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## Basler Kantonalbank

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### Table Of Contents

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Rating Score Snapshot

Credit Highlights

Outlook

Key Metrics

Anchor: 'a-' As A Commercial Bank Operating In Switzerland

Business Position: Strong And Resilient, But A Regionally-Focused Market Franchise

Capital And Earnings: Very Strong Capitalization In A Global Context

Risk Position: Robust Asset Quality Mitigates Concentration

Funding And Liquidity: Favorable Funding Profile From Retail Deposits And Supported By Cantonal Guarantee

Support: Three Notches Of Uplift For Extremely High Likelihood Of Extraordinary Government Support

Environmental, Social, And Governance

## Table Of Contents (cont.)

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Hybrid Issue Ratings

Key Statistics

Related Criteria

Related Research

# Basler Kantonalbank

## Rating Score Snapshot

### Issuer Credit Rating

AA+/Stable/A-1+

SACP: a+ →

Support: +3 →

Additional factors: 0

Anchor	a-	
Business position	Adequate	0
Capital and earnings	Very strong	+2
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Strong	
CRA adjustment	0	

ALAC support	0
GRE support	+3
Group support	0
Sovereign support	0

Issuer credit rating
<b>AA+/Stable/A-1+</b>

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

## Credit Highlights

### Overview

Key strengths	Key risks
Extremely high likelihood of support from the Swiss Canton of Basel-City.	Limited growth prospects in the saturated Basel-City banking market.
Very strong capitalization supported by stable earnings generation.	Relatively weak operating efficiency, expected to gradually improve through synergies with Bank Cler.
Very strong customer franchise in home region.	

**Despite a deteriorating broader economic environment, we expect asset quality to remain robust.** We recently revised upward the stand-alone credit profile (SACP) of Basler Kantonalbank (BKB) to 'a+' from 'a', reflecting its improved risk profile (see "Basler Kantonalbank 'AA+' Rating Affirmed; Stand-Alone Credit Profile Revised To 'a+' On Improved Risk Position," published Sept. 22, 2022, on RatingsDirect). The bank engages primarily in low-risk collateralized residential mortgage lending, accounting for about 74% of its loan portfolio as of year-end 2021, with conservative loan-to-value ratios. BKB's asset quality has proven very resilient in the past and we expect it to remain robust.

At 0.66% at year-end 2021, the bank's nonperforming loan (NPL) ratio is also low compared with international standards. While house price growth in Switzerland has been strong in the recent past, we do not think that a market correction is imminent, given that supply demand imbalances persist. Our view is further supported by the fact that the effects of the Russia-Ukraine conflict on the Swiss economy and its financial sector have been more contained than in

other Western European countries so far. We further note that BKB is not exposed to direct risks stemming from the conflict and, in our base-case scenario, we expect the indirect impact to be very limited.

***We think that BKB is on track to meet its 2025 financial targets, which further supports its creditworthiness.*** We expect the bank's ongoing efforts to streamline its operations with subsidiary Bank Cler to support further efficiency gains. BKB is well on track to achieve its internal targets for a better return on equity and cost-to-income ratio by 2025, already demonstrating improved efficiency and profitability in recent years. The bank's S&P Global Ratings-calculated cost to income ratio of 60.6% as of June 30, 2022, remains below that of many local peers, but we expect further improvement and broad alignment with the peer average over the next two years. We also expect that BKB's earnings buffer, which measures the capacity for a bank's earnings to cover normalized losses through the credit cycle, will further improve to about 75 basis points until 2024, which is still on the lower end for the peer group but now more comparable with the average.

***The rating on BKB continues to benefit from expected extraordinary support from the owner.*** BKB is 100% owned by the Canton of Basel-City (AAA/Stable/A-1+) and benefits from a guarantee stated in BKB's law. We continue to see an extremely high likelihood of support from the canton in case of financial distress. While revisions to BKB's law are expected, we think these will solely relate to the governance of BKB group and not to the role for or guarantee of the canton of Basel.

***BKB's strong customer franchise in its home region and very strong capitalization continue to be key strengths for the rating.*** We expect that the bank will continue to benefit from its strong and sustainable franchise as the local cantonal bank, supported by its developed digital-banking platform. A key rating strength remains BKB's very high capitalization, in a global comparison, with a risk-adjusted capital ratio of 22.4% at year-end 2021, which we expect to remain around 23% over the coming two years. Furthermore, the bulk of BKB's capital consists of common shareholder equity, with only marginal contribution of hybrid instruments.

## Outlook

The stable outlook on BKB reflects that on its owner and guarantor, the canton. We expect BKB will, for the foreseeable future, continue to benefit from an extremely high likelihood of timely and sufficient extraordinary support from the canton in the event of financial distress. In addition, we expect BKB will maintain its sound market position and financial risk profile, underpinned by its very strong capitalization over the next 24 months.

### Downside scenario

In our view, the possibility of a negative rating action is remote. It could be triggered if we lowered our rating on the canton, which is currently unlikely given our stable outlook. Alternatively, we could consider a negative rating action if there was a change in BKB's role for or link with the canton, or changes in the statutory guarantee, leading to a weaker assessment of the bank's status as a government-related entity (GRE). However, we consider this very unlikely and would expect BKB's existing obligations to be grandfathered in.

We believe extraordinary support from the canton would cushion a material multi-notch deterioration of BKB's stand-alone creditworthiness, with the ratings on the senior unsecured debt not changing. The ratings on the subordinated instruments could, however, be directly affected if the bank's SACP deteriorated, which could happen, for example, if BKB depleted its strong capital base due to high unexpected losses caused by an adverse shock, or efficiency and profitability did not improve over the medium term as we expect.

### Upside scenario

A positive rating action is currently unlikely. This could only be triggered if BKB's SACP improved, which we view as extremely unlikely, given our already high assessment.

## Key Metrics

### Basler Kantonalbank--Key Ratios And Forecasts

(%)	--Fiscal year ended Dec. 31--				
	2020a	2021a	2022f	2023f	2024f
Growth in operating revenue	(1.9)	8.7	(2.3)-(2.8)	2.9-3.6	2.4-2.9
Growth in customer loans	3.3	2.0	1.8-2.2	2.3-2.8	2.7-3.3
Net interest income/average earning assets (NIM)	0.9	0.9	0.9-0.9	0.9-1.0	0.9-1.0
Cost to income ratio	69.1	63.0	61.8-65.0	59.0-62.0	57.4-60.4
Return on average common equity	2.8	3.0	2.9-3.3	3.0-3.3	3.3-3.6
New loan loss provisions/average customer loans	0.0	(0.0)	0-0.05	0-0.05	0-0.05
Gross nonperforming assets/customer loans	0.3	0.7	0.6-0.7	0.6-0.7	0.6-0.6
Risk-adjusted capital ratio	21.0	22.4	22.5-23.7	22.7-23.9	22.8-24.0

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

## Anchor: 'a-' As A Commercial Bank Operating In Switzerland

Our anchor for banks operating mainly in Switzerland is 'a-'. We consider the trend for economic and industry risk in Switzerland to be stable.

Despite a weaker economic outlook and further risks to the economic trajectory from the unclear consequences of the Russia-Ukraine military conflict, we expect Swiss banks will demonstrate robust asset quality and lower credit losses than most peers', close to levels observed before the pandemic. Strong resilience stems from the superior financial strength of both the household and corporate sectors, as well as banks' prudent underwriting standards focusing on collateralized lending, mainly in residential mortgages. We also do not expect material constraints on customers' debt-servicing capacity from higher rates, given the dominance of fixed-rate mortgage contracts with an average 10-year interest period. We also see the risk of a severe price correction in the housing market as low, because it would likely require a steep rise in unemployment. However, we think risks in the investment property subsegment remain slightly elevated because prices remain sensitive to immigration levels, construction activity, investment alternatives in a rising rates environment, and vacancy rates that recently reached a multiyear high.

Our view of industry risk in Switzerland encompasses the stability of the domestic banking sector. We view positively that, despite high competitive pressure between local players, domestic banks can still earn their cost of capital. We expect Swiss banks will see a net revenue benefit from rises in policy rates, but less so than for peers, given that Swiss banks benefit from the central bank's broad exemption for sight deposits being subject to negative rates. We also note banks' high capitalization levels and their high reliance on stable customer deposits and equity for funding. In our view, the Swiss Financial Market Supervisory Authority (FINMA) remains on top of both regulatory oversight and innovations and overall we think Swiss banks face limited risks from technology disruption. We also expect the regulator to effectively limit Swiss banks' sensitivity to financial crime. Strong anti-money-laundering standards and business models and practices that do not rely on customers' undeclared wealth are crucial for the stability and strength of the Swiss banking sector, in our view.

## Business Position: Strong And Resilient, But A Regionally-Focused Market Franchise

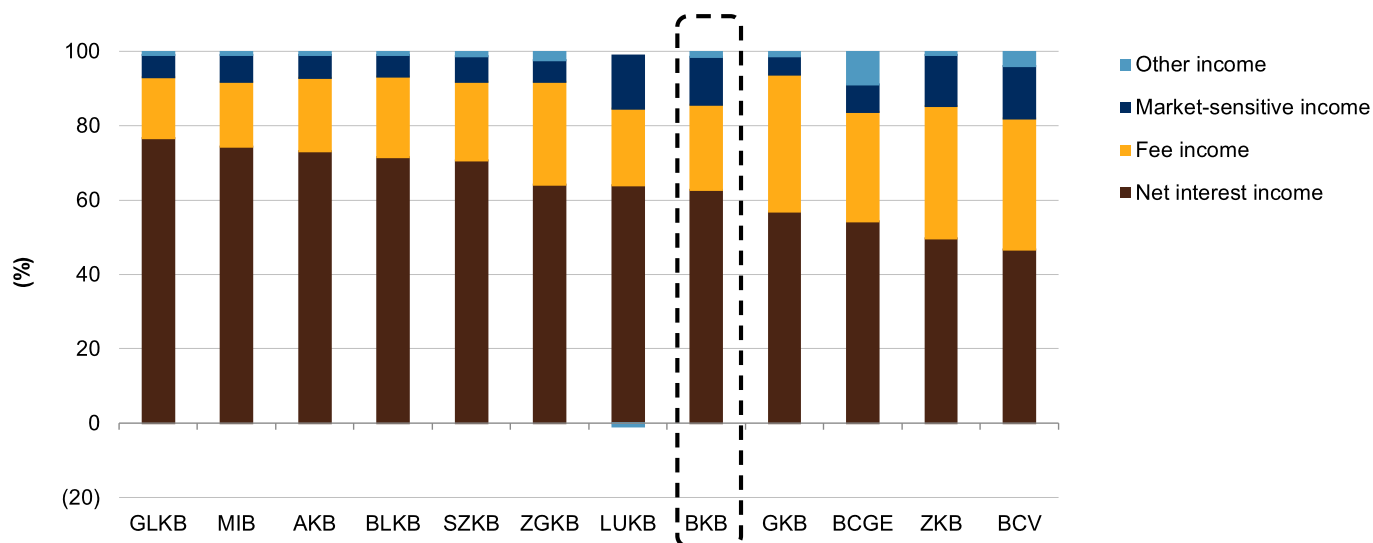
BKB is the eighth-largest bank in Switzerland, with total consolidated assets of Swiss franc (CHF)54.7 billion as of June 30, 2022. We think it will be able to protect its market share. This is based on our view that BKB will continue to benefit from its strong and sustainable franchise as the local cantonal bank, supported by its developed digital-banking platform. However, we note that this strength is balanced by risks stemming from the bank's geographic concentration from its regional focus in a saturated market.

The bank's subsidiary, Bank Cler, adds diversification through its focus on lower-risk countrywide residential mortgages. BKB increased its stake in the bank to 100% in 2019 to raise cost synergies from some operational integration, to benefit from some Switzerlandwide growth diversification, and to leverage Bank Cler's digital competencies, manifested in its digital banking app, "Zak".

Ancillary private banking and trading businesses provide some diversity, but we expect these will continue to contribute a moderate proportion of operating revenue. After a very strong ramp-up phase in 2020, the bank's securities financing business was further expanded in 2021. We think that growth will be more moderate in that field. We expect a low risk appetite for these new activities but also that they will make a minor earnings contribution overall. Interest income remains the most relevant earnings driver for BKB, contributing about 65% of operating revenue. Fee income from private banking activities is targeted to increase in the coming years.

### Chart 1

#### Interest Income Remains The Most Relevant Driver Of BKB's Operating Revenue Breakdown of operating revenue



Data relates to 2021. AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank. GKB--Graubundner Kantonalbank. LUKB--Luzerner Kantonalbank. MIB -- Migros Bank. SZKB--Schwyzer Kantonalbank. ZGKB -- Zuger Kantonalbank. ZKB--Zuercher Kantonalbank. Source: S&P Global Ratings.

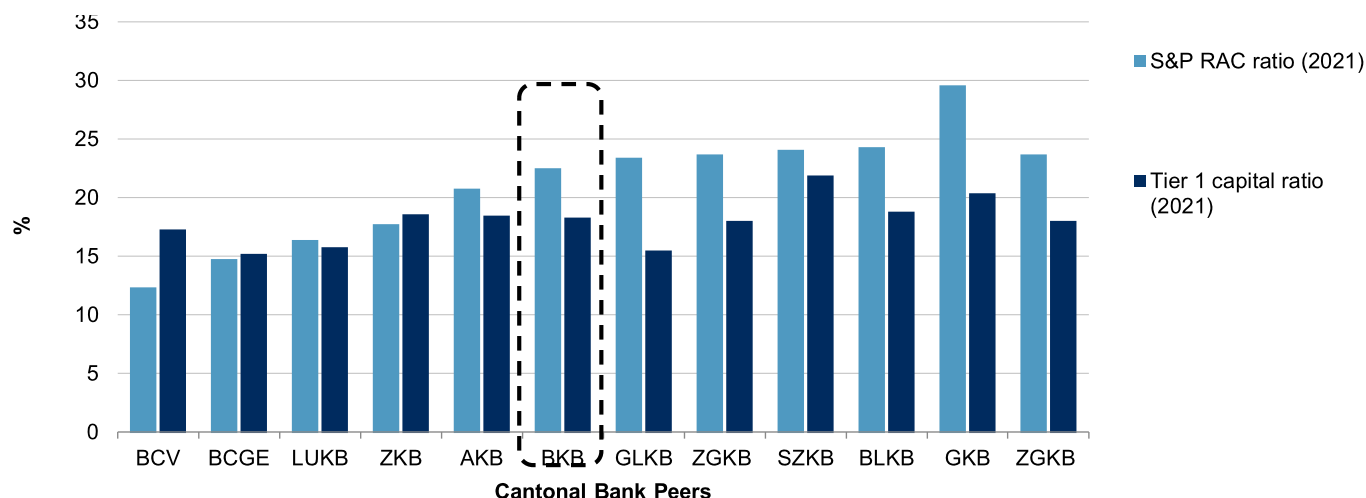
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## Capital And Earnings: Very Strong Capitalization In A Global Context

We expect BKB's capital position and earnings will remain a rating strength in a domestic and global context. BKB's risk-adjusted capital (RAC) ratio was 22.4% at year-end 2021 and we expect few fluctuations over the coming two years.

## Chart 2

### BKB's Risk-Adjusted Capitalization Is About Average Compared With Cantonal Bank Peers'... ...But extraordinary in a global comparison



Data relates to 2021. AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank. GKB--Graubundner Kantonalbank. LUKB--Luzerner Kantonalbank. MIB -- Migros Bank. SZKB--Schwyzer Kantonalbank. ZGKB -- Zuger Kantonalbank. ZKB--Zuercher Kantonalbank. Source: S&P Global Ratings.

Our projected RAC ratio incorporates loan growth of 2%-3% over the coming years, driven by a more moderate, but still intact growth trend in the Swiss housing market. BKB is committed to maintaining excess capitalization of 3%-7% above regulatory capital requirements. As of June 30, 2022, its total capital ratio was 18.1% compared with a 12% capital requirement.

Although the economic environment has substantially worsened this year, we expect BKB will generate robust interest and fee income from its retail and small and midsize enterprises (SME) business. This is based on our view of the comparably high resilience of the Swiss economy and our expectation that there will not be material stress in the Swiss housing market in the near future.

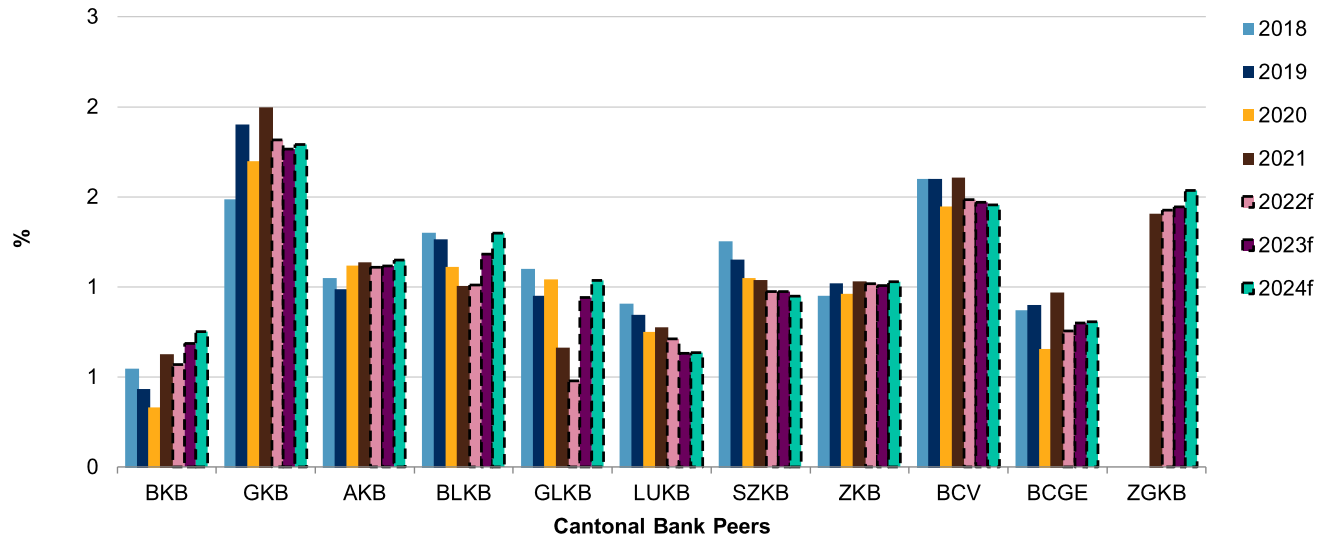
In our view the bank's ongoing efforts to streamline its operations with subsidiary Bank Cler will support further efficiency gains of the consolidated group. This should be supportive for the risk-adjusted profitability. We reflect this in our earnings buffer forecast, which measures the capacity for a bank's earnings to cover normalized losses through the credit cycle, of 60-75 basis points (bps) over the next two years. BKB's capacity to cover normalized losses is still on the lower end for the peer group but now more comparable with the average than in the past. We expect that the remaining gap will further reduce over the next few years on increasing synergies between BKB and Bank Cler. This will bolster the bank's loss absorption capacity and support its very strong capital and earnings.



Chart 3

**BKB's Earnings Buffer Has Materially Improved In 2021**

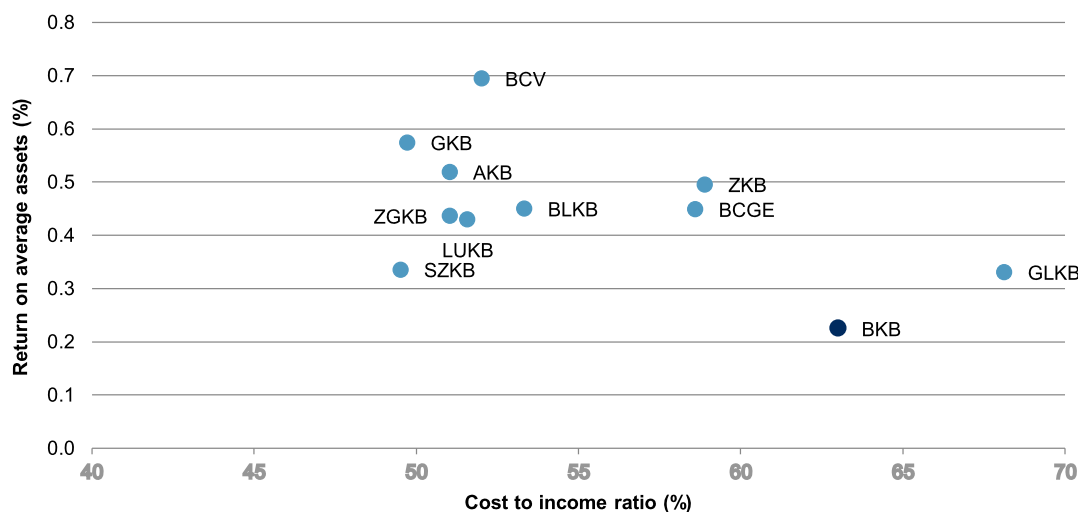
And is expected to improve further



N/A--Not applicable. f--Forecast. Data relates to 2021. AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank. GKB--Graubundner Kantonalbank. LUKB--Luzerner Kantonalbank. MIB--Migros Bank. SZKB--Schwyzer Kantonalbank. ZGKB--Zuger Kantonalbank. ZKB--Zuercher Kantonalbank. Source: S&P Global Ratings. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

**Chart 4****Efficiency And Profitability Are Weaker Than Cantonal Bank Peers'**

But expected to improve in the future



Data relates to 2021. AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glarner Kantonalbank. GKB--Graubündner Kantonalbank. LUKB--Luzerner Kantonalbank. MIB--Migros Bank. SZKB--Schwyzer Kantonalbank. ZGKB--Zuger Kantonalbank. ZKB--Zürcher Kantonalbank.

Source: S&P Global Ratings.

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## Risk Position: Robust Asset Quality Mitigates Concentration

In our view, BKB's risk position is in line with Swiss Cantonal peers. This is supported by the fact that the bank engages primarily in low-risk collateralized residential mortgage lending with prudent underwriting. Residential mortgages accounted for about 74% of BKB's loan portfolio as of year-end 2021, with a conservative loan-to-value ratio. BKB's asset quality has proven resilient during the pandemic, and we expect it to remain sound, driven by the comparably high resilience of the Swiss economy.

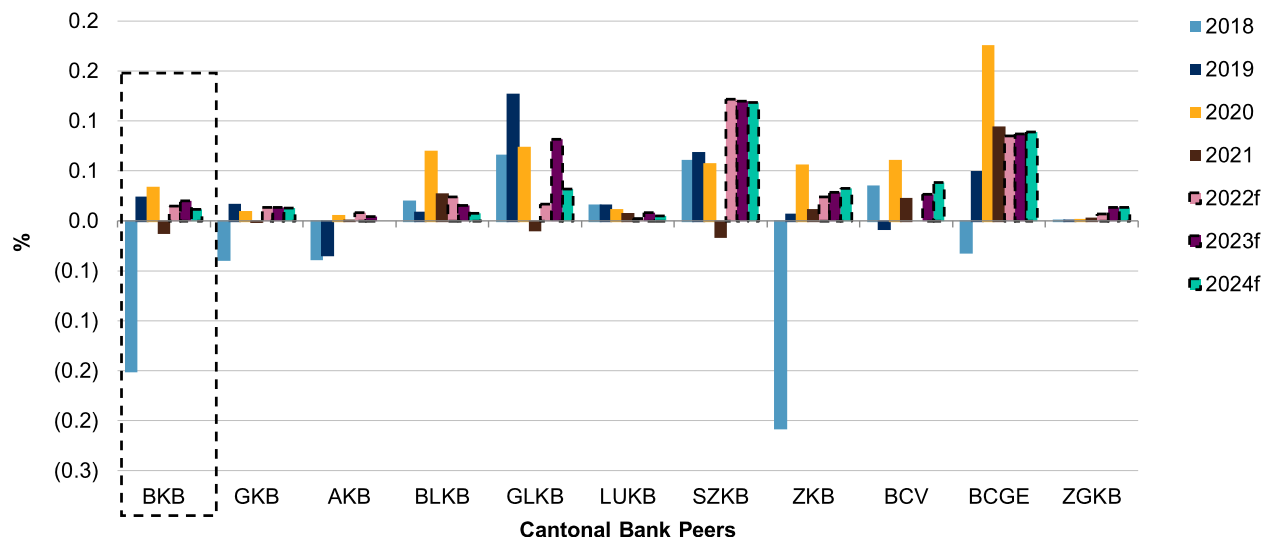
BKB's NPL ratio of 0.66% in 2021, is very low compared with international standards. The ratio is based on BKB's disclosure of loans at risk ("gefährdete Forderungen"). Loan loss provisions have been low historically as well, and we expect them to remain flat for 2022, demonstrating the expected resilience of BKB's portfolio. Next to provisions for loans at risk, BKB has built reserves for latent risks, which together covered 96% of NPLs as of year-end 2021.

We further believe that limited growth prospects in BKB's saturated home market are balanced by increasing diversification in lower-risk countrywide residential mortgage lending and SME lending through Bank Cler. While BKB's corporate loan portfolio has some inherent risks due to the narrowness of Basel-City's economic structure, we

now think that concentrations are on par with the peer average.

**Chart 5**

**BKB's Very Low Cost Of Risk Compares Well With Peers'**



Data relates to 2021. Cost of risk is defined as new loan loss provisions/average customer loans (%). N.M.--Not meaningful. f--Forecast. AKB--Aargauische Kantonalbank. BCGE--Banque Cantonale de Geneve. BCV--Banque Cantonale Vaudoise. BLKB--Basellandschaftliche Kantonalbank. BKB--Basler Kantonalbank. GLKB--Glerner Kantonalbank. GKB--Graubundner Kantonalbank. LUKB--Luzerner Kantonalbank. MIB--Migros Bank. SZKB--Schwyzer Kantonalbank. ZGKB--Zuger Kantonalbank. ZKB--Zuercher Kantonalbank.

Source: S&P Global Ratings.

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## Funding And Liquidity: Favorable Funding Profile From Retail Deposits And Supported By Cantonal Guarantee

In line with most peers, we believe that BKB's combined funding and liquidity position will remain neutral in our assessment of BKB's stand-alone creditworthiness.

We expect BKB's funding will remain in line with our assessment of low funding risk in the Swiss banking system. As of June 30, 2022, the bank's stable core customer deposits accounted for 61% of its funding base, while the loan-to-deposit ratio of 111% indicates some reliance on wholesale funding, which is executed via long-term covered and unsecured bonds. The bank's resilient funding position is also indicated by, for example, our calculation of its stable funding ratio. We expect this to remain clearly above 100% after the 123% as of June 30, 2022. In addition, we continue to consider the bank's core customer deposit base as very stable, owing to its franchise in its home region and being supported by the cantonal guarantee. Moreover, the shareholder and guarantee structure gives BKB access to low-cost, long-term wholesale funding (18.4% of its total funding base as of June 2022).

BKB's liquidity will remain a strength, in our view, compared with many banks globally, given that its liquidity position would allow it to endure more than 12 months without access to market funding. This is facilitated by its broad liquid assets to short-term wholesale funding being historically significantly above 1.2x. The ratio was 1.8x as of June 2022. This supports our view that BKB's liquid assets comfortably cover its short-term wholesale funding needs.

We consider that the bank has proper governance in place to prevent any funding concentrations and conducts appropriate liquidity stress testing. BKB's loyal customer base, superior capitalization, and GRE status will likely help it weather potential capital market stress, in our opinion.

## Support: Three Notches Of Uplift For Extremely High Likelihood Of Extraordinary Government Support

We believe that BKB will remain a GRE and see an extremely high likelihood that BKB would receive timely and sufficient extraordinary support from the Canton of Basel-City if needed. We base our assessment on our view of the bank's:

- Integral link with the canton. Our assessment is underpinned by the canton's full ownership of BKB and the provision of a statutory guarantee for BKB.
- Very important role in the canton, owing to the large impact of BKB's activities on the local economy.

Because of these factors, we incorporate a three-notch uplift into the long-term rating on BKB. We do not envisage that the bank's GRE status or our view of an extremely high likelihood of extraordinary government support will change in the coming years.

BKB benefits from Basel's statutory guarantee, which ultimately covers all of its liabilities as stipulated by law. We note that the guarantee does not ensure timely repayment, as defined by our criteria, and does not cover BKB's hybrid instrument and its subsidiary Bank Cler.

## Environmental, Social, And Governance

### ESG Credit Indicators



ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have a neutral impact on our assessment of BKB's creditworthiness. The bank benefits from its role, prescribed in law, to sustainably foster the environmental, economic, and social development of the canton.

As BKB is a government-owned bank, we are mindful of political influence but we observe that there are no politicians on its supervisory board, though with limited banking backgrounds. Nevertheless, in our view this should minimize

political influence on the bank management, beyond the rolling strategy setting. Because it is not required by regulation, BKB does not have separate chief risk officer and chief financial officer board members. However, given that the bank's organization and business activities are not very complex, we do not currently view this as a negative factor.

## Hybrid Issue Ratings

Our 'BBB' ratings on BKB's junior subordinated debt (additional Tier 1) reflect our analysis of the instruments and our assessment of BKB's SACP at 'a+'. We understand that the bonds do not benefit from the cantonal guarantee provided by the City of Basel, such that we would question the timely and sufficient support to these subordinated instruments. We consequently notch down from our SACP assessment for the bank. We rate BKB's additional Tier 1 instrument four notches lower than the SACP, reflecting our deduction of:

- One notch for contractual subordination;
- Two notches for the notes' status as Tier 1 regulatory capital; and
- One notch because the instruments allow for the full or partial temporary write-down of the principal amount.

We do not apply additional notching beyond the four notches, given the 5.125% mandatory write-down trigger at BKB (stand-alone) level, which we consider to be a nonviability capital trigger.

## Key Statistics

**Table 1**

Basler Kantonalbank--Key Figures					
--Year ended Dec. 31--					
(Mil. CHF)	2022*	2021	2020	2019	2018
Adjusted assets	54,669.8	53,460.4	54,427.0	44,808.9	44,031.1
Customer loans (gross)	33,853.9	33,459.0	32,805.5	31,742.2	30,478.9
Adjusted common equity	4,028.1	3,917.7	3,814.2	3,768.9	3,616.3
Operating revenues	297.7	589.9	542.9	553.4	557.4
Noninterest expenses	180.4	371.7	374.9	385.3	374.8
Core earnings	110.2	211.1	144.1	150.6	220.3

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

**Table 2**

Basler Kantonalbank--Business Position					
--Year ended Dec. 31--					
(%)	2022*	2021	2020	2019	2018
Total revenues from business line (currency in millions)	297.8	591.3	544.0	556.7	636.4
Commercial & retail banking/total revenues from business line	81.2	80.9	81.9	82.4	85.1
Asset management/total revenues from business line	18.8	19.1	18.1	17.6	14.9

Table 2

Basler Kantonalbank--Business Position (cont.)					
	--Year ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Return on average common equity	3.0	3.0	2.8	2.9	5.2

\*Data as of June 30.

Table 3

Basler Kantonalbank--Capital And Earnings					
	--Year ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Tier 1 capital ratio	17.8	18.2	17.0	17.4	17.4
S&P Global Ratings' RAC ratio before diversification	N/A	22.4	21.0	23.7	20.8
S&P Global Ratings' RAC ratio after diversification	N/A	15.5	14.7	15.6	15.0
Adjusted common equity/total adjusted capital	100.0	96.0	95.9	97.4	97.3
Net interest income/operating revenues	65.0	62.8	65.2	62.5	64.9
Fee income/operating revenues	23.7	22.8	23.2	22.6	22.1
Market-sensitive income/operating revenues	9.8	13.0	10.2	12.5	10.9
Cost to income ratio	60.6	63.0	69.1	69.6	67.2
Preprovision operating income/average assets	0.4	0.4	0.3	0.4	0.4
Core earnings/average managed assets	0.4	0.4	0.3	0.3	0.5

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

Table 4

Basler Kantonalbank--Risk-Adjusted Capital Framework Data					
(CHF 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
<b>Credit risk</b>					
Government & central banks	11,639,978.6	506,957.3	4.4	62,256.3	0.5
Of which regional governments and local authorities	1,524,288.0	506,957.1	33.3	54,873.2	3.6
Institutions and CCPs	11,402,438.5	800,800.3	7.0	642,604.8	5.6
Corporate	6,858,745.0	4,484,841.1	65.4	3,882,586.6	56.6
Retail	28,722,426.0	13,780,906.0	48.0	9,129,008.0	31.8
Of which mortgage	22,473,751.8	8,176,964.7	36.4	5,208,204.2	23.2
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	75,588.4	54,130.7	71.6	74,596.7	98.7
Total credit risk	58,699,176.4	19,627,635.4	33.4	13,791,052.3	23.5
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	1,129,411.7	--	1,468,235.3	--
<b>Market Risk</b>					
Equity in the banking book	81,904.3	114,639.4	140.0	614,282.0	750.0
Trading book market risk	--	753,673.6	--	1,217,848.8	--

Table 4

Basler Kantonalbank--Risk-Adjusted Capital Framework Data (cont.)					
Total market risk	--	868,313.0	--	1,832,130.9	--
<b>Operational risk</b>					
Total operational risk	--	1,050,084.5	--	1,105,996.9	--
	<b>Exposure</b>	<b>Basel III RWA</b>	<b>Average Basel II RW (%)</b>	<b>S&amp;P Global Ratings RWA</b>	<b>% of S&amp;P Global Ratings RWA</b>
<b>Diversification adjustments</b>					
RWA before diversification	--	22,869,580.7	--	18,197,415.3	100.0
Total diversification/ concentration adjustments	--	--	--	8,113,991.9	44.6
RWA after diversification	--	22,869,580.7	--	26,311,407.2	144.6
		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>S&amp;P Global Ratings RAC ratio (%)</b>
Capital ratio					
Capital ratio before adjustments		4,151,737.0	18.2	4,081,239.0	22.4
Capital ratio after adjustments†		4,151,737.0	18.2	4,081,239.0	15.5

\*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' 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. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2021, S&P Global Ratings.

Table 5

Basler Kantonalbank--Risk Position	--Year ended Dec. 31--				
	2022*	2021	2020	2019	2018
(%)					
Growth in customer loans	1.2	2.0	3.3	4.1	5.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	44.6	42.5	51.5	38.7
Total managed assets/adjusted common equity (x)	13.6	13.6	14.3	11.9	12.2
New loan loss provisions/average customer loans	(0.0)	(0.0)	0.0	0.0	(0.2)
Net charge-offs/average customer loans	N.M.	0.0	0.2	(0.0)	0.0
Gross nonperforming assets/customer loans + other real estate owned	N/A	0.7	0.3	0.3	0.1
Loan loss reserves/gross nonperforming assets	N/A	96.2	186.2	240.3	445.5

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

Table 6

Basler Kantonalbank--Funding And Liquidity					
Basler Kantonalbank--Funding And Liquidity	--Year ended Dec. 31--				
	2022*	2021	2020	2019	2018
(%)					
Core deposits/funding base	60.9	57.3	60.2	65.8	63.3
Customer loans (net)/customer deposits	111.0	119.1	109.2	119.3	121.5
Long-term funding ratio	80.9	79.4	82.1	89.6	85.6
Stable funding ratio	123.0	123.5	120.9	110.9	109.0
Short-term wholesale funding/funding base	20.6	22.3	19.4	11.5	15.8
Regulatory net stable funding ratio	122.9	125.6	N/A	N/A	N/A

Table 6

**Basler Kantonalbank--Funding And Liquidity (cont.)**

(%)	--Year ended Dec. 31--				
	2022*	2021	2020	2019	2018
Broad liquid assets/short-term wholesale funding (x)	1.8	1.8	1.8	1.9	1.6
Broad liquid assets/total assets	34.9	36.0	32.4	19.8	22.3
Broad liquid assets/customer deposits	62.6	68.8	59.1	33.6	39.3
Net broad liquid assets/short-term customer deposits	28.9	30.1	27.3	16.4	14.8
Regulatory liquidity coverage ratio (LCR) (x)	132.0	233.6	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	52.8	51.9	48.4	33.3	42.8
Narrow liquid assets/3-month wholesale funding (x)	2.4	2.3	2.3	3.1	1.9

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

**Basler Kantonalbank--Rating Component Scores**

Issuer Credit Rating	AA+/Stable/A-1+
SACP	a+
Anchor	a-
Economic risk	2
Industry risk	2
Business position	Adequate
Capital and earnings	Very strong
Risk position	Adequate
Funding	Adequate
Liquidity	Strong
Comparable ratings analysis	0
Support	+3
ALAC support	0
GRE support	+3
Group support	0
Sovereign support	0
Additional factors	0

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

## 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

- Basler Kantonalbank 'AA+' Rating Affirmed; Stand-Alone Credit Profile Revised To 'a+' On Improved Risk Position, Sept. 22, 2022
- Banking Industry Country Risk Assessment: Switzerland, May 30, 2022
- Swiss and Liechtenstein Bank Ratings Affirmed Under Revised FI Criteria, Feb. 08, 2021
- Basler Kantonalbank, Dec. 01, 2021

### Ratings Detail (As Of December 13, 2022)\*

#### Basler Kantonalbank

Issuer Credit Rating	AA+/Stable/A-1+
Junior Subordinated	BBB
Senior Unsecured	AA+

#### Issuer Credit Ratings History

12-Nov-2018	AA+/Stable/A-1+
13-Nov-2017	AA/Positive/A-1+
06-Aug-2013	AA/Stable/A-1+

#### Sovereign Rating

Switzerland	AAA/Stable/A-1+
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#### Related Entities

##### Bank Cler AG

Issuer Credit Rating	A/Stable/--
Junior Subordinated	BB+

##### Basel-City (Canton of)

Issuer Credit Rating	AAA/Stable/A-1+
Senior Unsecured	AAA

\*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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