

## Basler Kantonalbank

### Counterparty Credit Rating

AA+/Stable/A-1+

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### Major Rating Factors

#### Strengths:

- Statutory guarantee of the Canton of Basel-City
- Very good profitability at the group level
- Sound asset quality and very strong capitalization
- Sound budgetary performance of the canton, with surpluses after capital expenditures
- Wealthy local economy, with cantonal income or GDP per capita about 2x the Swiss average

#### Weaknesses:

- Profitability gap between parent bank and subsidiary Bank Coop narrowing only gradually
- Regional concentration risks; lending portfolio exposed to real estate markets
- Debt burden of the canton at 73% of operating revenue
- Low coverage by the canton of the pension fund

### Rationale

The ratings on Switzerland-based Basler Kantonalbank (BKB) are based on the statutory guarantee provided by the Swiss canton (state) of Basel-City (Basel-City; AA+/Stable/A-1+), which legally obliges the canton to guarantee all liabilities incurred by the bank—excluding the bank's capital participation certificates (Partizipationsscheine). The guarantee does not extend to its subsidiaries, for example Bank Coop (BC; not rated). Although this guarantee does not stipulate a timely repayment, Standard & Poor's Ratings Services believes that to maintain investor and creditor confidence the cantonal government would respond quickly

to preserve the solvency of the bank in the unlikely event BKB were to a severe crisis or significant losses.

The ratings on Basel-City are supported by its sound budgetary performance and strong economy. These positive factors are offset by high debt and an underfunded pension fund. The canton's budgetary performance in 2006 and 2007 is expected to provide for further improvement compared with the past few years. For 2006, Standard & Poor's expects the canton to have achieved an operating surplus of 10.5% of operating revenues and a surplus after capital expenditure of 3.8% of total revenues. This level could be maintained in 2007 if the currently good economic development continues.

The canton benefits directly from its strong economy, with a GDP level 2x the Swiss average, which we expect to continue growing above the Swiss average. The ratings on the canton are constrained by Basel-City's direct debt burden, which is expected to have been 73% of operating revenues at year-end 2006. This is somewhat high compared with other Swiss cantons and international peers. Besides direct debt, the canton's pension fund represents a significant burden, as Basel-City, like most other cantons, guarantees the fund's actuarial funding gap. Reforms have recently been proposed and will be decided in the near future.

With total consolidated assets of Swiss franc (CHF) 25.6 billion (\$21 billion) and adjusted common equity (ACE) of CHF2.3 billion at Dec. 31, 2006, the BKB group is one of the larger Swiss banking groups. Through the nationwide retail network of its subsidiary, BC, the BKB group has a better geographic diversification of its customer base and loan portfolio compared with most cantonal bank peers. The parent's banking business is mainly focused on the wealthy Basel region, where it has a strong market share in retail banking, mortgage lending, and lending to small and midsize enterprises (SMEs).

The group's very good profitability is based on the strong cost efficiency at the parent bank BKB, improving levels at BC, and declining provisioning needs for its mortgage-dominated loan portfolio. By growing its capital-market activities, BKB has steadily reduced the dependence on interest income in recent years, which remains subject to margin pressure from intense competition. Commission and trading income have benefited from the favorable market environment, but also add a certain degree of volatility to its operating performance. BC's operating performance is still lags that of its parent, but the gap is expected to gradually shrink due to ongoing cost control, increased efforts to enhance cross-selling, and greater economies of scale.

Standard & Poor's considers BKB group's asset quality to be sound, as characterized by conservative lending standards, high levels of collateralization, and sound reserve coverage for problem loans, mitigating—limited—concerns about somewhat higher concentration risks from the dominant exposure of the lending portfolio to real estate markets. The high share of customer deposits provides both BKB and BC with stable funding resources. Capitalization, which should further improve thanks to good earnings retention capabilities, is regarded as very strong given the group's favorable risk profile.

### **Outlook**

The stable outlook on BKB reflects that on the canton, as rating actions on the guarantor affect the ratings on BKB. The stable outlook on the canton reflects Standard & Poor's expectation that the canton's budgetary performance will remain stable and its debt burden will stabilize at its current level over the medium term. The canton's management is expected to set appropriate measures to

maintain sound performance and, in the near future, to realize the negotiated plan to recapitalize the pension fund.

BKB is expected to maintain its sound financial and solid risk profile. Furthermore, Standard & Poor's believes that neither the current guarantee mechanism and creditor protection for the bank, nor BKB's legal status and ownership structure will be materially altered in the medium term. In the event of changes to the cantonal law that would lead to a privatization of the bank, BKB's prior existing obligations would be grandfathered under the cantonal guarantee. Any fundamental changes to the current status quo with respect to either BKB's ownership structure or the cantonal guarantee could put pressure on the ratings.

### ***Economic Performance Of The Canton***

The canton's economy is integrated into the Swiss economy nationally and internationally into the "metrobasel" region, consisting of nearly one million inhabitants in the surrounding Swiss cantons, a German county, and three French municipalities.

The canton's population has been declining since peaking at the end of the 1960s. Over the past five years, Basel-City's population has stabilized at about 188,000 inhabitants, but only a very slight decline is expected over the next decade.

Basel-City's cantonal income or GDP per capita was about 2x the national average in 2006, helped by the high number of companies and jobs, which attract commuters from outside the canton. In 2006, nominal GDP per capita is expected to have been CHF126,000, not only 2x the Swiss average, but also more than 3x the EU average.

Basel-City's economic performance is expected to have grown favorably to about 3.5%, well above the Swiss average of 2.9% in 2006. In 2007, only slightly weaker growth rates of about 3.0% are expected for Basel-City. Under a realistic economic scenario, growth rates of 3.0% in the coming years could be maintained. This would mean ongoing growth higher than the national average.

The chemical and pharmaceutical industry accounts for a dominant nearly 40% of gross value-added in Basel-City, focusing on pharmaceutical products and life sciences, which are activities with high value-added and favorable growth perspectives. For the canton, the industry is the main economic growth driver, growing 5%-6% each year.

Basel-City's unemployment in 2006 stood at 3.7%, significantly lower than 4.1% in 2005, but slightly higher than the 3.3% Swiss average in 2006, however.

### ***Financial Performance Of The Canton***

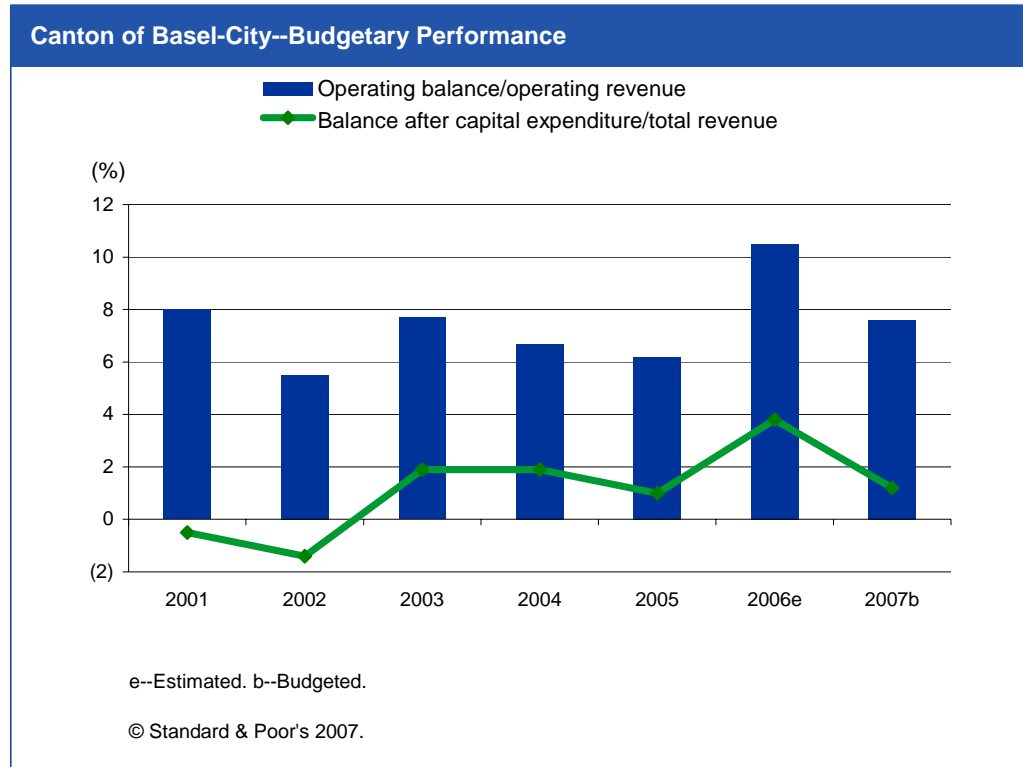
The canton has its own tax code and, as a result, full legislative power over its cantonal taxes. Yet, unlike most other cantons, Basel-City's tax multiplier is subject to a facultative referendum, which can potentially constrain its tax-raising flexibility. Tax rates in Basel-City are relatively high by Swiss standards.

Basel-City's 2006 budgetary performance is expected to have outperformed budgeted figures and to have achieved an operating surplus of 10.5% of operating revenue and a surplus after capital spending of 3.8% of total revenue, making it the best financial result since 2000.

The 2007 budget provides for added positive performance. The budget plan forecasts an operating surplus of 5.7% of operating revenue, and a surplus after capital spending is budgeted at

1.2% of total revenues. The canton budgets conservatively and we expect these goals to be easily achievable given the prevailing good economic developments. In the medium term, we expect the canton to achieve a continued sound financial performance.

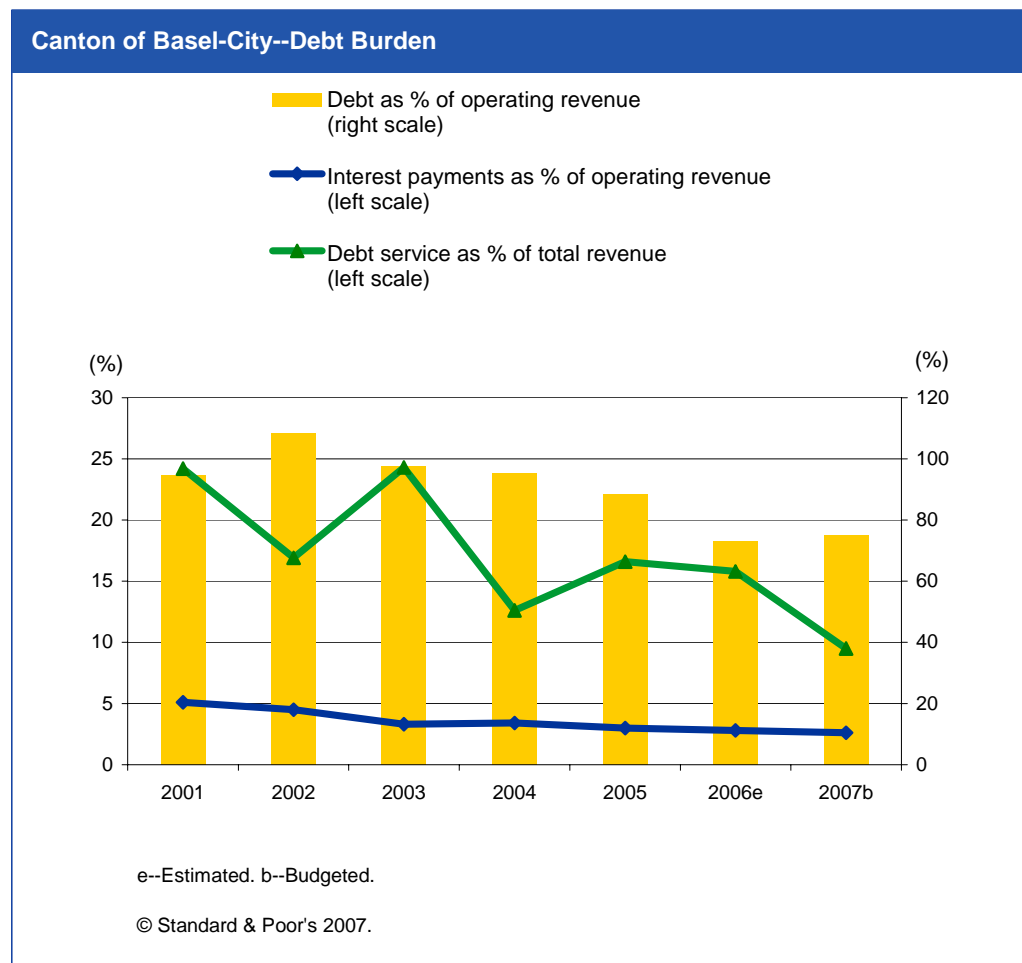
Chart 1



Basel-City's debt burden is expected to be 73% of operating revenues at year-end 2006, after 88% in 2005 (see chart 2). The significant decline in debt was achieved through the use of cash received in 2005 from the sale of gold held by the Swiss National Bank. In the coming years, we expect the canton to stabilize its debt burden at this level.

The canton has quick and easy access to liquidity in the markets. At year-end 2006, liquid assets amounted to more than 100% of debt maturing in the next 12 months.

Chart 2



Basel-City formally guarantees the pension fund's actuarial underfunding. Negative asset performance at the beginning of the decade had resulted in a substantial drop in the funds coverage rate, but has improved since and at year-end 2005 stood at 78%. The funding gap therefore amounted to CHF1.3 billion, 33% of the canton's annual operating revenue.

At year-end 2006, we expect the funding gap to have declined further, due to good asset performance in 2006. Structurally, however, the pension fund is underfinanced, and a reform is urgently necessary, a need the canton's management has acknowledged. A compromise has been struck on recapitalizing the pension fund, but this is still awaiting parliamentary approval.

### ***Profile: Geographic Diversification Benefits From Nationwide Branch Network Of BC***

Based on total assets, the BKB group is one of the larger banking groups in Switzerland, operating 53 branches (thereof 32 from BC). Domiciled in the urban Canton of Basel-City, BKB is active in one of Switzerland's wealthiest and economically strongest regions. Following the acquisition of nationwide active BC in 2000, BKB has considerably enhanced the geographic diversification of its mortgage and SME-focused lending operations. Nevertheless, despite steady progress in recent years, the group still faces the challenge of narrowing the profitability gap between BKB and primarily retail-focused BC, which for many customers is not their primary bank. At Dec. 31,

2006, BC accounted for 43% of the BKB group's consolidated assets, but only 31% of its operating income before risk. With a stake of 54%, BKB holds the majority of BC's capital and voting rights. Underlined by a contractual agreement with 10.4% shareholder Coop (not rated), both parties have undertaken to vote in concert on all important issues.

BKB has various smaller holdings in sector-supporting entities, including: Pfandbriefzentrale der Schweizer Kantonalbanken; Swisscanto, the sector's fund manager; RTC, the joint electronic data processing center of nine cantonal banks; and Sourcag AG, a center for payment transactions and back-office activities held jointly with Basellandschaftliche Kantonalbank (AAA/Stable/A-1+).

### ***Ownership And Legal Status: No Changes Expected In The Medium Term***

BKB is wholly owned by Basel-City, which is the guarantor for all of its liabilities. While maintaining its public law status, the bank has been issuing nonvoting participation certificates since 1986 that provide bearers with a dedicated share of distributable profit. The cantonal guarantee is a final guarantee, which means that there is no legal mandate for the canton to support timely repayment of the bank's obligations. Nevertheless, Standard & Poor's believes that the canton would act promptly in the event that the bank became unable to meet its obligations owing to BKB's importance to the local economy, and in order not to tarnish its own reputation in the capital markets. Standard & Poor's believes that, based on precedents, cantonal governments would maintain a distressed cantonal bank as an ongoing entity rather than allow it to fail. Since fiscal year 2003, BKB has paid compensation on the guarantee and since 2005 an extended distribution to the canton based on its operating profitability.

Under the revised banking law of 1999, the key requirement to maintain cantonal bank status is specifically defined in local law, which stipulates that a canton must maintain a minimum 33% stake in the bank's share capital and voting rights. Moreover, cantons are no longer obliged to guarantee their cantonal banks. However, Standard & Poor's expects no fundamental changes in the foreseeable future in either the bank's ownership or legal structure, or the cantonal guarantee.

### ***Strategy: Focus On Bringing BC's Profitability More In Line With The Very Good Levels Of BKB***

Standard & Poor's considers the BKB group's strategy to be consistent with the medium-term goal of bringing BC's profitability more into line with the very good levels of the parent bank. Based on its strong position in its home market, and building on its lending, mass-affluent banking, and increasing capital-market expertise, BKB intends to raise revenues by pursuing cautious business growth and better exploiting its customer base, while maintaining sound asset quality. To increase synergies between both banks, three centers of competence were established in the areas of finance, marketing, and personnel in 2006. BC has increased revenue momentum by intensifying customer relationships, drawing on the competencies of its parent, and further streamlining its activities toward a distribution bank. Therefore, Standard & Poor's expects that the trend of gradually narrowing the performance gap via above-group-average improvements at BC will continue.

Improved segmentation of its client base and targeting specific groups with dedicated products should convince more customers to conduct their primary banking relationship with BC, allowing the bank to increase its low nationwide market share. At the parent level, BKB largely focuses on SMEs in its corporate banking business to avoid concentration risks arising from exposures to multinational companies domiciled in Basel. Mass-affluent banking and asset management is

expected to continue to grow organically by acquiring expert teams rather than sizable takeovers of competitors' franchises.

***Risk Profile And Management: Overall Relatively Low Risk Appetite Within The Entire Group***

Standard & Poor's believes that the BKB group generally applies an adequate approach to combine its aim of pursuing business growth with an overall conservative level of risk appetite. While diversification and sufficient collateralization are main risk mitigating factors in the lending business, market risk in both the banking and trading book is prudently limited. Funding and liquidity benefits from its high customer deposit base and actively traded securities, whereas operational risks are addressed by a high standardization of processes within the group.

***Enterprise Risk Management: Adequate Level In Light Of The Group's Risk Bearing Capacity***

Standard & Poor's regards enterprise risk management as adequate. On the basis of the generally low risk culture entrenched throughout the group, risks are prudently controlled in line with its risk-taking capacity.

***Credit risk: Sound asset quality owing to high level of collateralization***

Standard & Poor's regards the BKB group's asset quality as sound. Cautious lending and conservative provisioning standards, along with the high collateralization of exposures and declining NPL exposures mitigate concerns arising from the regional concentration and the strong focus on real estate lending. Following years of above-average provisioning needs for single-name exposures within the corporate loan portfolio primarily at BKB, the overall group development of risk costs is expected to remain positive and more in line with the generally lower levels at other rated cantonal peers. As result of the harmonization of underwriting criteria within the BKB group, resolute de-risking efforts at BC, and BC's dominant focus on lower risk housing loans, Standard & Poor's believes the improvement in the group's asset quality will be sustainable for the foreseeable future.

Concentration risk from BKB's regional focus is mitigated due to BC's nationwide presence and by the Basel area's high wealth levels. SME exposures, with a focus on real estate and manufacturing companies, play a more significant role when compared with other rated cantonal banks. To a substantial degree they are mortgage secured and have benefited from the improved momentum of the Swiss economy and stable domestic property markets. Together with—primarily residential mortgage—loans to private individuals, which comprise about 50% of total lending, real estate assets secure almost 80% of the group's total loan portfolio. At BC, the ratio is even beyond the 90% mark, reflecting the considerably lower proportion of corporate exposures. The annual growth rates of the loan portfolio have slowed, particularly reflecting BKB's already dominant market position in a saturated market, as well as the priority of qualitative over volume-driven growth.

New loan loss provisions (LLPs) at both BKB and BC have trended downward in recent years and are expected to remain in the area of about 30 basis points (bps) or lower. Standard & Poor's believes this level will be sustainable in coming years given the lower risk culture that has been established across the group. Coverage ratios for problem loans are regarded as adequate, given

that the current good economic environment is allowing the group to release some of its bad debt reserves.

***Market risk: Risks both in the banking and trading book are prudently limited***

BKB has an internal model to calculate market risk in both its trading and banking book, but only performs limited own-account trading or treasury operations within prudent limits. While BC's risk management will be further aligned and technically integrated into that of the parent, overall risk levels are regarded as modest. Standard & Poor's considers the BKB group's actual exposure to interest rate risk on the banking book to be moderate, and risk-management tools to be adequate. The bank's market risk from trading operations is limited, and subject to supervision with the help of a value-at-risk (VaR) model that has been approved by the Swiss regulators (one-day holding period and 99% confidence interval). VaR limits are accompanied by profit-and-loss and volume limits.

***Funding and liquidity risk: Stable and relatively cheap customer deposits dominate the funding base***

As is typical for cantonal banks, stable and relatively cheap customer deposits dominate the funding base, representing 62% of liabilities at Dec. 31, 2006. Own issues, and, to a lesser extent, Pfandbrief issues complement the bank's funding resources. The BKB group's sound liquidity position benefits from a high level of interbank lending and money market positions, and a securities portfolio of high quality, which can be "repo-ed".

***Profitability: Further Improvements Are Expected To Mainly Come From BC***

Standard & Poor's regards the BKB group's profitability level as very good, driven by the favorable cost efficiency at the parent bank. Moreover, it is viewed as sustainable, given that prospects for economic growth and for domestic real estate markets have improved recently following a comparatively moderate performance in recent years. Further improvements of the group's operating performance are expected to come particularly from BC, where the performance gap should narrow gradually, based on progress in increasing revenues above the group-average and strengthening cross-selling capabilities, while maintaining cost-containment and low provisioning needs.

While fee and market-sensitive income have benefited from improved capital-market performance, but might prove more volatile in coming years, Standard & Poor's expects ongoing pressure on credit margins. In addition to the more difficult environment for achieving additional income from treasury operations in a flattening yield-curve environment, stiff competition on first ranking mortgages and lending to corporate customers with a favorable risk profile are adding to margin erosion.

If the capital-market environment remains benign, commission income contributions to earnings should increase in future years. In addition to mass-affluent banking in the city and surroundings of Basel, BKB is also present through a private banking center in Zurich. Better segmentation to identify the most valuable customers and more standardized product offerings will be necessary to raise the contribution of fee income at BC from its comparatively low basis to a sustainably higher level. BKB's very low cost-to-income ratio benefits from its above-average focus on corporate business with its generally better cost efficiency, and the comparatively lower expense level required to service its relatively small home market, Basel-City. Ongoing commitment to contain costs and

more actively aim for synergies within the group from new competence centers in the area of finance, marketing, and personnel, should allow it to at least maintain the already very favorable level within the group. Furthermore, the ongoing alignment to a common set of risk and pricing standards within the group should contribute to a favorable development of LLPs.

### ***Capital: Very High Cushion Against Unexpected Adverse Events***

Standard & Poor's regards the BKB group's capitalization as very strong, reflecting its low risk profile. Despite the expected significant rise in distribution to the canton after the introduction of a new compensation scheme based on operating performance and the repayment of endowment and participation certificate capital in 2007, Standard & Poor's does not believe that this will considerably constrain the group's ability to predominantly self-finance business growth through earnings retention in the future.

Capitalization, which is well in excess of regulatory minimum requirements, continues to compare strongly by international standards. The ACE-to-risk-weighted-assets ratio increased to 13.7% at Dec. 31, 2006, from 13% at year-end 2005. Standard & Poor's believes that BKB's capital strength will improve more slowly in coming years. Given the existing substantial capital cushion against any unexpected adverse developments, the payout-ratio is expected to increase—tied to the progress in its operating performance. Although 15% of the ACE capital consists of minority interests—mainly from Bank Coop—this is not considered as a factor constraining financial flexibility given that good profitability levels allow the group to internally fund business growth.

Table 1

#### ***Basler Kantonalbank—Balance Sheet Statistics***

<i>(Mil. CHF)</i>	<i>—Year ended Dec. 31—</i>					<i>Breakdown as a % of assets (adj.)</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
<b><i>Assets</i></b>										
Cash and money market instruments	199	187	229	192	365	0.78	0.76	0.96	0.85	1.60
Securities	2,602	2,131	2,300	2,219	1,786	10.15	8.66	9.68	9.77	7.80
Trading securities (marked to market)	1,295	623	583	635	349	5.05	2.53	2.46	2.80	1.53
Nontrading securities	1,307	1,508	1,717	1,583	1,436	5.10	6.13	7.23	6.97	6.28
Loans to banks (net)	2,349	2,498	2,130	1,759	1,899	9.16	10.15	8.97	7.75	8.30
Customer loans (gross)	19,151	18,485	17,740	17,013	17,103	74.72	75.08	74.70	74.91	74.76
Residential real estate loans	12,998	12,352	11,696	10,939	10,358	50.72	50.17	49.25	48.17	45.28
Commercial real estate loans	4,063	3,866	3,644	3,395	3,540	15.85	15.70	15.34	14.95	15.48
All other loans	2,090	2,267	2,401	2,680	3,204	8.16	9.21	10.11	11.80	14.00
Loan loss reserves	471	466	424	435	640	1.84	1.89	1.79	1.92	2.80
Customer loans (net)	18,680	18,019	17,316	16,578	16,462	72.89	73.19	72.91	73.00	71.96
Earning assets	24,106	23,119	22,172	20,992	20,839	94.06	93.90	93.36	92.43	91.09
Inv. in unconsolidated subsidiaries (financial co.)	95	89	85	78	91	0.37	0.36	0.36	0.35	0.40
Intangibles (non servicing)	40	33	36	40	46	0.15	0.14	0.15	0.18	0.20
Fixed assets	201	205	178	270	286	0.78	0.83	0.75	1.19	1.25
Derivatives credit amount	456	647	808	736	936	1.78	2.63	3.40	3.24	4.09
Accrued receivables	131	113	95	103	116	0.51	0.46	0.40	0.45	0.51

Table 1

<b>Basler Kantonalbank—Balance Sheet Statistics</b>										
<i>(cont. 'd)</i>										
	— Year ended Dec. 31—					Breakdown as a % of assets (adj.)				
<i>(Mil. CHF)</i>	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
All other assets	445	267	183	341	296	1.74	1.08	0.77	1.50	1.30
Total reported assets	25,668	24,654	23,785	22,751	22,924	100.15	100.14	100.15	100.18	100.20
Less nonservicing intangibles	(40)	(33)	(36)	(40)	(46)					
Adjusted assets	25,629	24,621	23,749	22,711	22,878	100.00	100.00	100.00	100.00	100.00
	<b>Breakdown as a % of liabilities + equity</b>									
	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
<b>Liabilities</b>										
Total deposits	15,916	15,346	14,656	13,764	13,706	62.01	62.25	61.62	60.50	59.79
Noncore deposits	1,047	1,022	778	837	1,674	4.08	4.15	3.27	3.68	7.30
Core/customer deposits	14,869	14,324	13,878	12,927	12,032	57.93	58.10	58.35	56.82	52.49
Public sector or total pfandbriefe	1,729	1,573	1,310	1,299	1,267	6.74	6.38	5.51	5.71	5.53
Other borrowings	4,307	3,974	4,099	4,237	4,252	16.78	16.12	17.24	18.62	18.55
Other liabilities	1,326	1,551	1,693	1,595	1,995	5.17	6.29	7.12	7.01	8.70
Total liabilities	23,278	22,444	21,759	20,894	21,219	90.69	91.04	91.48	91.84	92.56
Total shareholders' equity	2,413	2,210	2,026	1,857	1,705	9.40	8.96	8.52	8.16	7.44
Minority interest-equity	335	341	324	328	333	1.30	1.38	1.36	1.44	1.45
Common shareholders' equity (reported)	2,056	1,869	1,702	1,529	1,371	8.01	7.58	7.16	6.72	5.98
Share capital and surplus	269	269	284	299	296	1.05	1.09	1.19	1.31	1.29
General banking risk reserves¶	0	0	0	0	723	0.00	0.00	0.00	0.00	3.15
Reserves (incl. inflation revaluations)	1,610	1,412	1,217	1,055	330	6.27	5.73	5.12	4.64	1.44
Retained profits	177	187	201	174	23	0.69	0.76	0.84	0.77	0.10
Total liabilities and equity	25,668	24,654	23,785	22,751	22,924	100.00	100.00	100.00	100.00	100.00
Common shareholders' equity (reported)	2,078	1,869	1,702	1,529	1,371					
Plus minority interest - Equity	335	341	324	328	333					
Less nonservicing intangibles	(40)	(33)	(36)	(40)	(46)					
Tangible common equity	2,349	2,177	1,990	1,816	1,659					
Less equity in unconsolidated subsidiaries	(95)	(89)	(85)	(78)	(91)					
Adjusted common equity	2,253	2,087	1,905	1,738	1,568					
Adjusted total equity	2,253	2,087	1,905	1,738	1,568					

¶The FGBR was dissolved at the group level in 2003 and included entirely under retained earnings. CHF-Swiss franc. N.A.—Not available.

Table 2

## Basler Kantonalbank—Profit And Loss Statement Statistics

(Mil. CHF)	—Year ended Dec. 31—					Adj. avg. assets (%)				
	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
<b>Profitability</b>										
Interest income	695	656	635	681	748	2.77	2.71	2.74	2.99	3.32
Interest expense	301	280	276	304	377	1.20	1.16	1.19	1.33	1.67
Net interest income	393	376	360	377	372	1.57	1.55	1.55	1.65	1.65
Operating noninterest income	316	296	278	269	248	1.26	1.22	1.20	1.18	1.10
Fees and commissions	208	196	170	156	142	0.83	0.81	0.73	0.69	0.63
Equity in earnings of unconsolidated subsidiaries	10	13	25	3	2	0.04	0.05	0.11	0.01	0.01
Trading gains	74	65	59	69	74	0.30	0.27	0.26	0.30	0.33
Other market-sensitive income	15	9	15	19	7	0.06	0.04	0.07	0.08	0.03
Other noninterest income	8	13	9	22	23	0.03	0.05	0.04	0.10	0.10
Operating revenues	709	671	638	646	620	2.82	2.78	2.75	2.84	2.75
Noninterest expenses	323	308	299	324	339	1.29	1.27	1.29	1.42	1.50
Personnel expenses	191	180	176	175	175	0.76	0.74	0.76	0.77	0.78
Other general and administrative expense	107	106	99	105	123	0.43	0.44	0.43	0.46	0.54
Depreciation and amortization-other	26	23	24	44	41	0.10	0.09	0.10	0.19	0.18
Net operating income before loss provisions	386	363	339	322	281	1.54	1.50	1.46	1.41	1.25
Credit loss provisions (net new)	35	51	56	65	113	0.14	0.21	0.24	0.28	0.50
Net operating income after loss provisions	351	313	284	258	168	1.40	1.29	1.22	1.13	0.75
Nonrecurring/special income	1	1	13	2	14	0.01	0.01	0.06	0.01	0.06
General banking risk provisions¶1	0	0	0	0	75	0.00	0.00	0.00	0.00	0.33
Nonrecurring/special expense	11	0	0	1	5	0.04	0.00	0.00	0.00	0.02
Pretax profit	341	314	296	259	103	1.36	1.30	1.28	1.13	0.46
Tax expense/credit	22	20	18	13	14	0.09	0.08	0.08	0.06	0.06
Net income before minority interest	319	294	278	245	89	1.27	1.22	1.20	1.08	0.39
Minority interest in consolidated subsidiaries	32	29	30	N.A.	N.A.	0.13	0.12	0.13	N.A.	N.A.
Net income before extraordinary	287	265	248	245	89	1.14	1.09	1.07	1.08	0.39
Extraordinary Income§	(34)	(31)	0	0	0	(0.14)	(0.13)	0.00	0.00	0.00
Net income after extraordinary	253	234	248	245	89	1.01	0.97	1.07	1.08	0.39
Core earnings	295	263	236	245	156	1.18	1.09	1.02	1.07	0.69
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>					
<b>Asset Quality</b>										
Nonperforming assets*	373	427	432	427	536					
Nonaccrual loans	373	427	432	427	536					
Net charge-offs	38	53	57	270	101					
<b>Average balance sheet</b>										
Average customer loans	18,349	17,668	16,947	16,520	15,896					
Average earning assets	23,612	22,645	21,582	20,915	20,752					
Average assets	25,161	24,219	23,268	22,837	22,588					
Average total deposits	15,631	15,001	14,210	13,735	14,101					
Average interest-bearing liabilities	21,422	20,479	19,683	19,262	19,156					
Average common equity	1,962	1,785	1,615	1,450	1,317					
Average adjusted assets	25,125	24,185	23,230	22,794	22,539					

Table 2

<b>Basler Kantonalbank—Profit And Loss Statement Statistics</b>						<i>(cont.'d)</i>				
	—Year ended Dec. 31—					Adj. avg. assets (%)				
<i>(Mil. CHF)</i>	2006	2005	2004	2003	2002 -	2006	2005	2004	2003	2002
<b>Other data</b>										
Number of employees (end of period, actual)	1,389	1,348	1,354	1,362	1,416					
Number of branches	53	53	55	55	58					
Total assets under management	N.A.	2,354	2,315	2,233	2,097					
Assets under administration	N.A.	23,963	22,505	19,969	18,841					
Off-balance-sheet credit equivalents	633	459	571	499	408					

¶The FGBR was dissolved at the group level in 2003 and included entirely under retained earnings. §Compensation for cantonal guarantee. \*Sub-standard loans reduced by collaterals. CHF-Swiss franc. N.A.—Not available.

Table 3

<b>Basler Kantonalbank—Ratio Analysis</b>								
	—Year ended Dec. 31—							
	2006	2005	2004	2003	2002			
<b>ANNUAL GROWTH (%)</b>								
Customer loans (gross)				3.60	4.20	4.27	(0.52)	6.83
Loss reserves				1.11	9.75	(2.47)	(32.05)	(5.97)
Adjusted assets				4.09	3.67	4.57	(0.73)	3.06
Customer deposits				3.80	3.22	7.36	7.43	(3.20)
Tangible common equity				7.92	9.37	9.56	9.49	8.01
Total equity				8.18	9.07	9.12	8.92	7.29
Operating revenues				5.64	5.17	(1.25)	4.32	4.07
Noninterest expense				4.95	3.10	(7.75)	(4.32)	4.81
Net operating income before provisions				6.23	6.98	5.29	14.73	3.19
Loan loss provisions				(31.04)	(9.17)	(13.77)	(42.58)	35.79
Net operating income after provisions				12.26	10.16	10.07	53.01	(11.07)
Pretax profit				8.73	5.93	14.57	152.14	1.31
Net income				8.38	5.87	13.23	176.55	0.12
				<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>PROFITABILITY (%)</b>								
<b>Interest Margin Analysis</b>								
Net interest income (taxable equiv.)/avg. earning assets	1.67	1.66	1.67	1.80	1.79			
Net interest spread	1.54	1.53	1.54	1.68	1.64			
Interest income (taxable equiv.)/avg. earning assets	2.94	2.90	2.94	3.26	3.61			
Interest income on loans/avg. total loans	3.15	3.04	3.11	3.45	3.91			
Interest expense/avg. interest-bearing liabilities	1.41	1.37	1.40	1.58	1.97			
<b>Revenue Analysis</b>								
Net interest income/revenues	55.47	55.97	56.38	58.34	59.99			
Fee income/revenues	29.39	29.17	26.60	24.21	22.84			
Market-sensitive income/revenues	12.58	11.00	11.67	13.63	13.11			
Noninterest income/revenues	44.53	44.03	43.62	41.66	40.01			

Table 3

<b>Basler Kantonalbank—Ratio Analysis</b>		<b>(cont. 'd)</b>				
		<b>—Year ended Dec. 31—</b>				
		<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Personnel expense/revenues		26.90	26.75	27.63	27.05	28.27
Noninterest expense/revenues		45.61	45.91	46.83	50.13	54.65
Noninterest expense/revenues less investment gains		46.57	46.53	47.96	51.66	55.30
Expense less all amortizations/revenues		42.00	42.53	43.10	43.31	48.05
Net operating income before provision/revenues		54.39	54.09	53.17	49.87	45.35
Net operating income after provisions/revenues		49.47	46.56	44.45	39.88	27.19
New loan loss provisions/revenues		4.92	7.54	8.73	9.99	18.16
Net nonrecurring/abnormal income/revenues		(1.34)	0.21	1.98	0.14	(10.63)
Pretax profit/revenues		48.13	46.76	46.43	40.02	16.56
Net income/revenues		44.96	43.83	43.53	37.97	14.32
Tax/pretax profit		6.59	6.28	6.23	5.12	13.50
		<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Other Returns</b>						
Pretax profit/avg. risk assets (%)		2.10	1.96	1.87	1.64	0.66
Net income/avg. risk assets (%)		1.96	1.83	1.75	1.56	0.57
Revenues/avg. risk assets (%)		4.35	4.19	4.02	4.10	4.01
Net operating income before loss provisions/avg. risk assets (%)		2.37	2.26	2.14	2.05	1.82
Net operating income after loss provisions/avg. risk assets (%)		2.15	1.95	1.79	1.64	1.09
Net income before minority interest/avg. adjusted assets		1.27	1.22	1.20	1.08	0.39
Net income/avg. assets + securitized assets		1.27	1.22	1.20	1.08	0.39
Net income/employee (CHF)		233,008	217,777	204,655	176,701	62,688
Personnel expense/employee (CHF)		139,433	132,904	129,882	125,879	123,716
Personnel expense/branch (mil. CHF)		3.60	3.32	3.21	3.09	3.02
Noninterest expense/branch (mil. CHF)		6.10	5.71	5.43	5.73	5.84
Cash earnings/avg. tang. common equity (ROE) (%)		15.22	15.21	15.85	16.66	8.11
Core earnings/avg. tang. common equity (ROE) (%)		13.06	12.65	12.40	14.07	9.76
		<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>FUNDING AND LIQUIDITY (%)</b>						
Customer deposits/funding base		67.73	68.56	69.16	66.98	62.59
Total loans/customer deposits		144.59	146.48	143.19	145.22	157.92
Total loans/customer deposits + long-term funds		95.36	97.64	96.76	97.40	104.83
Customer loans (net)/assets (adj.)		72.89	73.19	72.91	73.00	71.96
		<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>CAPITALIZATION (%)</b>						
Adjusted common equity/adjusted assets		8.79	8.48	8.02	7.65	6.85
Adjusted common equity/risk assets		13.68	12.96	11.94	11.02	9.97
Adjusted common equity/customer loans (net)		12.06	11.58	11.00	10.48	9.52
Internal capital generation/prior year's equity		15.33	15.55	16.21	17.89	7.03
Tier 1 capital ratio		14.70	N.A.	12.63	11.27	10.05
Regulatory total capital ratio		14.70	N.A.	12.63	11.27	10.81
Adjusted total equity/adjusted assets		8.79	8.48	8.02	7.65	6.85
Adjusted total equity/risk assets		13.68	12.96	11.94	11.02	9.97

Table 3

<b>Basler Kantonalbank—Ratio Analysis</b>		<b>(cont. 'd)</b>				
		<b>—Year ended Dec. 31—</b>				
		<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Adjusted total equity plus LLR (specific)/customer loans (gross)		14.23	13.81	13.13	12.77	12.91
		<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>ASSET QUALITY (%)</b>						
New loan loss provisions/avg. customer loans (net)		0.19	0.29	0.33	0.39	0.71
Net charge-offs/avg. customer loans (net)		0.21	0.30	0.33	1.63	0.63
Loan loss reserves/customer loans (gross)		2.46	2.52	2.39	2.56	3.74
Credit-loss reserves/risk assets		2.86	2.89	2.66	2.76	4.07
Nonperforming assets (NPA)/customer loans		1.95	2.31	2.43	2.51	3.14
Loan loss reserves/NPA (gross)		126.31	109.00	98.33	101.83	119.40

\*Data as of fiscal year end. N.A.—Not available.

#### **Ratings Detail (As Of 15-Feb-2007)\***

##### **Basler Kantonalbank**

Counterparty Credit Rating	AA+/Stable/A-1+
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Certificate Of Deposit	AA+/A-1+
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Senior Unsecured	
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<b>Local Currency</b>	AA+
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##### **Counterparty Credit Ratings History**

17-Jan-2006	AA+/Stable/A-1+
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20-Oct-2003	AA+/Negative/A-1+
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18-Oct-2001	AA+/Stable/A-1+
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##### **Sovereign Rating**

Swiss Confederation	AAA/Stable/A-1+
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##### **Related Entities**

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

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