STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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# Die Schweizerische Post AG

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## Table Of Contents

# Die Schweizerische Post AG

## Major Rating Factors

| Counterparty Credit Rating |
| --- |
| AA+/Stable/A-1+ |

**Strengths:**

- Legal mandate to provide national postal services and basic payment transaction infrastructure.
- Very strong capitalization and strong earnings capacity.
- Extremely high likelihood of extraordinary support for the group from the Swiss government.

**Weaknesses:**

- Narrow business model in financial services business, due to restriction under Switzerland's postal law.
- Structural decline in mail volumes combined with high fixed costs.

## Outlook

Standard & Poor's Ratings Services' stable outlook on postal and financial services provider, Die Schweizerische Post AG (DSP), reflects that on its owner, the Swiss Confederation. DSP is the nonoperating holding company (NOHC) of the Swiss Post group. The stable outlook also reflects our expectation that the Swiss Post group's very close links to the state, its ownership, and its mandate to provide key public services will not change in the foreseeable future. Moreover, the outlook reflects our view that the group will maintain a sound financial profile that is relatively resilient against increasing economic imbalances in Switzerland.

We regard core members of the Swiss Post group as government-related entities (GREs) with an "extremely high" likelihood of receiving extraordinary government support if needed, based on their "critical" role for, and "very strong" link with, the Swiss government. Consequently, any change of group members' roles and links with the government could lead us to revise our assessment of their GRE status. This in turn could have negative rating implications for DSP as the group's NOHC. We consider such a scenario remote, however.

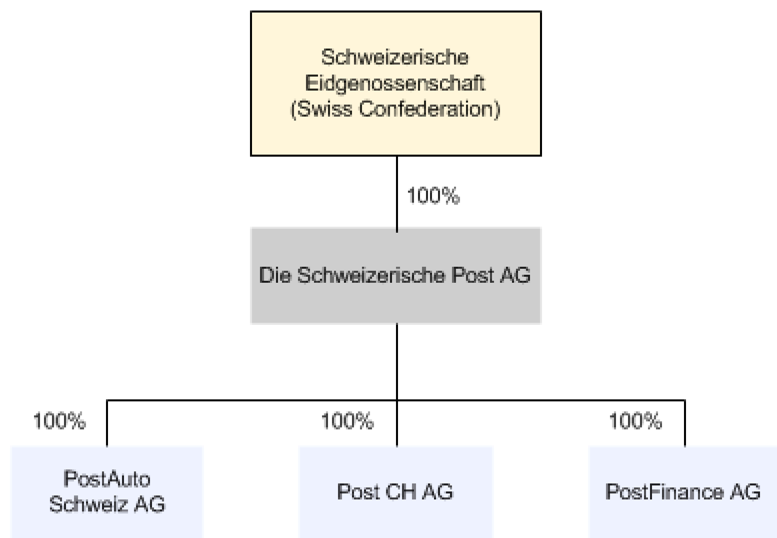
Likewise, we view the likelihood of a positive rating action as remote at this stage.

## Rationale

We derive our issuer credit rating on DSP from the group credit profile (GCP). Our 'a+' unsupported GCP on the Swiss Post group, headed by DSP, stems from banking entity PostFinance AG's 'a-' anchor, the group's "adequate" business position, "very strong" capital and earnings, "moderate" risk position, "above average" funding, and "strong" liquidity, as our banking criteria define these terms. The GCP is 'aa+' when we include the likelihood of support from the Swiss Confederation (unsolicited ratings AAA/Stable/A-1+).

As of June 26, 2013, DSP's legal form changed to a special-law joint-stock company from that of a public-law institution. Simultaneously, the main operating divisions were legally segregated from DSP, which will remain their full owner. The Swiss Post group now comprises the holding company, DSP, and three main subsidiaries: PostFinance AG (financial services), Post CH AG (communication/logistic operations), and PostAuto AG (public passenger transport) (see chart 1).

Chart 1
**Swiss Post Group Organization Structure As Of June 30, 2013**






Although DSP is now an NOHC, its probability of default is not materially different from that of the group's core operating subsidiaries, in our view. This is because we believe any extraordinary government support for core group members, such as PostFinance AG, would be supplied through DSP. Our view is supported by the current legal framework, under which DSP has an implicit financing agreement with the federal treasury that allows it to receive funding at short notice if in distress. A capital injection would require approval from the Swiss parliament. We therefore don't consider DSP to be structurally subordinated to the operating entities.

As an NOHC, DSP relies on distributions from its operating subsidiaries, including dividend payments and license fees, to repay outstanding debt. The diversity of the Swiss Post group's activities supports our equalization of the rating on DSP with that on PostFinance, although PostFinance has been regulated by the Swiss Financial Market Supervisory

Authority since June 2013.

We have used our bank rating methodology to determine the Swiss Post group's GCP because the main subsidiary--PostFinance AG--is a major deposit-taking institution in Switzerland and dominates the group's balance sheet and profitability (96% and 54%, respectively as of June 2013). Nevertheless, we include the group's corporate activities into our overall assessment.

### Anchor: 'a-' to reflect exposures in PostFinance's investment portfolio

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating only in Switzerland is 'a'.

Our 'a-' anchor for Swiss Post group draws on our BICRA methodology and our view of the weighted-average economic risk in countries PostFinance is exposed to through its large investment portfolio. About 45% of the portfolio relates to countries with comparatively higher economic risk than Switzerland. Therefore the anchor for PostFinance is one notch lower than that for banks operating only in Switzerland, and it is sensitive to an increase of exposures in such countries.

The Swiss banking industry is supported by its sizable and very stable customer deposit base. Pure domestic Swiss banks have not loosened credit standards in recent years, thanks to sound earnings potential from core products. We consider regulatory standards to be more stringent than in other developed countries.

**Table 1**

| Die Schweizerische Post AG Key Figures | | | | | |
|---|---|---|---|---|---|
| | | --Year ended Dec. 31-- | | | |
| **(Mil. CHF)** | **2013*** | **2012** | **2011** | **2010** | **2009** |
| Adjusted assets | 118,126 | 119,716 | 107,958 | 93,021 | 84,380 |
| Customer loans (gross) | 9,066 | 8,732 | 8,823 | 8,086 | 6,326 |
| Adjusted common equity | 5,173 | 2,145 | 2,478 | 2,564 | 2,672 |
| Operating revenues | 3,992 | 7,984 | 7,966 | 8,075 | 7,988 |
| Noninterest expenses | 3,462 | 7,106 | 6,963 | 7,117 | 7,204 |
| Core earnings | 1,302 | 863 | 899 | 908 | 720 |

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

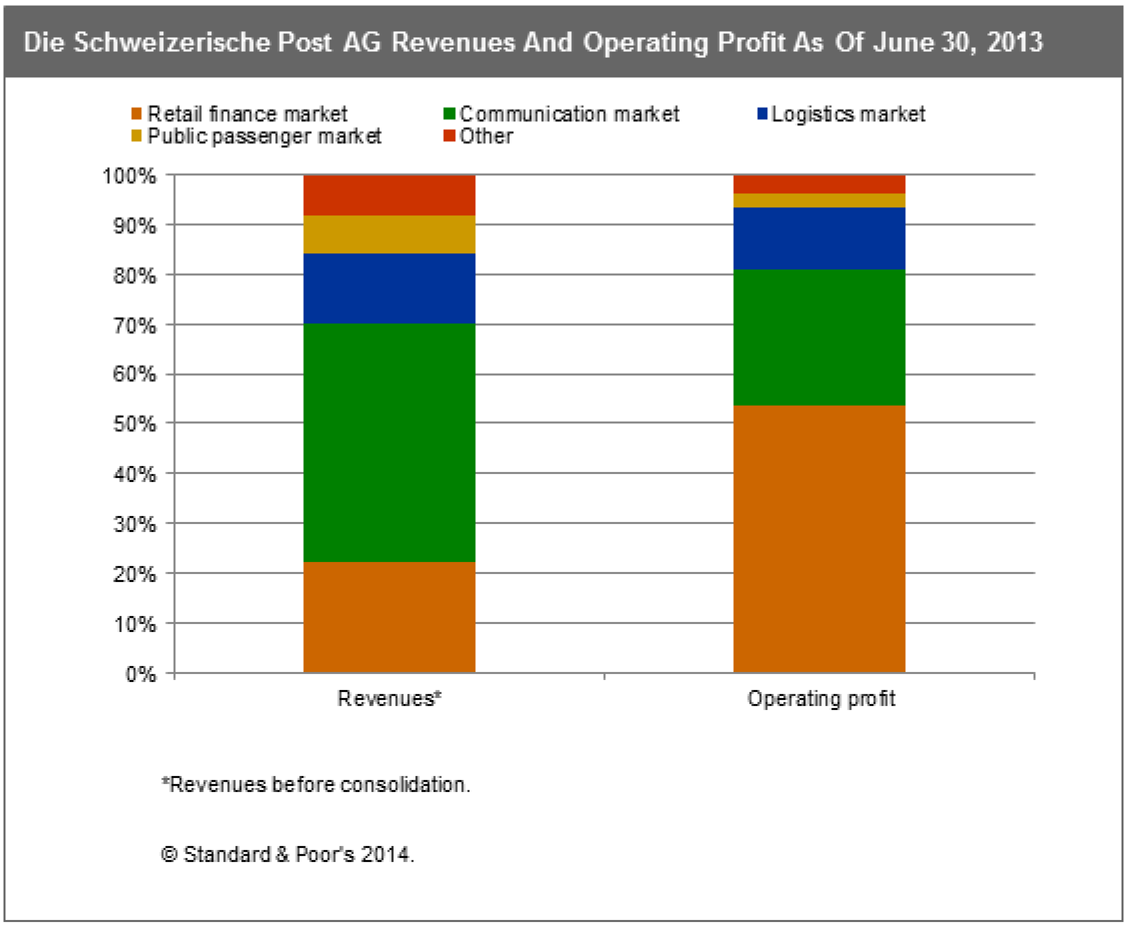
### Business position: Sound market position as the nation's postal provider and leading deposit-taking institution.

We regard the Swiss Post group's business position as "adequate" reflecting its very stable business generation and its position as the legally mandated provider of postal, financial, and payment services through the post office network in Switzerland.

DSP is the incumbent postal operator in Switzerland. It has a dense branch network, and its revenues totaled about Swiss franc (CHF) 4.26 billion (about €3.5 billion) in the first half of 2013, compared with CHF8.6 billion in the full year 2012. DSP's assets totaled CHF118 billion (about €95 billion) as of June 30, 2013, and it is the second largest employer in Switzerland with slightly more than 44,600 employees (full-time equivalents).

DSP's banking subsidiary PostFinance is one of the country's largest retail banks. As of June 30, 2013, it had total assets of CHF115 billion (about €93 billion) and about 2.9 million retail and business clients. PostFinance has a legal mandate to provide basic services for payment transactions in Switzerland according to Swiss postal law, which we expect will continue over the medium term. We expect the bank to build on its leading position in domestic payment transactions; it is effectively party to two-thirds of noncash payments in Switzerland. The banking operations should, in our view, further benefit from very strong customer confidence, shown by high client penetration, especially in retail and business customers, and its solid market share in domestic customer deposits (estimated at 13%). However, Swiss postal law prohibits PostFinance from lending; therefore it invests its excess liquidity at the Swiss National Bank and in the international capital markets. We do not expect this restriction to change any time soon.

**Chart 2**




Swiss Post's nonbanking activities contributed 76% of its revenues and 44% of its operating profit as of June 30, 2013, providing positive revenue diversification, in our view. These activities are supported by Swiss Post's strong competitive position as Switzerland's national postal provider, and the profitability and favorable growth prospects of the logistics business. Swiss Post's market leading position is also supported by Switzerland's conservative market liberalization policy compared with that in other EU countries. We do not expect any significant competitor to enter the market over the next few years. Furthermore, we view as positive Swiss Post's business diversification and granular customer base, which allow it to maximize the use of its large distribution network. We consider that regulatory or legislative changes, although not expected over the medium term, pose the key risk for the group's business stability.

The group's strengths are somewhat mitigated by structurally declining mail volumes and the high fixed costs of maintaining the postal branch network. We believe that the fairly stable cash flows from mail business will erode over time because Swiss Post will not be able to fully compensate for volume decreases by raising prices, a trend we observe in all mature European postal markets. In addition, we view Swiss Post's operating structure as fairly inflexible, hampering its profitability (operating margins are 5%-7%), although we note that the company is implementing restructuring measures to gradually improve operating efficiency.

We consider DSP's management and strategy to be prudent, led by the public mandate. The financial targets set by the Swiss Federal Council guarantee sustainable profitability and, in our view, are not overly ambitious. During the Swiss Post group's legal restructuring, management and the owner pursued the goal of laying a foundation for a more modern group, regulated by the relevant authorities. This is especially in light of the evolving postal market and strong growth of the retail bank's activities over the past five years.

**Table 2**

**Die Schweizerische Post AG Business Position**

| | | --Year ended Dec. 31-- | | | |
|---|---|---|---|---|---|
| **(%)** | **2013*** | **2012** | **2011** | **2010** | **2009** |
| Total revenues from business line (mil. CHF) | 4,436 | 7,993 | 7,971 | 8,077 | 7,996 |
| Other revenues/total revenues from business line | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Return on equity | 63.08 | 16.36 | 19.87 | 23.47 | N/A |

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

## Capital and earnings: Robust capitalization following the recapitalization measures

We view the Swiss Post group's capital and earnings as "very strong," primarily because our projected risk-adjusted capital (RAC) ratio for the group over the next 18-24 months is in the 16%-17% range, up from 7.6% as of Dec. 31, 2012. This projection includes the group's capital measures, which result in an increase in total adjusted capital to CHF5.17 billion as of June 30, 2013, compared with CHF2.15 billion as of Dec. 31, 2012. The main factors for Swiss Post group's risk-weighted assets (RWA), according to our criteria, are credit risk in PostFinance's large investment portfolio (32% of Standard & Poor's RWA figure) and operational risk (53% of Standard & Poor's RWA), mainly in the nonbanking business lines, based on their large revenue contribution.

Furthermore, we consider the Swiss Post group's quality of capital--consisting of paid-in capital and reserves--to be very strong. Earnings quality is, in our view, also very strong, reflecting the high share of stable net interest and net commission income from the financial services business and the relatively robust revenues from the nonbanking activities.

We believe the Swiss Post group's earnings will remain stronger than the industry average, despite likely subdued profitability at the postal operations. The Swiss Post group's 2013 results would be affected by large one-time items during last year, namely, gains associated with the restructuring of the group pension fund, a positive tax effect from the initial recognition of deferred tax assets, and higher provision due to a change in Swiss Post's internal estimates. However, we forecast pretax profit of CHF800 million-CHF850 million annually in 2014-2015. We estimate that the group's three-year average earnings buffer will be close to 300 basis points (bps), which indicates that its earnings have a very strong capacity to cover normalized losses. However, we believe operating efficiency will remain weak, based on our projected cost-to-income ratio of 85bps-90bps.

**Table 3**

**Die Schweizerische Post AG Capital And Earnings**

| | | --Year ended Dec. 31-- | | | |
|---|---|---|---|---|---|
| **(%)** | **2013*** | **2012** | **2011** | **2010** | **2009** |
| Tier 1 capital ratio | N/A | N/A | N/A | N/A | N/A |
| S&P RAC ratio before diversification | N.M. | 7.56 | N.M. | N.M. | N.M. |
| S&P RAC ratio after diversification | N.M. | 8.11 | N.M. | N.M. | N.M. |
| Net interest income/operating revenues | N/A | 13.11 | 14.06 | 13.31 | 12.12 |
| Fee income/operating revenues | N/A | 6.83 | 6.92 | 6.53 | 6.79 |
| Market-sensitive income/operating revenues | N/A | 2.12 | 1.80 | 1.51 | 1.35 |
| Noninterest expenses/operating revenues | 86.72 | 89.00 | 87.41 | 88.14 | 90.19 |
| Preprovision operating income/average assets | 0.89 | 0.77 | 1.00 | 1.08 | N/A |
| Core earnings/average managed assets | 2.18 | 0.76 | 0.89 | 1.02 | N/A |

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

**Table 4**

**Die Schweizerische Post AG RACF [Risk-Adjusted Capital Framework] Data**

| **(Mil. CHF)** | **Exposure*** | **Basel II RWA** | **Average Basel II RW (%)** | **Standard & Poor's RWA** | **Average Standard & Poor's RW (%)** |
|---|---|---|---|---|---|
| **Credit risk** | | | | | |
| Government and central banks | 36,469 | 0 | 0 | 2,072 | 6 |
| Institutions | 26,283 | 0 | 0 | 3,200 | 12 |
| Corporate | 2,333 | 0 | 0 | 1,629 | 70 |
| Retail | 0 | 0 | 0 | 0 | 0 |
| Of which mortgage | 0 | 0 | 0 | 0 | 0 |
| Securitization | 24 | 0 | 0 | 5 | 20 |
| Other assets | 2,461 | 0 | 0 | 2,215 | 90 |
| Total credit risk | 67,570 | 0 | 0 | 9,121 | 13 |
| **Market risk** | | | | | |
| Equity in the banking book¶ | 598 | 0 | 0 | 4,110 | 688 |
| Trading book market risk | -- | 0 | -- | 0 | -- |
| Total market risk | -- | 0 | -- | 4,110 | -- |
| **Insurance risk** | | | | | |
| Total insurance risk | -- | -- | -- | 0 | -- |
| **Operational risk** | | | | | |
| Total operational risk | -- | 0 | -- | 15,141 | -- |

**Table 4**

| Die Schweizerische Post AG RACF [Risk-Adjusted Capital Framework] Data (cont.) | | | | |
|---|---|---|---|---|
| **(Mil. CHF)** | **Basel II RWA** | | **Standard & Poor's RWA** | **% of Standard & Poor's RWA** |
| **Diversification adjustments** | | | | |
| RWA before diversification | 0 | | 28,372 | 100 |
| Total adjustments to RWA | -- | | (1,923) | (7) |
| RWA after diversification | 0 | | 26,449 | 93 |
| **(Mil. CHF)** | **Tier 1 capital** | **Tier 1 ratio (%)** | **Total adjusted capital** | **Standard & Poor's RAC ratio (%)** |
| **Capital ratio** | | | | |
| Capital ratio before adjustments | 0 | 0.0 | 2,145 | 7.6 |
| Capital ratio after adjustments§ | 0 | 0.0 | 2,145 | 8.1 |

*Exposures in PostFinance's investment portfolio. Securitisation exposure includes the securitisation tranches deducted from capital in the regulatory framework. ¶Exposure and Standard & Poor's 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. Sources: Company data as of Dec. 31, 2012, Standard & Poor's.

## Risk position: Operational risks in nonbank activities and concentration risks in PostFinance's large investment portfolio

We consider the Swiss Post group's overall risk position to be "moderate," mainly reflecting the single-name and sector concentrations in PostFinance's investment portfolio. In addition, although we incorporate the nonbanking activities in our RAC ratio, we consider that our RAC framework does not fully capture the risks in these operations.

PostFinance is not permitted to lend, according to Swiss postal law. Consequently, it invests most of its excess liquidity in the international capital markets or places it with the central bank. PostFinance's investments totaled CHF64 billion as of June 30, 2013, and comprised covered bonds and public-sector bonds of high credit quality: 62% rated 'AAA' and 97% at least 'A'. Owing to PostFinance's conservative investment rules, we expect the quality of the portfolio to remain stable, despite risk from high single-name exposures.

The slightly longer average duration of assets compared with liabilities on PostFinance's balance sheet represents a potential risk if interest rates start increasing. However, we understand the group aims to improve the asset-liability match, and it records more than 90% of its financial assets as "held to maturity," which reduces earnings volatility. PostFinance has no trading book, but is marginally exposed to market risk from foreign currency positions in international payment transactions.

The Swiss Post group's large pension deficit, which is vulnerable to interest rate movements, poses an additional risk for the group. However, Swiss Post started applying the revised International Accounting Standard No. 19 in 2013, so unrecognized actuarial losses will in future be recognized in the balance sheet under equity. This resulted in a retroactive negative equity adjustment of CHF2.5 billion as of Dec. 31, 2012.

**Table 5**

| Die Schweizerische Post AG Risk Position | | | | | |
|---|---|---|---|---|---|
| | | --Year ended Dec. 31-- | | | |
| (%) | 2013* | 2012 | 2011 | 2010 | 2009 |
| Growth in customer loans | 7.65 | (1.03) | 9.11 | 27.82 | N.M. |
| Total diversification adjustment / S&P RWA before diversification | N.M. | (6.78) | N.M. | N.M. | N.M. |
| Total managed assets/adjusted common equity (x) | 22.90 | 55.94 | 43.69 | 36.39 | 31.69 |
| New loan loss provisions/average customer loans | N.M. | (0.28) | 0.98 | 0.32 | N/A |
| Gross nonperforming assets/customer loans + other real estate owned | N/A | 0.14 | 0.12 | 0.80 | 0.92 |
| Loan loss reserves/gross nonperforming assets | N/A | 133.33 | 81.82 | 30.77 | 36.21 |

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

### Funding and liquidity: One of the largest deposit-taking institutions in Switzerland, and with ample liquidity

We consider the Swiss Post group's funding "above average" and its liquidity position "strong," mainly reflecting PostFinance's operations and DSP's close ties to the Swiss government. Furthermore, we consider the nonbanking activities, which are based on cash flows, to be neutral to our funding and liquidity assessment. Consequently, our funding and liquidity metrics for the group, although outstanding compared with those of banks we rate globally, do not fully reflect the group's funding and liquidity profile.

With customer deposits of about CHF104 billion, the group 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 and so far has a limited amount of debt at holding company level (CHF1.28 billion). We therefore expect our stable funding ratio to remain higher than 400% in 2014-2015.

Since midyear 2011, Swiss Post group's retail finance segment has been placing excess liquidity with the Swiss National Bank (SNB), where it now holds a liquidity buffer of more than CHF40 billion. In addition, the group has a substantial portfolio of assets eligible for sale-and-repurchase transactions with the SNB, access to bank lines, and a financing agreement with the federal treasury. We therefore consider the group able to continue operating for more than 12 months in the event of sudden customer withdrawals at PostFinance, without resorting to the debt capital markets.

**Table 6**

| Die Schweizerische Post AG Funding And Liquidity | | | | | |
|---|---|---|---|---|---|
| | | --Year ended Dec. 31-- | | | |
| (%) | 2013* | 2012 | 2011 | 2010 | 2009 |
| Core deposits/funding base | 98.72 | 98.82 | 99.99 | 99.64 | 99.98 |
| Customer loans (net)/customer deposits | 8.47 | 7.89 | 8.75 | 9.41 | 8.16 |
| Long term funding ratio | 99.91 | 99.97 | 99.99 | 99.66 | 99.99 |
| Stable funding ratio | 427.09 | 487.78 | 446.11 | 394.66 | N/A |
| Short-term wholesale funding/funding base | 0.10 | 0.04 | 0.01 | 0.36 | 0.01 |
| Broad liquid assets/short-term wholesale funding (x) | 880.26 | 2,390.21 | 10,528.69 | 226.90 | 6,526.47 |
| Net broad liquid assets/short-term customer deposits | 85.59 | 86.62 | 83.89 | 81.89 | 85.44 |



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**Table 6**

| Die Schweizerische Post AG Funding And Liquidity (cont.) | | | | | |
|---|---|---|---|---|---|
| Short-term wholesale funding/total wholesale funding | 7.51 | 3.03 | 100.00 | 99.68 | 52.63 |

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

### External support: Swiss Post group benefits from extraordinary government support

Because DSP is an NOHC we do not assess its stand-alone credit profile; rather, we derive the ratings on DSP from the Swiss Post group's GCP, including potential government support. The supported GCP of 'aa+' mainly reflects the operations of PostFinance, which we regard as a GRE. The GCP is three notches higher than the unsupported GCP of 'a+' because of our view of an "extremely high" likelihood of government support for the core subsidiaries in the event of stress.

We equalize the ratings on DSP with the supported GCP because, in our view, the probability of default of DSP--the parent and holding company--is the same as that of the core operating companies. This follows our understanding that any potential financial support from the Swiss government will likely be directed to DSP instead of to the subsidiaries, in accordance with the legal framework in place. DSP would then allocate such support to its operating subsidiaries, as necessary.

The Swiss Confederation is DSP's sole owner, and DSP reports quarterly to the government, who also appoints its management and supervisory boards. Two regulatory boards supervise the company's adherence to its public service mandate. We regard the possibility of a full or even partial privatization of DSP as very remote in the medium term.

### Additional rating factors: None

No other factors affect the ratings.

## Related Criteria And Research

### Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Principles of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

### Related Research

- Banking Industry Country Risk Assessment: Switzerland, Dec. 6, 2013
- Outlook Revised To Stable On Switzerland's Die Schweizerische Post AG; 'AA+/A-1+' Ratings Affirmed, June 28, 2013
- Swiss Confederation, Feb. 20, 2013

| Ratings Detail (As Of January 23, 2014) | |
|---|---|
| **Die Schweizerische Post AG** | |
| Counterparty Credit Rating | AA+/Stable/A-1+ |

| Ratings Detail (As Of January 23, 2014) (cont.) | |
|---|---|
| **Counterparty Credit Ratings History** | |
| 28-Jun-2013 | AA+/Stable/A-1+ |
| 21-Mar-2013 | AA+/Negative/A-1+ |
| **Sovereign Rating** | |
| Swiss Confederation (Unsolicited Ratings) | AAA/Stable/A-1+ |
| **Related Entities** | |
| **PostFinance AG** | |
| Issuer Credit Rating | AA+/Stable/A-1+ |
| **Swiss Confederation (Unsolicited Ratings)** | |
| Issuer Credit Rating | AAA/Stable/A-1+ |
| Transfer & Convertibility Assessment | AAA |

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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