S&P Global
Ratings

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Research Update:

PostFinance AG Outlook Revised To Stable From Negative On Subsiding Political Discussions; Ratings Affirmed

November 28, 2022

Overview

- The Swiss Council of States, together with the National Council, did not accept the Federal Council's proposal to partially privatize PostFinance AG and grant it permission to enter the loan business.
- Due to current political majorities and rising interest rates, we do not believe that privatization will be discussed again in parliament in the foreseeable future.
- Therefore, we revised our outlook on PostFinance to stable from negative and affirmed our 'AA/A-1+' ratings on the bank, as well as our 'AA+/A-1+' ratings on its parent Die Schweizerische Post AG (DSP).
- The stable outlook reflects our expectation that PostFinance will receive timely group support from its sole owner, Swiss Post group's nonoperating holding company DSP, if needed, and currently mirrors the outlook on DSP.

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Rating Action

On Nov. 28, 2022, S&P Global Ratings revised its outlook on Switzerland-based PostFinance AG to stable from negative. We also affirmed our 'AA/A-1+' long- and short-term issuer credit ratings on PostFinance and 'AA+/A-1+' ratings on Die Schweizerische Post AG (DSP). The outlook on DSP is also stable.

Rationale

The Swiss Council of States and the National Council rejected the proposal to partially privatize PostFinance and grant the bank permission to enter the loan business. On Sept. 25, 2022, the National Council did not accept the government's proposal to partially privatize PostFinance, with 156 to 32 votes, based on the recommendation of the Committee for Transportation and

Telecommunications. The decision follows the unanimous rejection by the Council of States in May 2022. There will likely be no viable political majority in favor of privatizing PostFinance in the foreseeable future, as also acknowledged by the Federal Council. Rising interest rates have also reduced pressure on PostFinance's profitability, in our view, decreasing the political will to act and re-enter discussions on altering the bank's business model. We therefore view changes to PostFinance's ownership structure as unlikely over our horizon, leading to the outlook revision to stable from negative.

We now expect PostFinance to remain key to DSP group, reflecting its contribution to capital and profits. In our view, changes to the DSP group structure are now remote. We therefore base our ratings on PostFinance on group support. We expect extraordinary governmental support to PostFinance to flow through DSP, if needed. We believe that privatization of PostFinance is unlikely and see it is a highly strategic subsidiary to DSP, also reflecting the capital share of the overall group. Moreover, we consider PostFinance a cash generator for the group to help finance investments in the logistics and mobility business.

The Swiss Federal Council will continue its political discussion about PostFinance's public service mandate. At the same time, parliament has asked government officials to present a proposal on PostFinance's future in this area. The Swiss Federal Department for the Environment, Transport, Energy, and Communication has been mandated to present a parliamentary bill on changes to the bank's public-service mandate over 2023, to reflect changing customer needs and the offering of digital services. Although we acknowledge discussion in the national parliament on the public-service mandate, we do not expect significant changes to the bank's business model or an effect on our assessment of extraordinary support.

Ongoing discussions on PostFinance's business model highlight concerns on its viability through the cycle . The bank's investment portfolio, consisting mostly of highly rated securities, has contributed to a recovery in net interest income as interest rates rise. However, this does not clear the bank from questions around business model viability through the cycle, especially if interest rates are less favorable at some point in the future. We believe that the bank will increasingly encounter challenges from changes in customer behavior, shifts in demographics, digitization, and increasing competitive pressure in its fee-generating business. We therefore consider PostFinance's banking franchise to be weaker than that of peers with universal banking models.

At the same time, PostFinance's securities portfolio has displayed sufficient resilience in recent years, owing to a conservative risk policy. We continue to see high single-name concentrations but very good asset quality in the hold-to-collect investment portfolio, which mitigates risks to our profitability and capital ratio forecasts. Supported by the excellent track record of risk costs, we see the combined capital and risk position as a a distinct and sustainable strength.

Outlook

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

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

Downside scenario

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

Upside scenario

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

Ratings Score Snapshot

PostFinance

Issuer Credit Rating	AA/Stable/A-1+
SACP	a+
Anchor	a-
Business position	Moderate (-1)
Capital and earnings	Very Strong (+2)
Risk position	Adequate (0)
Funding and	Strong and
Liquidity	Strong (+1)
Comparable ratings analysis	0
Support	+2
ALAC support	0
GRE support	0
Group support	+2
Sovereign support	0
Additional factors	0

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

ESG credit indicators: E-2, S-1, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Rising Interest Rates Ease Pressure On PostFinance's Business Model, Sept. 27, 2022
- PostFinance, Sept. 20, 2022
- Die Schweizerische Post AG, Sept. 20, 2022
- Swiss PostFinance 'AA/A-1+' Ratings Affirmed; Outlook Remains Negative, June 9, 2022

Ratings List

Ratings Affirmed		
Die Schweizerische Post AG		
Issuer Credit Rating	AA+/Stable/A-1+	
Ratings Affirmed; Outlook Action		
	To	**From**
PostFinance AG		
Issuer Credit Rating	AA/Stable/A-1+	AA/Negative/A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of