



We want to become the number one digital retail bank in Switzerland

Interview

with **Hansruedi Köng**
Chief Executive Officer

Hansruedi Köng, how was the result in the past financial year?

In 2018, we generated earnings before tax of 187 million francs. This represents a decline of 276 million francs or 60 percent year-on-year.

Why did profit fall so dramatically?

Firstly, the result from the interest differential business fell by 164 million francs compared to 2017. Secondly, a one-off gain from the sale of two equity portfolios amounting to 109 million francs had a positive effect in the prior-year period.

So, what you have been forecasting for several years has now happened?

Yes, unfortunately, the decline in earnings is in line with our expectations. There are two reasons for this: the persistently low interest rates on the financial markets and the prohibition on lending. The latter prevents us from issuing our own loans and mortgages. This forces us to invest our customer deposits on the financial markets at very low yields. The lending prohibition has always been a competitive disadvantage for us compared to the other banks. Since the advent of the negative interest rate regime, however, this disadvantage has again been compounded.

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Were there also positive developments in last year's business result?

In the commission business, we generated a 17 million franc improvement in results, primarily due to higher revenues from funds. And on the expense side, staff costs fell by 20 million francs. The measures we have taken to develop new sources of non-interest income and improve efficiency are bearing fruit.

Does this mean the turnaround has started?

No, the negative trend will continue. In the next two years, bonds from earlier investments yielding good interest rates and worth around 20 billion francs will reach maturity, and we will only be able to reinvest them at very low returns.

What does that mean in numbers?

In the current low interest rate environment, we may still be able to make new investments at half of one percent. This means that by the end of 2020, we will again lose well over 200 million francs in net interest income. That puts tremendous pressure on our interest margin, and we cannot compensate for this decline in the interest differential business with efficiency improvements alone.

The Federal Council has now rushed to your aid with its proposal to lift the lending prohibition.

I was pleased to hear of the Federal Council's policy decision. We presented the Council with various scenarios to advise them of the options available to PostFinance. If the lending prohibition remains in place, our profits will continue to decline. This will not only further reduce the value of PostFinance

as a company, it will also threaten hundreds of jobs and, ultimately, a key pillar for the financing of the universal service provided by Swiss Post.

Are you not painting a somewhat black picture?

That, unfortunately, is the reality. However, the decision will not be taken by the Federal Council, but by the National Council and the Council of States. I therefore appeal to Parliament's responsibility towards the entrepreneurial freedom of PostFinance. We are talking here about a systemically important bank that belongs to every single citizen of this country. Step by step, the lending prohibition is destroying this national wealth, and it should therefore be lifted quickly.

Critics argue that the mortgage market in Switzerland works as it is, and that there is no need for another player – certainly not a state player.

This is of course a position that can be taken. But if you advocate for a liberal market order, you should not deny market entry to a new competitor.

What do you think are the chances that the lending prohibition will one day be lifted?

A lot of persuasion is still required. However, I am confident that the strength of our arguments will ultimately prevail among members of Parliament.

When do you expect a decision?

The Federal Administration is currently drawing up a consultation draft. On this basis, the Federal Council will send draft legislation

and its report to Parliament. If Parliament approves the amendment, the bill could enter into force in 2021. In the event that a referendum is required, it would probably take a year longer.

What are you doing until then to keep PostFinance on track?

We have a clear strategic goal: we want to become the number one digital retail bank in Switzerland. To ensure that we are technically ready for digitization, we modernized our core banking system over Easter weekend 2018. This was a Herculean task that we were able to master thanks to great commitment from our employees and partners. Equally importantly, the modernization enabled us to prove that we have the ability to implement major, highly complex projects with pinpoint accuracy. That is a significant strength, given the demands placed on us by the accelerating pace of global change.

The strategy has been defined, the technical foundation has been laid. What specifically is next for PostFinance?

We have already implemented numerous measures in our operational business to make PostFinance fit for the future. On the income side, we are reducing our dependence on interest operations by investing in new business areas such as digital investment and platform business. On the expense side, we are systematically harnessing savings potential and reducing our costs through measures such as automating and digitizing processes.

What do these cost-reduction measures mean for employees?

In the middle of last year, we announced that up to 500 full-time positions would be lost by the end of 2020. Most of these can be absorbed by natural staff turnover. Nevertheless, we will not be able to avoid additional redundancies. This is a painful decision, but it is unavoidable if we are to ensure the long-term competitiveness and successful continuity of PostFinance. This is clear from the major decline in the result in the past financial year. At the same time, however, we are pushing ahead with innovations and building up staff in new areas.



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Hansruedi Köng

You mentioned the platform business. Is that one of the new areas you would like to see grow?

Yes, we see great potential in the platform business. That is why we launched Valuu at the end of January 2019. Valuu is the first fully digital brokerage, comparison and sign-up platform for mortgages. We are confident that mortgage brokering meets a genuine demand and is therefore also relevant to potential mortgage customers.

What is innovative about Valuu?

There are already comparison platforms for mortgages, but they either rely on a physical branch or agency model, or compare only interest rates. Valuu is the only platform which guides mortgage seekers through the entire process end-to-end in a digital channel, including the option of taking out mortgages online.

What makes PostFinance qualified to operate a comparison platform of this kind for mortgages?

Our market analysis has revealed that mortgage customers associate financing solutions with banks. We have built on this finding. Other banks in Switzerland have little interest in operating this kind of platform as it would cannibalize their own mortgage business. By contrast, PostFinance possesses all of the required expertise, but does not have any significant mortgage business due to the lending prohibition. This makes us the only bank in Switzerland that can operate such a platform without a conflict of interest.

Why is PostFinance investing in new technologies of this kind?

The digital trend indicates that new and different business models will become established on the market in future. Take the music industry, for example. In the past, we all bought CDs. Now, we use streaming services. Similar changes can also be seen in the banking sector. We want to play an active

role in shaping digitization in the banking sector and launch development opportunities and potential disruptions under our own initiative, instead of adopting a wait-and-see approach.

And what digital innovations can your customers look forward to?

All of our innovations are designed to make it as easy as possible for our customers to manage their money and their financial affairs in general. Last autumn, we launched the "self-service hub" in the PostFinance App. This allows our customers to manage their PostFinance Card completely digitally with their smartphones. This year, we will be introducing a new login procedure for e-finance that works with facial recognition or fingerprints.



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