Total credit risk	113,152,518.2	25,302,637.9	22.4	25,481,871.5	22.5
Credit valuation adjustment					
Total credit valuation adjustment	--	117,078.8	--	0.0	--

Table 4

PostFinance AG--Risk-adjusted capital framework data (cont.)

Market Risk					
Equity in the banking book	242,851.8	396,117.9	163.1	1,646,859.3	678.1
Trading book market risk	--	758,653.2	--	1,137,979.8	--
Total market risk	--	1,154,771.1	--	2,784,839.1	--
Operational risk					
Total operational risk	--	2,249,539.9	--	2,313,750.0	--

	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	29,862,830.7	--	30,580,460.6	100.0
Total diversification/ concentration adjustments	--	--	--	119,819,551.9	391.8
RWA after diversification	--	29,862,830.7	--	150,400,012.5	491.8

	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	6,347,376.0	21.3	6,407,000.0	21.0
Capital ratio after adjustments‡	6,347,376.0	21.3	6,407,000.0	4.3

*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. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2022. S&P Global Ratings.

Table 5

PostFinance AG--Risk position

	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Growth in customer loans	9.5	(3.0)	(5.7)	3.4	3.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	391.8	31.8	26.8	29.0
Total managed assets/adjusted common equity (x)	18.6	18.6	19.7	19.1	21.2
New loan loss provisions/average customer loans	0.1	0.3	(0.0)	0.3	0.1
Gross nonperforming assets/customer loans + other real estate owned	0.5	0.6	0.5	0.5	0.1
Loan loss reserves/gross nonperforming assets	132.8	132.8	137.5	150.7	1,675.0

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

Table 6

PostFinance AG--Funding and liquidity

	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core deposits/funding base	87.0	84.4	82.4	99.2	91.3
Customer loans (net)/customer deposits	13.1	12.7	12.5	11.5	11.1

Table 6

PostFinance AG--Funding and liquidity (cont.)					
	--Year ended Dec. 31--				
Long-term funding ratio	87.6	85.1	83.2	99.1	91.6
Stable funding ratio	281.3	382.3	426.3	462.6	493.0
Short-term wholesale funding/funding base	13.2	15.8	17.8	1.0	8.8
Regulatory net stable funding ratio	178.0	168.0	170.0	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	5.5	5.2	4.8	87.5	9.7
Broad liquid assets/total assets	68.2	76.9	80.2	78.5	81.4
Broad liquid assets/customer deposits	83.9	97.3	103.1	84.2	94.2
Net broad liquid assets/short-term customer deposits	68.65	78.56	81.56042443	83.2068045	84.54164201
Regulatory liquidity coverage ratio (LCR) (x)	1.72	1.61	1.6	N/A	N/A
Short-term wholesale funding/total wholesale funding	98.46	99.95	99.97060985	99.24528302	99.88593156
Narrow liquid assets/3-month wholesale funding (x)	55.68	5.18	4.778260291	87.65998097	9.758487867

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

PostFinance AG--Rating component scores	
Issuer Credit Rating	**AA/Stable/A-1+**
SACP	a+
Anchor	a-
Economic risk	1
Industry risk	3
Business position	Moderate
Capital and earnings	Very strong
Risk position	Adequate
Funding	Strong
Liquidity	Strong
Comparable ratings analysis	0
Support	+2
ALAC support	0
GRE support	0
Group support	+2
Sovereign support	0
Additional factors	0

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

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , 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: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- Swiss Banking Sector 2023: Balance Sheets Remain Robust, Sept. 19, 2023
- Swiss Public Liquidity Backstop Has Limited Implications For Hybrid Ratings, Sept. 18, 2023
- Banking Industry Country Risk Assessment: Switzerland, August 18, 2023
- Select Swiss Banks Affirmed After Review Of Banking Sector; BICRA Group Remains '2', July 24, 2023
- Bulletin: PostFinance AG's Digital Initiatives Underline Its Domestic Importance, July 12, 2023
- Full Analysis: Switzerland, Feb. 13, 2023
- Research Update: PostFinance AG Outlook Revised To Stable From Negative On Subsiding Political Discussions; Ratings Affirmed, Nov 28, 2022

Ratings Detail (As Of November 1, 2023)*	
PostFinance AG	
Issuer Credit Rating	AA/Stable/A-1+
Issuer Credit Ratings History	
28-Nov-2022	AA/Stable/A-1+
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.