

May 30, 2008

Research Update:

Basler Kantonalbank Outlook Revised To Positive On Guarantor Outlook Change; Ratings Affirmed

Primary Credit Analyst:

Volker von Kruechten, Frankfurt (49) 69-33-999-164; volker_vonkruechten@standardandpoors.com

Secondary Credit Analysts:

Dirk Heise, Frankfurt (49) 69-33-999-163; dirk_heise@standardandpoors.com

Alois Strasser, Frankfurt (49) 69-33-999-240; alois_strasser@standardandpoors.com

Table Of Contents

Rationale

Outlook

Ratings List

Research Update:

Basler Kantonalbank Outlook Revised To Positive On Guarantor Outlook Change; Ratings Affirmed

Rationale

On May 30, 2008, Standard & Poor's Ratings Services revised its outlook on Switzerland-based Basler Kantonalbank (BKB) to positive from stable, following the outlook revision to positive from stable on the Swiss Canton (state) of Basel-City. At the same time, we affirmed the 'AA+' long-term and 'A-1+' short-term counterparty credit ratings on BKB.

Because the state provides a statutory guarantee for the bank, the rating action on the bank solely reflects the outlook revision on its guarantor and is not related to a change in BKB's underlying financial and business profile.

The ratings on Basel-City are supported by its very good budgetary performance, strong economy, contribution to the Swiss fiscal equalization system, and declining net financial liabilities. These positive factors are offset by the exposure of tax revenues to cyclical developments, combined with sector concentration in chemicals and pharmaceuticals and a tax-payer concentration for corporate taxes.

The ratings on BKB continue to be based on the statutory guarantee provided by Basel-City, which legally obliges the state to guarantee all liabilities incurred by the bank, excluding its capital participation certificates (Partizipationsscheine) and the liabilities of its subsidiaries, for example, Bank Coop (BC; not rated). Although this guarantee does not ensure timely repayment, we believe the state government would respond quickly to maintain investor and creditor confidence and preserve the solvency of the bank in the unlikely event that BKB were to suffer losses.

BKB's sound stand-alone risk profile is underpinned by its very good profitability, sound asset quality, and already very strong capitalization. The acquisition of BC, which operates nationwide, has helped BKB to diversify its regional focus and reduce concentration risks in its lending operations. However, we expect BC to reduce the performance gap between it and its parent slowly and steadily.

Outlook

The positive outlook on BKB reflects that on Basel-City because rating actions on the guarantor have a direct impact on the ratings and outlook on BKB. In addition, we expect BKB to maintain its sound financial and risk profiles.

The outlook also reflects our view that neither the current guarantee mechanism and creditor protection nor BKB's legal status and ownership structure will alter materially in the short to medium term. If changes to state law lead to a privatization of the bank, BKB's existing obligations

would be grandfathered under the state guarantee. Any fundamental changes to the status quo with respect to either BKB's ownership structure or the state guarantee could put pressure on the ratings.

The positive outlook on Basel-City reflects our expectation that the state will continue to achieve a sustainable budgetary performance. It is likely to report sound operating surpluses and be close to breakeven after capital expenditure results, despite the more challenging cyclical environment and the impending tax reform in 2009. The rating could be raised if the state manages to reduce debt further or proves resilient to tax revenue changes due to the planned tax reform.

The outlook could be revised to stable should the state's financial performance weaken considerably after tax reforms are implemented or should the economy slow down.

Ratings List

	To	From
Basler Kantonalbank		
Counterparty credit rating	AA+/Positive/A-1+	AA+/Stable/A-1+
Certificate of deposit	AA+/A-1+	
Senior unsecured debt	AA+	
Canton of Basel-City		
Issuer credit rating	AA+/Positive/A-1+	AA+/Stable/A-1+

NB: This list does not include all ratings affected.

Additional Contact:

Financial Institutions Ratings Europe;FIG_Europe@standardandpoors.com

Ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office Hotline (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017. Members of the media may also contact the European Press Office via e-mail on: media_europe@standardandpoors.com.

Copyright © 2008, Standard & Poors, a division of The McGraw-Hill Companies, Inc. (S&P?). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscriber's or others' use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.9823 or by e-mail to: research_request@standardandpoors.com.