S&P Global
Ratings

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Die Schweizerische Post AG

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Die Schweizerische Post AG

SACP	a-

Anchor	a-	
Business Position	Adequate	0
Capital and Earnings	Strong	+1
Risk Position	Weak	-2
Funding	Above Average	+1
Liquidity	Strong	

+

Support	+5
GRE Support	+5
Group Support	0
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating
AA+/Stable/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Extremely high likelihood of extraordinary support for the group from the Swiss government. • Franchise as legally mandated provider of essential banking services in Switzerland. • Superior capitalization, funding and liquidity profile.	• Concentrated business model in its financial services segment under severe pressure from expected lower-for-longer interest rate environment. • Limited strategic options to improve weak shareholder returns under existing legal restrictions on financial services operations. • Structural decline in mail volumes combined with high fixed costs.

Outlook: Stable

S&P Global Ratings' outlook on Switzerland-based Die Schweizerische Post AG (DSP) and its banking subsidiary PostFinance AG (together, the Swiss Post group) is stable, reflecting our stable outlook on the ultimate owner and support provider, Switzerland, over our 24-month forecast horizon. We expect that the Swiss Post group's very close links to the state, its ownership, and its mandate to provide key public services will not materially change in the foreseeable future.

We continue to closely monitor any material change of group members' roles and links with the government that could lead us to revise our assessment of extraordinary government support to the group. Discussions about the potential privatization of PostFinance indicate an increase in the political willingness to act, but we think that a deterioration of the government support likelihood over the outlook horizon is unlikely.

While we see increasing pressure on DSP's financial profile, our current base case is that the group will successfully manage its transformation program to compensate for decreasing revenues amid a low interest rate environment and COVID-19-induced headwinds.

Downside scenario

We could lower our issuer credit rating (ICR) if the group's ties to the Swiss Confederation were to weaken or if changes to the respective legislation were to be made. This could have one or more notches of negative rating implications for DSP, as the group's nonoperating holding company (NOHC), and for its core subsidiary PostFinance. We would revise the outlook to negative or lower the ratings, if we perceived an increased likelihood of a transition. In any case, we do not expect legislative changes to come into effect before 2023.

We expect that potential deterioration of the group-wide stand-alone credit profile (group SACP) would be buffered by the government support and would not trigger a downgrade. We could revise down the group SACP, if we concluded that Swiss Post group's restructuring is unlikely to sufficiently address ongoing earnings deterioration in case of increasing headwinds. The same holds true if we come to the conclusion that the business model is no longer supported by the government to the same extent, increasingly exposing the group to competitive pressures.

Upside scenario

We view the likelihood of a positive rating action for DSP as extremely remote at this stage.

Rationale

Our ratings on DSP rest on the aggregated creditworthiness of the consolidated Swiss Post group, consisting of PostFinance and its nonbanking activities, headed by DSP. Our ratings reflect DSP's status as the legally mandated provider of postal, financial, and payment services through the post office network in Switzerland.

We continue to see the group's key weakness as its limited strategic options to improve weak shareholder returns from PostFinance under existing legal restrictions. These prevent the banking subsidiary from extending loans to Swiss households and companies. More than at any other Swiss peer bank, PostFinance's concentrated business model therefore will remain under significant pressure from an expected lower-for-longer interest rate environment in the foreseeable future.

Moreover, we see additional ongoing earnings pressures from the structural decline in mail volumes combined with high fixed costs. A COVID-19-induced economic crisis has accelerated the trend, putting further pressure on the management to speed up restructuring. In the absence of major strategic alternative options, we believe the group needs to undergo increasing cost cuts and digitalization efforts to improve its efficiency. As of September 2020, profits were 3.6% lower than the previous year. This is mainly due to lower mail volumes (-6.8%), a lower amount of payment transactions (-14.9%), as well as a further decrease of PostFinance's net interest margins.

At the same time, the group is exposed to investment needs in the processing of parcels. Compared with September 2019, the number of transported parcels has increased by 21.5%. Over the medium term, this could provide the group with some additional revenues, but we don't expect PostLogistics to fully compensate for earnings erosion in other segments.

To combat deteriorating performance, DSP started the process of seeking alternative ways of growth by the launch of its new strategic program 'Post of Tomorrow' in early 2020. The further reduction of branches to 800 by the end of 2021--from 962 in the first quarter of 2020--entails the potential of a reduction of fixed costs. At the same time, an opening for partnerships with corporates from other sectors is, in our view, beneficial for further revenue stabilization.

We believe that DSP's capital and funding and liquidity will remain a clear strength to the rating, while operational risks in nonbank activities and concentration risks in PostFinance's large investment portfolio will continue to be a weakness compared with peers.

We used our bank rating methodology to determine Swiss Post's group credit profile (GCP) because the main subsidiary PostFinance is a major deposit-taking institution in Switzerland and dominates the group's balance sheet and operating profit (96% and 46%, respectively, as of end-2018). Nevertheless, we include the group's corporate activities in our overall assessment as well.

Anchor:'a-' to 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 stand-alone credit profile (SACP), the starting point in assigning an ICR. Our anchor for a banking group operating mainly in Switzerland is 'a-'. We view the trends for both economic and industry risk as stable.

We expect Switzerland's economy to fully recover in 2021 and 2022 from its shock in 2020. We think the Swiss banking sector will remain resilient, supported by the country's diversified and competitive economy, very high household income levels, and a proven stress-resilient corporate sector. We think Swiss authorities' material support measures for domestic firms and households should cushion the short-term effect on Swiss banks' loan books. Additionally, we view positively banks' prudent loan underwriting standards and high collateralization of residential mortgage loans, which dominate most banks' customer portfolios. Considering these factors, we expect only a limited increase in credit losses, from historical low levels. We also expect affordability risk in the housing market might slightly reduce over the coming years given price growth in the owner-occupied segment is likely to remain muted in the wake of the pandemic.

Because PostFinance (and ultimately DSP) has no lending business, we consider the weighted-average economic risk in the countries that PostFinance is exposed to through its large investment portfolio. About 20% of the portfolio relates to countries with comparatively higher economic risk than Switzerland. Therefore, the anchor is sensitive to an increase in exposure to such countries.

Our view of industry risk in Switzerland encompasses the stability of the domestic banking sector and our expectation that damage from the COVID-19 pandemic will remain contained. We view positively the limited presence of foreign players, the banks' high capitalization levels in an international comparison, and their low reliance on capital markets for funding. In our view, the Swiss regulator's initiatives remain more stringent than those in other European banking sectors. We expect that banks' net interest margins will further decline gradually in a permanent low-interest-rate environment, as higher-yield assets mature and retail deposit rates remain mainly floored at zero. We consider risk for Swiss banks from tech disruption as limited as of today, given the population's preference for cash payments, the small size of the market with high barriers of entry, and technologically well-equipped banks.

Table 1

Die Schweizerische Post AG--Key Figures					
	--Year ended Dec. 31--				
(Mil. CHF)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	142,924.0	132,060.0	123,684.0	126,910.0	126,213.0
Customer loans (gross)	15,845.0	15,780.0	15,956.0	12,261.0	13,278.0
Adjusted common equity	6,020.0	6,020.0	5,904.0	5,599.0	3,784.0
Operating revenues	3,321.0	7,147.0	7,493.0	7,643.0	7,891.0
Noninterest expenses	3,273.0	6,718.0	7,021.0	7,191.0	7,240.0
Core earnings	30.0	276.5	371.7	351.9	525.3

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

Business position: Legally mandated provider of postal, financial, and payment services

We expect the Swiss Post group will continue to defend its franchise as the legally mandated provider of postal, financial, and payment services through the post office network in Switzerland. DSP's assets totaled Swiss franc (CHF) 143 billion as of June 30, 2020, and it is the third-largest employer in Switzerland. We expect that DSP's banking subsidiary PostFinance will continue to defend its superior franchise as one of Switzerland's largest retail banks, with 2.7 million customers and a solid 14% market share in customer deposits. Moreover, PostFinance dominates about two-thirds of all noncash processing payment transactions in Switzerland, with about one trillion transactions annually.

The Swiss Post group's market-leading position is supported by Switzerland's conservative market liberalization policy compared with that in EU countries. While we consider DSP's core markets to have relatively high entry barriers, we see an increasing risk of DSP not being able to defend its position in some areas, like the parcel delivery market, against new competitors in the medium term. Also, potential privatization, while not our base case, could expose the group to more competitive pressure over time.

We continue to believe that Swiss Post's key weakness will remain its limited strategic options to improve its weak shareholder returns under existing legal restrictions for its subsidiary PostFinance, which means it invests excess liquidity in the Swiss National Bank (SNB) and in the international capital markets. Therefore, we expect PostFinance to remain under more significant pressure from an expected lower-for-longer interest rate environment than other Swiss peer banks.

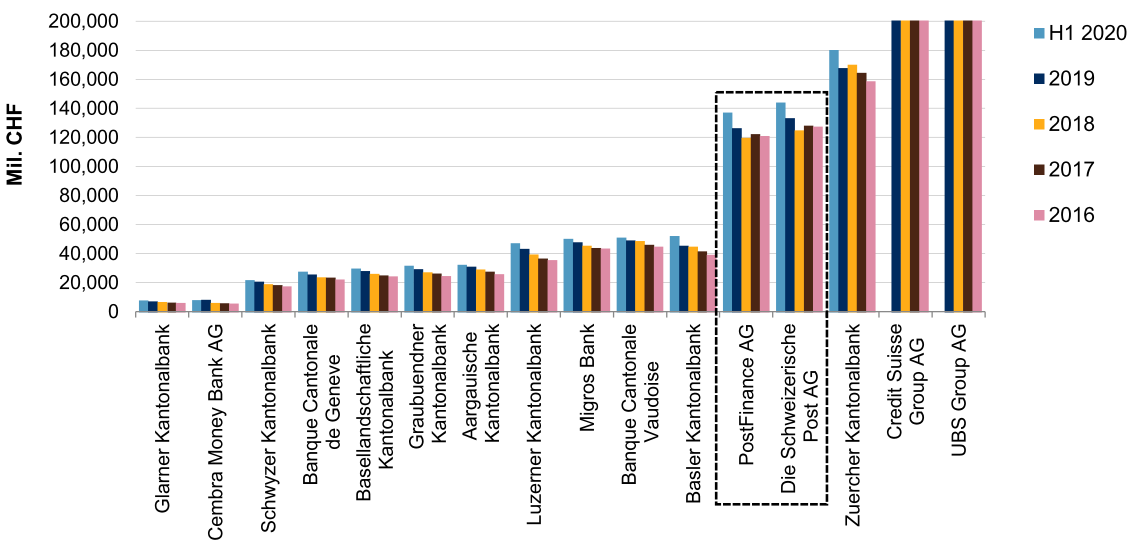
The group's main nonbanking weaknesses come from structurally declining mail volumes, accelerated amid the pandemic. This led to a further erosion of cash flow from the mail business, which will not be fully compensated with income from the logistics business.

In May 2020, DSP announced its new strategic program 'Post of Tomorrow', building on more digital services, strategic business cooperation with companies outside its own sector, as well as an increased revenue share from outside Switzerland. We consider the widening of its product portfolio beyond its legal monopoly, e.g. by the offering of digital health or e-government services, as beneficial to the diversification of revenues. Also recently implemented changes to Swiss Post's organizational structure, aims at improving operating efficiency. The successful execution of DSP's strategic program is key to its business transformation, and we expect a prolonged period of depressed profitability, negative cash flow, and elevated leverage due to high restructuring costs. We see execution risks as very high due to the need for investment during a period of economic uncertainty and the delayed entry into digital services markets.

Chart 1

DSP's Banking Subsidiary PostFinance Is One Of The Country's Largest Retail Banks

Asset size of the DSP, PF and Peers



CHF--Swiss franc. H1--First half. PF--PostFinance AG. Source: S&P Global Ratings.

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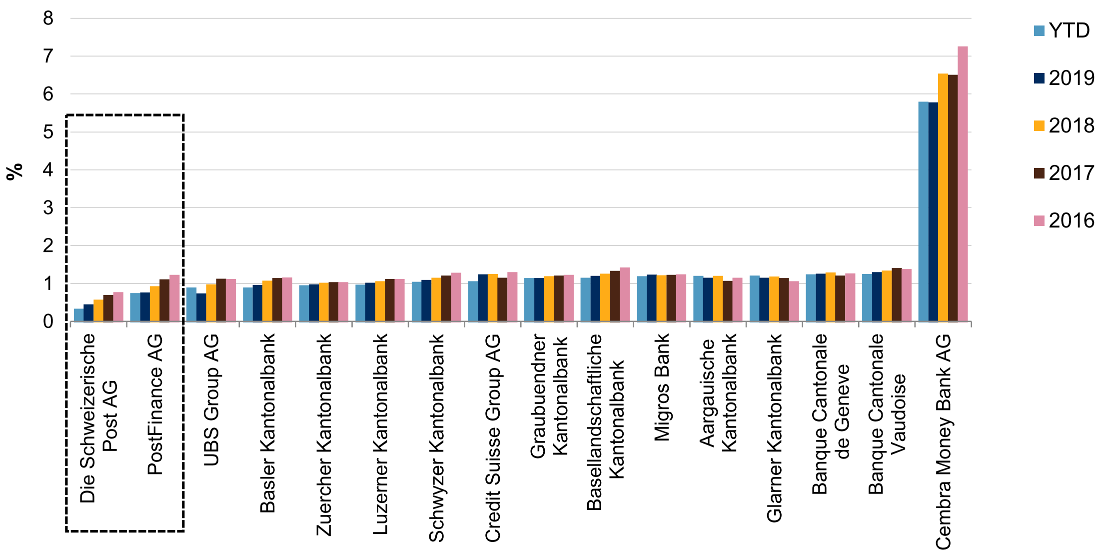
Chart 2

PostFinance's Lending Restrictions Are A Significant Competitive Disadvantage

Net interest income/average earning assets (NIM)



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

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PostFinance's earnings pressures are also the reason why on June 5, 2020, the Swiss Federal Council started consultation on a partial amendment of the Postal Organization Act that would allow PostFinance to engage in the Swiss loan market. This would permit the bank, which has been under legal restrictions, to broaden its revenue sources and franchise composition. The proposal also includes partial privatization of PostFinance, which would see the government potentially reduce its indirect stake in the bank to a minimum of 51%, together with a retraction of its state guarantee. Given the differing interests of the Swiss government and its cantons, we understand the legislative process would be lengthy and complex, and thus consider chances of success relatively low. If the cantons' representatives would be willing to accept the proposal, it would likely not come into effect before 2023. If the Swiss parliament accepts the legislative proposal, we would reassess PostFinance's link to and role for Switzerland and potential impact on the group's unsupported credit profile. We would also examine potential influence on our BICRA for Switzerland, if we were to believe that the operating landscape for banks had become more competitive.

Table 2

Die Schweizerische Post AG--Business Position

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	3,321.0	7,147.0	7,538.0	7,681.0	7,935.0
Commercial & retail banking/total revenues from business line	21.3	19.7	19.2	25.8	25.9

Table 2

Die Schweizerische Post AG--Business Position (cont.)

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Other revenues/total revenues from business line	78.7	80.3	80.8	74.2	74.1
Return on average common equity	1.0	3.8	6.1	6.5	12.0

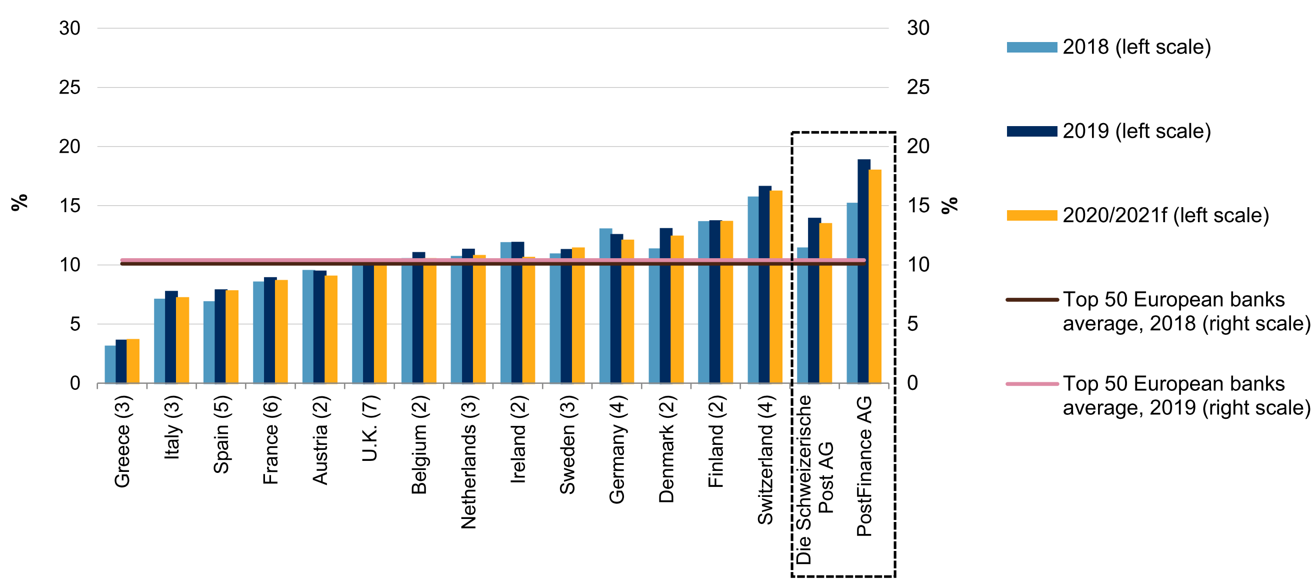
*Data as of June 30.

Capital and earnings: Strong capital buffer to remain a rating strength

We expect Swiss Post group's capital and earnings will remain a rating strength. Our view is based primarily on our projected risk-adjusted capital (RAC) ratio for the group over the next 18-24 months of about 13%, compared with 13.9% as of Dec. 31, 2019. The main factors for the Swiss Post group's risk-weighted assets (RWA) are credit risk in PostFinance's large investment portfolio (62% of S&P Global Ratings' RWA figure) and operational risk (33% of our RWA), mainly in the nonbanking business lines, based on their large revenue contribution.

Chart 3

2019 RAC Ratio Before Diversification For The 50 Largest Rated European Banks By Country



RAC--Risk-adjusted capital. f--Forecast. Source: S&P Global Ratings.

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We consider the Swiss Post group's quality of capital--consisting of paid-in capital and reserves--to be favorable. We understand that the group manages the capital at the holding level, that is, excess capital is held by DSP. The group's operations are self-financed, and DSP's priority is repaying the existing external funding out of dividends and cash flow from operating subsidiaries.

At the same time, we believe that the Swiss Post group's earnings will deteriorate further in the next years and remain below the industry average. We forecast that the group's three-year average earnings buffer will be only about 45 basis points, which indicates that earnings have a moderate capacity to cover normalized losses. We continue to believe operating efficiency will remain weak, based on our projected cost-to-income ratio of about 97%, which is not directly comparable with other Swiss financial institutions', due to the costs of the postal and logistic operations of the Swiss Post group.

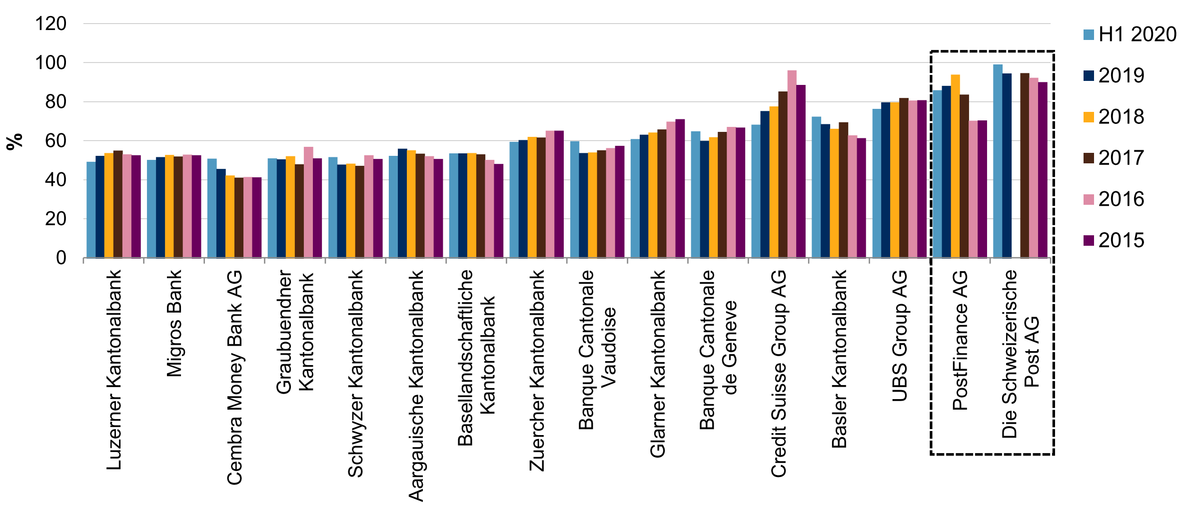
Table 3

Die Schweizerische Post AG--Capital And Earnings					
	--Year ended Dec. 31--				
(%)	2020*	2019	2018	2017	2016
S&P Global Ratings' RAC ratio before diversification	N/A	13.9	11.4	10.7	7.4
S&P Global Ratings' RAC ratio after diversification	N/A	15.3	12.1	11.4	7.2
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	6.0	7.1	8.5	10.4	10.9
Fee income/operating revenues	N/A	8.7	7.7	7.5	7.0
Market-sensitive income/operating revenues	N/A	3.4	2.3	4.3	3.9
Cost to income ratio	98.6	94.0	93.7	94.1	91.8
Preprovision operating income/average assets	0.1	0.3	0.4	0.4	0.5
Core earnings/average managed assets	0.0	0.2	0.3	0.3	0.4

*Data as of June 30. N/A--Not applicable. RAC--Risk-adjusted capital.

Chart 4

DSP And PF Have Weaker Operating Efficiency Among Its Regional Peers
Noninterest expenses/operating revenues



PF--PostFinance AG. H1--First half. Source: S&P Global Ratings.

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

We expect Swiss Post group's risk position to remain a weakness compared with many Swiss peers, mainly reflecting the single-name and sector concentrations in PostFinance's 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 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. In addition, although we incorporate the nonbanking activities in our RAC ratio, we consider that our RAC framework cannot fully capture the risks in these operations.

PostFinance's investments totaled about CHF76 billion (61% of total assets) at end-2019, comprising mainly covered bonds (24%) and public-sector bonds (42%). We expect the portfolio's quality to remain very high--48% rated 'AAA' or 77% at least 'A'--in line with PostFinance's conservative investment policy, despite several downgrades due to the worldwide GDP contraction. PostFinance records most of the financial assets as "held to maturity", which reduces earnings volatility. Furthermore, PostFinance has no trading book, but is marginally exposed to market risk from foreign currency positions in international payment transactions.

Table 4

Die Schweizerische Post AG--Risk Position

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	0.8	(1.1)	30.1	(7.7)	16.5
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(9.2)	(5.8)	(5.9)	2.3
Total managed assets/adjusted common equity (x)	23.8	22.0	21.0	22.8	33.5
New loan loss provisions/average customer loans	N.M.	0.0	0.0	(0.3)	0.2
Gross nonperforming assets/customer loans + other real estate owned	0.0	0.0	0.0	0.1	0.1
Loan loss reserves/gross nonperforming assets	N.M.	114.3	114.3	323.1	285.7

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

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

We consider the Swiss Post group's funding and liquidity position to be a rating strength, reflecting primarily PostFinance's operations and DSP's close ties to the Swiss government, which is supportive for customer trust and deposit stability. If the Swiss parliament accepts the legislative proposal and initiates a privatization of PostFinance, we would reconsider the group's liquidity and funding position given the changes in ownership status may have an impact on customer confidence. We consider the nonbanking activities' cash flow to be neutral to our funding and liquidity assessment.

Our assessment is also informed by outstanding funding and liquidity metrics for the group, although we are aware of their limitations given that they cannot fully capture the group's nonfinancial activities.

PostFinance customer deposits was about CHF107 billion or 14% of the domestic market as of Sept. 30, 2020. Customer deposits comprise equal shares of granular and very stable retail and business accounts, and we believe customer confidence is very robust, thanks to the group's government ownership. The group does not rely on wholesale funding. We therefore expect our stable funding ratio to remain superior to the ratios of most global banks at about 210% in 2020-2022, which is in line with levels as of June 30, 2020.

We expect liquidity to remain superior as well, because the group's liquidity sources would allow it to operate for more than 12 months in the event of sudden customer withdrawals at PostFinance, without resorting to the debt capital markets. This is demonstrated by DSP's ratio of net broad liquid assets to short-term customer deposits of about 60.85x as of June 30, 2020, which is superior to that of global banks.

Table 5

Die Schweizerische Post AG--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	84.0	90.3	99.0	98.7	95.8
Customer loans (net)/customer deposits	14.4	14.5	14.3	10.8	12.0
Long-term funding ratio	86.1	92.3	99.8	99.6	97.0
Stable funding ratio	208.8	209.7	209.8	214.8	202.4
Short-term wholesale funding/funding base	14.5	8.1	0.2	0.4	3.1
Broad liquid assets/short-term wholesale funding (x)	4.5	7.8	251.8	152.7	19.3
Net broad liquid assets/short-term customer deposits	60.8	61.1	60.3	62.2	59.0
Short-term wholesale funding/total wholesale funding	90.5	83.4	23.7	32.2	73.6
Narrow liquid assets/3-month wholesale funding (x)	8,924.2	244.7	478.7	724.8	30.7

*Data as of June 30.

Support: The Swiss Post group benefits from extraordinary government support

We derive the ratings on DSP from the Swiss Post group's credit profile, including potential government support. Supported GCP is five notches higher than the unsupported, 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. DSP would then allocate such support to its operating subsidiaries as necessary. Our view is supported by the current legal framework in Switzerland, under which DSP has an implicit financing agreement with the federal treasury that allows it to receive funding at very short notice if in distress. A capital injection would require approval from the Swiss parliament.

We consider PostFinance to be a government-related entity (GRE) with an extremely high likelihood of extraordinary government support, which adds three notches of uplift to our assessment of its SACP of 'a+'. However, we expect that, if needed, this support would be provided indirectly through DSP in line with the legal framework in place. Our view of an extremely high likelihood of extraordinary support for PostFinance reflects our assessment of its:

- Critical role for the government as part of the Swiss Post group, which has a legal mandate to provide essential services to the Swiss population. As such, in our view PostFinance remains one of the most important GREs in

Switzerland, with a central role of meeting the government's political objectives; and

- Very strong link with the Swiss government, which owns PostFinance through DSP and approves its strategy. We believe that PostFinance will remain a core member of the Swiss Post group in the foreseeable future. We consider the possibility of full or partial privatization of PostFinance to be very remote over the medium to long term, even though Swiss Postal Law allows a minority shareholding by a third-party investor.

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.

Additional rating factors: None

No additional factors affect this rating.

Environmental, social and governance factors: Government ownership with close regulatory oversight

We view DSP's environmental and social standards to be in line with those of the Swiss banking sector. The Swiss government is DSP's sole owner, and DSP reports quarterly to the government, which also appoints DSP's management and supervisory boards. Its board of directors supervises the fulfillment of its public service and we view government ownership as beneficial for the group's adherence to general governance and environmental standards. At the same time, political influence into DSP's strategic setting remains very high and comprises a risk for its business model.

Related Criteria

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017

Related Research

- Bulletin: Proposed Legal Framework For PostFinance Could Lead To Downgrade In The Future, June 10, 2020
- COVID-19: Swiss Banking Sector To Remain Resilient, June 17, 2020
- Tech Disruption In Retail Banking: Swiss Banks Are In No Rush To Become Digital Frontrunners, Feb. 13, 2020

- Banking Industry Country Risk Assessment: Switzerland, Nov. 20, 2019

Anchor Matrix

Industry Risk	Economic Risk									
	1	**2**	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	**a-**	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of January 7, 2021)*

Die Schweizerische Post AG	
Issuer Credit Rating	AA+/Stable/A-1+
Issuer Credit Ratings History	
28-Jun-2013	AA+/Stable/A-1+
21-Mar-2013	AA+/Negative/A-1+
Sovereign Rating	
Switzerland	AAA/Stable/A-1+
Related Entities	
PostFinance 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.

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