



Interim Report 2020
January to June

PostFinance 

Surpassing support

With 2.7 million customers and customer assets of around 121 billion francs, PostFinance is one of Switzerland's leading retail financial institutions. In its role as market leader and with more than a billion payment transactions a year, it ensures a seamless flow of liquidity on a daily basis.

Some 1.8 million customers have access to e-finance. This makes PostFinance the ideal partner for everyone who wants to manage their own finances as easily as possible.



38 million

francs in **earnings before tax (EBT)** as at 30 June 2020.



121 billion

francs represents the level of **average monthly customer assets** as at June 2020.



2.7 million

customers place their trust in PostFinance to meet their daily financial needs.



1.8 million

users manage their money with **e-finance**.



3,238

full-time equivalents or some 3,600 employees work daily to serve our customers.



Interim Report

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Foreword

Rolf Watter

Chairman of the Board of Directors

Hansruedi Köng

Chief Executive Officer



The lifting of the lending prohibition is essential to ensure the long-term survival and competitiveness of PostFinance.

Dear Reader

PostFinance generated earnings before tax (EBT) as per Group IFRS guidelines of 38 million francs in the first half of 2020. This represents a decline of 114 million francs or 75 percent year-on-year. The impact of the coronavirus crisis was also felt by our business, leading for example to a sharp drop in revenues from over-the-counter transactions at Swiss Post branches and at ATMs. In addition, trading portfolio assets saw no substantial conversion gains from cash withdrawals in foreign currencies and from the use of credit cards as a result of the restrictions on travel for our customers.

The very low and indeed in some cases negative interest rates of recent years continue to erode our interest margin, resulting in a fall of 38 million francs in net interest income. The result from commission business and services remained at around the previous year's level. Trading portfolio assets saw a decline of 54 million francs and net financial income fell by 23 million francs after a one-off gain in the previous year from the sale of two participations and a subsidiary. Operating expenses remained virtually unchanged at the previous year's level.

New digital investment solutions

Since 5 May 2020, we have offered our customers four new investment solutions – in addition to e-trading – to help them achieve targeted asset growth over the long term. If they wish, investors can assume personal responsibility for executing their own securities transactions online, take advantage of comprehensive personal advice or delegate the management of their invested assets entirely to PostFinance. The new range comprises the solutions e-asset management, fund consulting basic, investment consulting plus and fund self-service. This means that we not only provide highly attractive investment solutions for all relevant customer requirements, but we have also combined the strengths of customer advice with digital processes and have integrated them into PostFinance's existing e-finance environment. It allows our customers to benefit from professional asset management with investments of as little as 5,000 francs.

Lifting of the lending prohibition

On 5 June 2020, the Federal Council opened the consultation procedure on the partial revision of the Postal Services Organization Act. The key element of the bill is the lifting of the ban on PostFinance providing loans and mortgages. We expressly support the wish of the Federal Council to place us on an equal footing with other banks. It is a first, urgently needed step into the future and will ensure a level playing field on the financial market. There is no reason why PostFinance should be the only bank not permitted to provide mortgages and loans.

The Federal Council is also proposing a capitalization guarantee based on the too-big-to-fail regulation. This step is necessary owing to PostFinance's inadequate earnings situation.

Lifting the prohibition is essential to ensure the long-term survival and competitiveness of PostFinance. This is the only way we can generate income for the Swiss economy and make a contribution towards the provision of the universal service required of Swiss Post Group. However, this is not the only important measure required to ensure PostFinance's future viability. We will also set a new course with our strategy and appropriate measures. Swiss Post intends to continue financing the public service and the investment required from its own resources without state subsidies, which is why it needs a robust PostFinance.

Thank you

The coronavirus crisis has been a big challenge for all of us. The commitment, solidarity and perseverance of our staff in these difficult times have been exemplary, and deserve our thanks and recognition. At times, almost the entire workforce was working from home, and notwithstanding the fact that location-independent working has been an established practice at PostFinance for many years, this was a major challenge. And although the return to the new normal has slowly begun, the consequences of COVID-19 will be with us for a long time to come. We are therefore all the more proud and grateful to be able to count on employees who during this period of physical distancing have grown even closer together – as teams, departments and in terms of the company as a whole.

We would like to thank you, our valued customers, for your loyalty and trust in us. The past few months, with all their restrictions, privations and uncertainties, have doubtless been challenging for you too. It is in times like this in particular that we want to support you as a reliable partner with help and advice on managing your financial affairs, which is why we work every day to offer you modern digital products and services and provide fair and competitive value for money.



Rolf Watter
Chairman of the
Board of Directors



Hansruedi Köng
Chief
Executive Officer

■ Presentation of figures

The amounts shown in the report are rounded. 0 is a rounded amount, indicating that the original figure was less than half of the unit used.

A dash (-) in place of a figure indicates that the value is zero.

■ Key for charts and tables

■ Current year

■ Previous year

■ Languages

The report is available in English, German, French and Italian.

The German version is authoritative.

Management report

PostFinance is one of Switzerland's leading financial institutions and is a reliable partner for more than 2.7 million private and business customers who manage their own finances.

As number one on the Swiss payment transactions market, PostFinance ensures a seamless daily flow of liquidity. It processed 569 million transactions in the first half of 2020.

PostFinance employed 3,637 staff. This corresponds to 3,238 full-time equivalents.

In the first half of 2020, PostFinance recorded an operating profit (EBIT) of 58 million francs and generated earnings before tax (EBT) of 38 million francs. Total assets stood at 137 billion francs.

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Key figures

PostFinance generated earnings before tax (EBT) as per Group IFRS guidelines of 38 million francs in financial year 2020, which represents a decline of 114 million francs year-on-year. The pressure on PostFinance's core business remains consistently high.

Earnings before tax are also reflected in the key figures. Return on equity fell to 1.3 percent and the cost-income ratio rose, despite a consistent focus on costs. No economic value added was generated in the first half of 2020.

The sales and transaction figures confirm the emphasis placed on customers who manage their own finances and use the simple, attractive products offered by PostFinance. To slow the growth in customer deposits, PostFinance had to reduce the exemption limits for customer asset fees several times in the past. In some cases, these measures have resulted in a transfer of customer deposits to funds and securities investments.

In the first half of 2020, total assets rose by around 10.8 billion francs. This is mainly due to increased activity in the interbank money market.

PostFinance Ltd | Key figures

as of 30.6.2020 with previous year for comparison

		31.12.2019	30.6.2020
Balance sheet			
Total assets as per IFRS	CHF million	125,742	136,555
Capital ratio as per guidelines for systemically important banks	%	19.3	18.7
Going concern leverage ratio ¹	%	4.84	7.14
Gone concern leverage ratio	%	0.14	0.28
Income statement (as per Group IFRS guidelines)			
Operating income	CHF million	671	579
Operating profit (EBIT)	CHF million	149	58
Earnings before tax (EBT)	CHF million	152	38
Return on equity ²	%	5.1	1.3
Cost-income ratio	%	77.7	90.0
Customer assets and loans			
Customer assets ⁴	CHF million monthly average	119,660	121,410
Funds, securities and life insurance ^{3,4}	CHF million monthly average	12,808	12,981
Customer deposits	CHF million monthly average	106,852	108,429
Development of customer assets ⁴	CHF million	246	1,750
Managed assets as per provisions of Circ. 2015/1 ⁵	CHF million	46,058	43,780
Inflow of new money as managed assets	CHF million	1,033	-1,620
Loans to business customers (taken up)	CHF million	10,123	10,511
Mortgages ³	CHF million	5,965	6,006
Market and employee key figures			
Customers	In thousands	2,779	2,706
Private customers	In thousands	2,498	2,430
Business customers (incl. banks and agencies)	In thousands	281	276
E-finance users	In thousands	1,779	1,832
Accounts – private customers	In thousands	4,167	3,997
Accounts – business customers	In thousands	367	358
Average headcount	Full-time equivalents	3,233	3,238
Transactions	In millions	577	569

1 Central bank deposits may be temporarily excluded from the calculation of the leverage ratio in accordance with FINMA Guidance 02/2020 on COVID-19.

2 Return on equity = earnings before tax (EBT) as per Group IFRS guidelines / average eligible equity capital as per Accounting – banks.

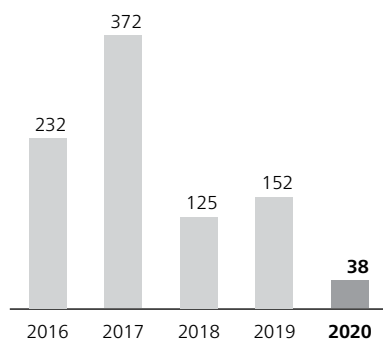
3 Commission income in cooperation with financial partners.

4 For the life insurance, the zillmerized actuarial reserves will be replaced by the surrender value of the life insurance from 2020. The prior-year figures have been restated.

5 PostFinance reports customer assets and managed assets. "Customer assets" includes all assets held by customers based on average monthly assets. "Managed assets" encompasses only values deposited for investment purposes on the reference date.

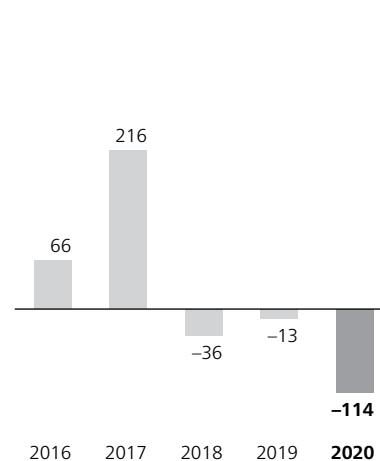
Earnings before tax (EBT)

1.1. to 30.6.2020 with prior-year period
 CHF million



Economic value added¹

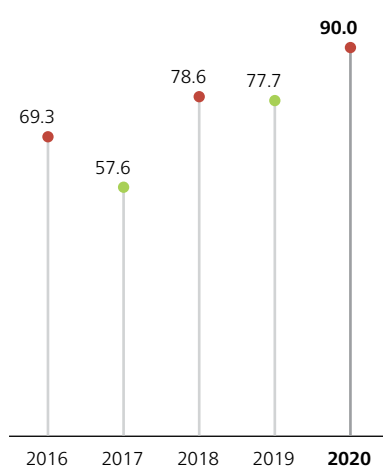
1.1. to 30.6.2020 with prior-year period
 CHF million



¹ Economic value added = earnings before tax (EBT) as per Group IFRS guidelines less the cost of equity of the average eligible equity capital as per Accounting – banks.

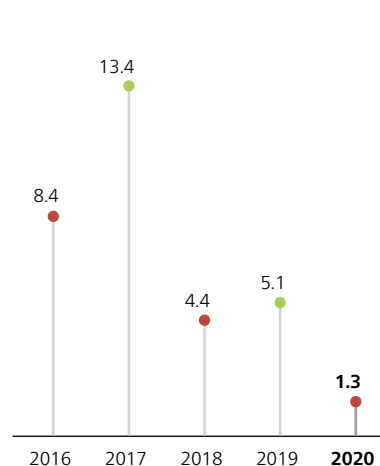
Cost-income ratio

1.1. to 30.6.2020 with prior-year period
 Percent



Return on equity²

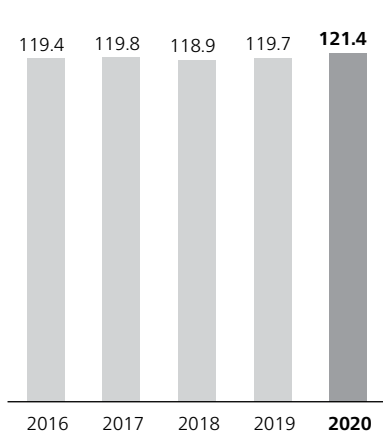
1.1. to 30.6.2020 with prior-year period
 Percent



² Return on equity = earnings before tax (EBT) as per Group IFRS guidelines / average eligible equity capital as per Accounting – banks.

Average customer assets³ (monthly avg.)

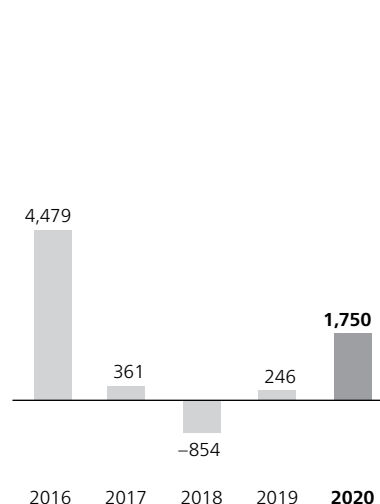
2016 to 2020
 CHF billion



³ For the life insurance, the zillmerized actuarial reserves will be replaced by the surrender value of the life insurance from 2020. The prior-year figure has been restated.

Growth in customer assets⁴

2016 to 2020
 CHF million



⁴ For the life insurance, the zillmerized actuarial reserves will be replaced by the surrender value of the life insurance from 2020. The prior-year figure has been restated.

Commentary on business performance

Strategy

PostFinance aims to help its customers manage their money as easily as possible. Its approach is based on an in-depth understanding of what customers need, both now and in the future. Working to achieve this is what drives all employees on. As a digital innovation leader in the Swiss banking world, PostFinance is taking advantage of its strong starting position and evolving from a traditional financial services provider into a digital powerhouse. We want to create the ideal combination of the digital and physical worlds in order to offer our customers a consistently positive customer experience.

General developments

The interest differential business is the most important source of income.

In the wake of the health policy measures that became necessary in mid-March to contain the coronavirus, many companies were forced to restrict or completely suspend their business activities, triggering a sharp fall in GDP in the first quarter of 2020. A SECO Expert Group expects the sharpest fall in GDP in decades for 2020. Provided that further waves of the pandemic with severe containment measures do not materialize, the economy should begin to recover from the second half of the year. For the rest of the year, the Expert Group is expecting only a limited recovery.

Households are suffering losses in income caused by an increase in short-time working, rising unemployment and a decline in employment. The considerable economic uncertainty and protective measures to prevent coronavirus infections are likely to further restrict the consumption expenditure of private households.

Negative international economic development has also hit the segments of Swiss foreign trade that are sensitive to the economic cycle. In spring 2020, the global economy fell into recession. In some major economies, it has not yet been possible to control the coronavirus pandemic. The economic losses incurred to date as a result of the measures to fight the pandemic are also very severe, which is slowing economic recovery. Due to the underutilized production capacity, the deterioration of businesses' financial situation and the high level of uncertainty, a significant reduction in investment in equipment is also likely for 2020 as a whole.

The Swiss National Bank (SNB) is maintaining its expansionary monetary policy, with the aim of stabilizing price developments and supporting economic activity. Interest on sight deposits held by banks at the SNB currently corresponds to the SNB policy rate and remains at -0.75 percent. Furthermore, under the SNB COVID-19 refinancing facility (CRF), the SNB is providing the banking system with additional liquidity and thus supporting the supply of credit to the economy at favourable terms. In the current situation, inflation and growth forecasts are subject to unusually high uncertainty. The SNB's conditional inflation forecast for 2020 is in negative territory (-0.7 percent).

Assets and financial situation

In the year under review, total assets rose by around 10.8 billion francs. This is mainly due to increased activity in the interbank money market. Growth in customer assets amounted to 1.7 billion francs in the first half of 2020. Further growth was recorded in sight deposits of business customers, despite the fact that customer asset fees on credit balances over a certain exemption limit held by selected individual customers had to be maintained due to the negative interest rates on sight deposit balances at the SNB. The customer asset fee charged to private customers with assets of over 250,000 francs concerns only a small number of customers, and had only a marginal impact on the development of customer deposits. PostFinance continues to invest a large proportion of its assets in long-term fixed-interest financial investments in Switzerland and abroad. A very large amount of liquidity was still held at the SNB as at 30 June 2020.

A trend was observed towards transferring assets from savings accounts to investment products such as funds and shares. PostFinance provides services in the commission business such as funds, e-trading, life insurance and credit cards in cooperation with partners. Average customer assets in investment products stand at almost 13 billion francs.

Federal Council assistance programme: PostFinance may grant loans up to 500,000 francs

The measures taken by the authorities to contain the spread of the coronavirus have far-reaching economic consequences. One of the consequences is that numerous companies have fewer and fewer liquid assets at their disposal to cover their ongoing costs. For this reason, the Federal Council adopted a comprehensive package of measures on 20 March 2020 to cushion the economic impact of the spread of the coronavirus for these companies. Among other things, the affected companies are to quickly and easily receive loan amounts of up to 10 percent of annual turnover or a maximum of 20 million francs.

It is possible for banks to pay out loans of up to 500,000 francs immediately after the processing of an extremely simplified, standardized loan application. These loans are fully guaranteed by the Confederation. We urged the Federal Council to allow us to participate in this assistance package despite the lending prohibition, so that we too can contribute to the common good. Our request was approved, which means that since 26 March, we have been able to quickly and easily grant our business customers loans of up to 500,000 francs. By the end of June, around 17,000 applications with credit limits of 843 million francs had been accepted. Out of this total, 339 million francs, or around 40%, were used.

Profit situation

PostFinance generated earnings before tax (EBT) of 38 million francs in the first half of 2020, which represents a decrease of 114 million francs year-on-year.

The interest differential business is the most important source of revenue for PostFinance. The ongoing low interest situation is increasingly weighing on interest margins. Interest income decreased by 38 million francs in comparison with the first half of 2019. As interest rates have been low or even negative for years, the interest margin is being eroded.

As a result of the coronavirus crisis and the lockdown measures introduced in March, revenue from cash transactions at both Swiss Post branches and ATMs fell significantly and had only partially recovered by June. In addition, trading portfolio assets are seeing no substantial conversion gains from cash withdrawals in foreign currencies from ATMs in Switzerland and abroad and from the use of credit cards as a result of the restrictions on travel for our customers. Operating income also came under pressure from unrealized fluctuations in fair value on fund investments, which were recognized in profit or loss. The consequences of COVID-19 will be with us for a long time to come.

Headcount increased by 5 full-time equivalents compared to the first half of 2019. As part of its strategic focus, PostFinance is placing an emphasis on the simplification and digitization of its services and processes. At the same time, however, we are also pushing ahead with innovations and building up staff in new areas. In the first half of 2020, general and administrative expenses for project services were down year-on-year. Overall, operating expenses remained virtually unchanged at the previous year's level.

The sale of two participations and a subsidiary resulted in a 24 million franc net financial profit in the prior-year period.

Outlook

The ongoing uncertain situation on the domestic and international financial and capital markets with negative interest rates in some cases continues to present PostFinance with significant challenges. Due to the current investment climate, the high level of liquid assets cannot be profitably invested in the capital market. The negative interest on sight deposit balances charged by the SNB is partly being passed on to major customers and wealthy private customers. Upward pressure on the Swiss franc is expected to persist, despite the intervention by the SNB. An increase in the key rates in Swiss francs in the course of the year can therefore be ruled out.

PostFinance is operating in a challenging economic and regulatory environment. As interest rates have been low or even negative for years, its interest margin is being eroded.

Switzerland's financial center introduced the QR-bill on 30 June 2020. After a transition period, the changeover to the ISO standard 20022 and the new QR-bill will replace today's domestic inpayment slips. Inpayments at counters and other Swiss Post physical access points became more expensive on this date. This applies to inpayments with red inpayment slips (IS) and orange inpayment slips with reference number (ISR). At the same time, the prices for inpayments with the new QR-bill were set.

The coronavirus crisis is having a far-reaching impact on customer behaviour in the area of cash handling and the use of financial services in connection with travel and online purchases. Any partial recovery depends on how the pandemic develops. Our society, and with it the banking world, is rapidly becoming more and more digital. We will therefore pursue several strategic thrusts as we pave the way to becoming a digital powerhouse.

PostFinance interim financial statements

PostFinance Ltd issues financial statements in accordance with Group International Financial Reporting Standards (IFRS) guidelines and the FINMA Accounting Ordinance together with FINMA Circular 2020/1 “Accounting – banks”.

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Balance sheet

PostFinance Ltd | Balance sheet as per Group IFRS guidelines

CHF million	31.12.2019	30.6.2020
Assets		
Cash and cash equivalents	1,778	1,466
Amounts due from banks	45,440	55,036
Interest-bearing amounts due from customers	500	777
Trade accounts receivable	27	12
Other receivables	492	420
Inventories	4	3
Non-current assets held for sale	–	–
Financial investments	76,388	77,729
Participations	5	8
Tangible fixed assets	399	395
Investment property	267	264
Intangible assets	151	139
Right-of-use assets	65	60
Deferred tax assets	226	246
Total assets	125,742	136,555
Liabilities		
Customer deposits	108,966	110,350
Other financial liabilities	10,349	19,725
Trade accounts payable	81	52
Other liabilities	108	151
Income tax liabilities	–	–
Provisions	264	282
Deferred tax liabilities	89	87
Equity	5,759	5,854
Profit	126	55
Total liabilities	125,742	136,555

Income statement

PostFinance Ltd Income statement as per Group IFRS guidelines		
CHF million	2019 1.1.–30.6.	2020 1.1.–30.6.
Net interest income, net of impairment	308	270
Net income from services	114	101
Net commission income	57	69
Net trading income	128	74
Net income from financial assets	-7	0
Other net income	71	65
Operating income	671	579
Personnel expenses	-224	-239
General and administrative expenses	-257	-243
Operating expenses	-481	-482
Gross profit (EBDIT)	190	97
Depreciation of fixed assets	-41	-39
Operating profit (EBIT)	149	58
Net financial income	3	-20
Earnings before tax (EBT)	152	38
Expenses for current taxes	4	-
Expenses for deferred taxes	27	-17
Expenses for non-reclaimable withholding tax	0	-
Income taxes	31	-17
Profit	121	55

Reconciliation of IFRS income statement with Accounting – banks

PostFinance issues financial statements in accordance with Group International Financial Reporting Standards (IFRS) guidelines and the Accounting rules for banks set out in article 6 ff. of the Banking Act, article 25 ff. of the Banking Ordinance, the FINMA Accounting Ordinance and FINMA Circular 2020/1 “Accounting – banks”. The following table shows the differences between the two accounting standards in the income statement. It reconciles the interim results in accordance with Group IFRS guidelines with the financial statements in accordance with Accounting – banks.

PostFinance Ltd Reconciliation of income statement as per Group IFRS guidelines with Accounting – banks		2019	2020
CHF million		1.1.–30.6.	1.1.–30.6.
Profit as per Group IFRS guidelines		121	55
Interest and dividend income from financial investments	Amortization of revalued held-to-maturity financial investments	–	–
Various items of net income	Valuation differences for financial investments as per Accounting – banks	–9	14
Changes in value adjustments for default risks and losses from interest operations	Reversal of impairment on / impairment of loans, financial investments and receivables	–	–
Result from the disposal of financial investments	Realized gains from (earlier than scheduled) sales	7	–6
Personnel expenses	Valuation differences between IAS 19 and Swiss GAAP ARR 16	5	46
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets	Revalued real estate	–2	–2
	Goodwill	–100	–
Various income statement items	Valuation differences for participations as per Accounting – banks	–1	–1
	Leases as per IFRS 16	–	0
Extraordinary income / extraordinary expenses	Realized gains from participations	–	–
Taxes	Deferred tax income as per Group IFRS guidelines	27	–16
Interim profit as per Accounting – banks		48	89

Statutory interim financial statements

PostFinance issues interim financial statements in accordance with the Accounting rules for banks (articles 25–28 of the Banking Ordinance, the FINMA Accounting Ordinance and FINMA Circular 2020/1 “Accounting – banks”).

The statutory interim financial statements as at 30 June 2020 indicate earnings after tax of 89 million francs.

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Balance sheet

PostFinance Ltd | Balance sheet as per Accounting – banks

CHF million	31.12.2019	30.6.2020
Assets		
Liquid assets	46,946	56,282
Amounts due from banks	3,889	3,714
Amounts due from securities financing transactions	22	–
Amounts due from customers	12,075	12,277
Mortgage loans	0	0
Trading portfolio assets	–	–
Positive replacement values of derivative financial instruments	162	176
Other financial instruments at fair value	–	–
Financial investments	60,406	61,936
Accrued income and prepaid expenses	383	357
Participations	105	107
Tangible fixed assets	1,166	1,145
Intangible assets	–	–
Other assets	420	445
Total assets	125,574	136,439
Total subordinated claims	11	11
of which subject to mandatory conversion and / or debt waiver	1	–
Liabilities		
Amounts due to banks	1,324	787
Liabilities from securities financing transactions	9,125	18,773
Amounts due in respect of customer deposits	108,469	110,116
Trading portfolio liabilities	–	–
Negative replacement values of derivative financial instruments	340	323
Liabilities from other financial instruments at fair value	–	–
Cash bonds	71	16
Bond issues and central mortgage institution loans	–	–
Accrued expenses and deferred income	105	144
Other liabilities	5	58
Provisions	35	33
Reserves for general banking risks	–	–
Bank's capital	2,000	2,000
Statutory capital reserve	4,682	4,682
of which tax-exempt capital contribution reserve	4,682	4,682
Statutory retained earnings reserve	–	–
Voluntary retained earnings reserves	–	–
Profit carried forward	–	–582
Profit / loss	–582	89
Total liabilities	125,574	136,439
Total subordinated liabilities	203	203
of which subject to mandatory conversion and / or debt waiver	203	203

Off-balance sheet

PostFinance Ltd | Off-balance-sheet transactions

CHF million	31.12.2019	30.6.2020
Off-balance-sheet transactions		
Contingent liabilities	52	61
Irrevocable commitments	699	1,215
Obligations to pay up shares and make further contributions	–	–
Credit commitments	–	–

Income statement

PostFinance Ltd | Income statement as per Accounting – banks

CHF million	2019 1.1.–30.6.	2020 1.1.–30.6.
Interest and discount income	71	65
Interest and dividend income from trading portfolios	–	–
Interest and dividend income from financial investments	215	148
Interest expense	12	66
Gross result from interest operations	298	279
Changes in value adjustments for default risks and losses from interest operations	0	–15
Net result from interest operations	298	264
Commission income from securities trading and investment activities	32	41
Commission income from lending activities	11	11
Commission income from other services	317	288
Commission expense	–192	–174
Result from commission business and services	168	166
Result from trading activities and the fair value option	103	89
Result from the disposal of financial investments	7	3
Income from participations	10	3
Result from real estate	33	32
Other ordinary income	52	31
Other ordinary expenses	–	–
Other result from ordinary activities	102	69
Operating income	671	588
Personnel expenses	–220	–193
General and administrative expenses	–274	–257
Operating expenses	–494	–450
Value adjustments on participations and depreciation and amortization of tangible fixed assets and intangible assets	–142	–38
Changes to provisions and other value adjustments, and losses	–4	–6
Operating result	31	94
Extraordinary income	26	–
Extraordinary expenses	–1	0
Changes in reserves for general banking risks	–	–
Taxes	–8	–5
Six-month profit	48	89

PostFinance Ltd
Mingerstrasse 20
3030 Berne
Switzerland

Tel. +41 58 338 25 00
www.postfinance.ch

PostFinance 