

## Basler Kantonalbank

**Primary Credit Analyst:**

Pierre Gautier, Paris (33) 1-4420-6711; pierre\_gautier@standardandpoors.com

**Secondary Contact:**

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

**Research Contributor:**

Nicolas Hengstebeck, Frankfurt (49) 69-33-999-167; Nicolas\_Hengstebeck@standardandpoors.com

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# Basler Kantonalbank

## Major Rating Factors

### Strengths:

- "Integral" link with and "very important" role for the Canton of Basel-City through full ownership and statutory guarantee.
- Very strong customer franchise in home region and focus on generally low-risk businesses.
- Very strong financial profile, especially with respect to capital, liquidity, and loan book quality.
- Canton's very good budgetary performance.

### Counterparty Credit Rating

AA+/Stable/A-1+

### Weaknesses:

- Lower profitability and quality of earnings of majority-owned subsidiary Bank Coop.
- Higher concentration risk by single names compared with most cantonal banks.
- Limited growth prospects in the already saturated Basel-City banking market.

## Rationale

The ratings on Switzerland-based public-law institution Basler Kantonalbank (BKB) are at the same level as those of BKB's sole owner and guarantor, the Swiss Canton of Basel-City (Basel-City, AA+/Stable/A-1+). In Standard & Poor's Ratings Services' view, there is an "extremely high" likelihood that Basel-City would provide timely and sufficient extraordinary support to BKB in the event of financial stress. This results in two-notches of uplift from our assessment of BKB's stand-alone credit profile. Furthermore, the ratings reflect BKB's high resilience against economic and capital market stress scenarios, on the basis on prudent risk management, which offsets weaker business profile characteristics.

In accordance with our methodology for rating government-related entities (GREs), our view of "extremely high" likelihood of support is based on BKB's:

- "very important" role for Basel-City, where BKB is by far the largest GRE. Default by the bank could destabilize the regional economy and tarnish the canton's reputation. In addition, BKB supports the canton in meeting key economic and social objectives; and
- "integral link" with the canton. A statutory guarantee provided by Basel-City for all of BKB's liabilities except those of subsidiaries (specifically unrated Bank Coop), subordinated liabilities or nonvoting participation certificates. We do not anticipate any change to BKB's ownership structure or the canton's statutory guarantee.

Although this guarantee does not stipulate timely repayment, we believe that, to maintain investor and creditor confidence, the cantonal government would respond quickly to preserve the solvency of the bank.

With total consolidated assets of Swiss Franc (CHF) 36 billion (about \$42 billion) and total adjusted capital of about CHF3 billion as of June. 30, 2011, BKB is the third largest cantonal bank and one of the largest banking groups in Switzerland. BKB mainly focuses on the wealthy Basel region, where it enjoys a very strong franchise with extremely strong market shares in corporate, retail and mortgage lending. BKB's 57.6% owned subsidiary Bank

Coop adds geographic and business diversity to the group, through its nationwide network and focus on granular residential real-estate loans to individuals and small and midsize enterprises. Bank Coop represented 40.3% of the group's assets and 25.9% of its pre-tax profit at end-2010. Bank Coop's profitability is below group average. This stems from a lower proportion of fees in its revenue mix, reflecting the fact that Bank Coop, unlike BKB, remains a second bank for a part of its clientele. It also stems from a structurally higher cost base, reflecting its larger branch network.

We expect BKB to maintain its two-brand strategy, based on strong recognition of BKB in Basel-City and Bank Coop on a national basis. The proportion of revenues from asset gathering activities should increase over the medium term, but only gradually, following the acquisition of AAM Privatbank in 2009 and subsequent streamlining initiatives to integrate it within BKB's own private banking platform. Organic expansion of asset gathering and finding a good strategic position for Privatbank within BKB remains a challenge for management, however, and will take probably longer to achieve than initially expected. One of the bank's objectives is to improve efficiency, targeting a 45% cost to income ratio by end 2015 (49.2% at end 2010, excluding nonrecurring information technology costs), leveraging a new information technology infrastructure implemented group wide in 2010. We believe this target could be challenging, particularly if the bank's earnings do not benefit from more supportive conditions such as higher interest rates and a steeper yield curve.

BKB's loan book is of very good quality, with a nonperforming loan ratio below 2% since 2006 and the cost of risk averaging 13 basis points over past five years. The bank's strong asset quality stems from a high proportion of granular low-risk residential mortgage loans in the loan mix. We believe that BKB's exposures are well collateralized and that its underwriting practices are conservative. The bank is exposed to fluctuations in the local economy and property markets, which, in combination with fierce competition, limits its growth potential and restricts margins. In the longer term, excessive price levels for real estate in Basel-City and regions where Bank Coop operates might create a challenge. We regard the current upward price trend as a warning signal, but acknowledge that it reflects the growing population in the canton and low vacancy rates, while speculative demand has remained largely absent. Compared with other cantonal banks, BKB's corporate book has a higher level of single-name and industry concentrations, reflecting the narrowness of Basel-City's economic structure. The predominance of non-cyclical industries in Basel-City mitigates this risk. Some risks could also emerge from BKB's exposure to syndicated loans if Switzerland's export-oriented industries were to suffer from sustained strength in the Swiss franc. The bank's securities portfolio is of good quality overall and market risk is prudently limited in our view.

BKB's inherent exposure to interest rates in its banking book is managed under a conservative limit and the impact of a 100 basis point (bp) parallel shift in the yield curve would be well below 10% of the market value of the bank's equity.

BKB's funding profile remains strong, with stable customer deposits accounting for 73% of resources at mid-year 2011. BKB benefited from new deposit inflows between 2008 and 2010 of about CHF4 billion, reflecting a "flight to quality", but lost some term deposits in the first half of 2011. The cantonal guarantee provides confidence to retail and corporate depositors and we expect the customer deposit base to remain both stable and granular. The bank's liquidity is supported by a portfolio of low-risk securities, a large part of which can be used in repurchase agreement transactions with the Swiss central bank, and liquid assets of CHF3 billion (including short-term loans to banks).

BKB's earnings come largely from stable sources: essentially interest income from retail banking and fee income

from asset gathering activities. More volatile treasury activity represents a moderate 15% of revenues. However, BKB's net interest margins have declined 45 bps since 2006 because of the very low interest rate environment in Switzerland and low loan growth opportunities in an already saturated market. We expect this margin pressure to persist through 2011, especially on the credit side. We nevertheless believe that the bank is likely to gradually improve its efficiency after its large and nonrecurring information technology investments in 2008-2010. The cost of risk is likely to remain low in our view given the bank's asset mix, although probably higher than the unsustainable 6 bps achieved in the first-half of 2011 and 7 bps in full year 2010. Overall, we expect core earnings to adjusted assets at about 0.6% in 2011 compared with 0.66% in 2010 and 0.77% in 2009. However, very low interest rates and a further strengthening of the Swiss franc could result in overall earnings pressure.

BKB's capitalization is strong according to our methodology, with a risk-adjusted capital (RAC) ratio of 16.5% before diversification adjustments at end-2010 (15.5% after). We expect the RAC ratio to rise further through profit retention and a continued conservative risk approach, resulting in very high risk absorption capacity. However, on the basis of the bank's broader business model, we do not expect the RAC ratio to reach the stronger levels of most of the other cantonal banks we rate, even though it is much higher than the average of large banks we rate globally. We note, however, that BKB's concentration risk resulting from residential real estate is not entirely reflected in the ratio. We do not expect any material change in the dividend pay-out policy that would put pressure on BKB's capital position.

## Outlook

The stable outlook reflects that on Basel-City. Rating actions on Basel-City would trigger similar actions on BKB.

It also reflects our expectation that the current GRE status, and subsequent "extremely high" likelihood of extraordinary support, will not change and that BKB's sound business and financial profiles will remain unchanged.

A material weakening of BKB's role for or link with the canton, including changes to the guarantee or ownership structure, could have negative implications for BKB. However, in the event of changes to BKB's legal status or the guarantee, BKB's existing obligations would remain grandfathered, in our view.

We could lower our stand-alone assessment, and subsequently our ratings on BKB, if we were to revise our banking industry country risk assessment (BICRA) for Switzerland, which is currently in group one. A BICRA signals our view of the systemic risk of operating in a banking industry for an individual financial institution. We assess that risk on a scale from one to 10, ranging from the lowest-risk banking industries (group one) to the highest risk (group 10). The ratings could also come under pressure as a result of a departure from the bank's prudent underwriting and capital policy.

The likelihood of an upgrade is remote at this stage and would depend on an upgrade of the canton.

**Table 1**

| Basler Kantonalbank Asset Quality, Funding, And Liquidity Ratios        |                        |       |       |       |       |
|---|------------------------|-------|-------|-------|-------|
|   | --Year-ended Dec. 31-- |       |       |       |       |
| (%)   | 2011*                  | 2010  | 2009  | 2008  | 2007  |
| Gross nonperforming assets/customer loans + other real estate owned (%) | N/A                    | 1.3   | 1.3   | 1.6   | 1.9   |
| Net nonperforming assets/customer loans plus other real estate owned    | N/A                    | (0.8) | (0.9) | (0.7) | (0.5) |
| Loan loss reserves/gross nonperforming assets (%)                       | N/A                    | 159.0 | 162.2 | 143.2 | 124.5 |

**Table 1**

| <b>Basler Kantonalbank Asset Quality, Funding, And Liquidity Ratios (cont.)</b> |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|
| Loan loss reserves/customer loans   | 2.0   | 2.1   | 2.2   | 2.2   | 2.4   |
| New loan loss provisions/average customer loans (%)                             | 0.1   | 0.1   | 0.1   | 0.1   | 0.2   |
| Net charge-offs/average customer loans (%)                                      | N.M.  | 0.0   | 0.0   | 0.2   | 0.1   |
| Customer deposits/funding base  | 72.8  | 77.5  | 75.4  | 69.9  | 67.0  |
| Total loans/customer deposits   | 127.1 | 115.4 | 120.9 | 138.8 | 144.0 |
| Total loans/customer deposits plus long-term funds                              | 95.2  | 86.9  | 89.9  | 97.9  | 95.8  |
| Customer loans (net)/assets (adjusted)  | 68.0  | 67.0  | 68.3  | 67.3  | 71.4  |

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

**Table 2**

| <b>(%)</b>  | <b>--Year-ended Dec. 31--</b> |             |             |             |             |
|---|-------------------------------|-------------|-------------|-------------|-------------|
|   | <b>2011*</b>                  | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> |
| Net interest income/average earning assets          | 1.2                           | 1.2         | 1.3         | 1.5         | 1.7         |
| Net interest income/revenues (%)                    | 56.6                          | 54.1        | 51.7        | 61.7        | 56.1        |
| Fee income/revenues (%)                             | 28.2                          | 28.5        | 26.5        | 27.1        | 29.2        |
| Market-sensitive income/revenues (%)                | 14.7                          | 14.9        | 19.8        | 9.0         | 10.8        |
| Personnel expense/revenues                          | 31.7                          | 31.3        | 29.1        | 31.8        | 27.0        |
| Noninterest expenses/revenues                       | 55.3                          | 58.9        | 55.8        | 59.7        | 46.1        |
| New loan loss provisions/revenues                   | 2.2                           | 2.5         | 3.8         | 4.4         | 4.1         |
| Preprovision operating income/LLP (%)               | 2,079.4                       | 1,628.4     | 1,165.9     | 911.7       | 1,307.5     |
| Operating income after loss provisions/revenues (%) | 42.6                          | 38.6        | 40.4        | 35.9        | 49.8        |
| Pretax profit/revenues                              | 43.1                          | 34.2        | 34.3        | 28.9        | 42.0        |
| Tax/pretax profit                                   | 6.3                           | 6.9         | 5.4         | 10.3        | 9.5         |
| Core earnings/revenues                              | 39.9                          | 36.1        | 38.5        | 32.4        | 45.2        |
| Core earnings/average adjusted assets               | 0.7                           | 0.7         | 0.9         | 0.7         | 1.2         |
| Noninterest expenses/average adjusted assets        | 1.0                           | 1.2         | 1.3         | 1.3         | 1.3         |
| Core earnings/average risk-weighted assets          | N.M.                          | N.M.        | N.M.        | 2.4         | 1.9         |
| Core earnings/average adjusted common equity        | 9.0                           | 8.6         | 10.6        | 8.5         | 13.6        |
| Pretax profit/average common equity (%)             | 10.7                          | 8.9         | 10.3        | 8.2         | 13.8        |

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

**Table 3**

| <b>(%)</b>  | <b>--Year-ended Dec. 31--</b> |             |             |             |             |
|---|-------------------------------|-------------|-------------|-------------|-------------|
|   | <b>2011*</b>                  | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> |
| Adjusted common equity/risk assets (%)  | N.M.                          | N.M.        | N.M.        | N.M.        | 14.1        |
| Tier 1 capital ratio (%)  | N/A                           | 13.4        | 13.5        | 13.6        | 14.6        |
| Adjusted total equity/adjusted assets   | 8.0                           | 7.9         | 8.1         | 8.0         | 8.6         |
| Adjusted total equity/managed assets  | 8.0                           | 7.9         | 8.1         | 8.0         | 8.6         |
| Adjusted total equity plus loan loss reserves (specific)/customer loans (gross) | 13.5                          | 13.7        | 13.8        | 13.8        | 14.2        |
| Common dividend payout ratio  | 0.0                           | 0.0         | 0.0         | 0.0         | 0.0         |

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

Table 4

| <b>Basler Kantonalbank Summary Balance Sheet</b>                 |                               |             |             |             |             |
|--|-------------------------------|-------------|-------------|-------------|-------------|
|  | <b>--Year-ended Dec. 31--</b> |             |             |             |             |
| <b>(Mil. CHF)</b>  | <b>2011*</b>                  | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> |
| <b>Assets</b>  |                               |             |             |             |             |
| Cash and money market instruments                                | 189.7                         | 841.4       | 411.9       | 306.0       | 195.3       |
| Securities   | 4,751.7                       | 5,164.5     | 4,660.5     | 3,264.5     | 2,586.9     |
| Trading securities (marked to market)                            | 2,505.3                       | 2,713.6     | 1,973.1     | 1,606.0     | 1,451.1     |
| Nontrading securities  | 2,246.4                       | 2,450.9     | 2,687.4     | 1,658.5     | 1,135.8     |
| Loans to banks (net)   | 2,770.3                       | 1,726.7     | 2,151.8     | 3,821.2     | 2,511.8     |
| Customer loans (gross)   | 24,990.6                      | 24,194.8    | 22,917.8    | 21,485.3    | 20,355.7    |
| Loan loss reserves   | 507.0                         | 507.1       | 500.6       | 479.0       | 487.4       |
| Customer loans (net)   | 24,483.6                      | 23,687.8    | 22,417.2    | 21,006.3    | 19,868.3    |
| Earning assets   | 32,515.0                      | 31,088.2    | 29,734.1    | 28,573.8    | 25,462.7    |
| Investments in unconsolidated subsidiaries (financial companies) | 107.7                         | 105.5       | 98.5        | 85.9        | 106.0       |
| Intangibles (nonservicing)                                       | 5.1                           | 7.8         | 30.1        | 30.5        | 36.6        |
| Fixed assets   | 199.2                         | 195.3       | 216.7       | 222.2       | 206.0       |
| Derivatives credit amount  | 2,103.7                       | 2,556.9     | 1,682.5     | 1,628.7     | 694.2       |
| Accrued receivables  | 130.5                         | 132.7       | 151.8       | 122.9       | 120.6       |
| All other assets   | 760.5                         | 435.2       | 516.0       | 282.2       | 1,055.1     |
| Total assets   | 36,009.1                      | 35,360.7    | 32,837.4    | 31,249.3    | 27,868.2    |
| Intangibles (nonservicing)                                       | 5.1                           | 7.8         | 30.1        | 30.5        | 36.6        |
| Adjusted assets  | 36,003.9                      | 35,352.9    | 32,807.3    | 31,218.9    | 27,831.6    |
| <b>Liabilities</b>   |                               |             |             |             |             |
| Total deposits   | 25,219.8                      | 24,083.2    | 22,258.7    | 19,850.8    | 17,332.2    |
| Noncore deposits   | 3,374.0                       | 1,622.5     | 1,519.8     | 1,620.3     | 1,454.4     |
| Core/customer deposits   | 21,845.8                      | 22,460.7    | 20,738.9    | 18,230.5    | 15,877.8    |
| Other borrowings   | 2,941.0                       | 3,048.7     | 3,543.3     | 4,284.5     | 4,516.3     |
| Other liabilities  | 2,943.6                       | 3,339.0     | 2,459.1     | 2,473.6     | 1,536.8     |
| Total liabilities  | 32,967.4                      | 32,333.9    | 29,947.2    | 28,550.1    | 25,228.3    |
| Total equity   | 3,041.7                       | 3,026.8     | 2,890.2     | 2,699.3     | 2,640.0     |
| Minority interest-equity   | 364.7                         | 356.7       | 359.4       | 337.3       | 329.0       |
| Common shareholders' equity                                      | 2,677.0                       | 2,670.1     | 2,530.8     | 2,361.9     | 2,311.0     |
| Share capital and surplus  | 254.2                         | 254.2       | 254.2       | 254.2       | 254.2       |
| Retained profits   | 115.5                         | 216.3       | 238.9       | 172.8       | 280.3       |
| Total liabilities and equity                                     | 36,009.1                      | 35,360.7    | 32,837.4    | 31,249.4    | 27,868.2    |

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

Table 5

| <b>Basler Kantonalbank Equity Reconciliation Table</b> |                               |             |             |             |             |
|--|-------------------------------|-------------|-------------|-------------|-------------|
|  | <b>--Year-ended Dec. 31--</b> |             |             |             |             |
| <b>(Mil. CHF)</b>                                      | <b>2011*</b>                  | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> |
| Common shareholders' equity                            | 2,677.0                       | 2,670.1     | 2,530.8     | 2,361.9     | 2,311.0     |
| Plus minority interest (equity)                        | 364.7                         | 356.7       | 359.4       | 337.3       | 329.0       |

Table 5

| Basler Kantonalbank Equity Reconciliation Table (cont.) |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
| Minus dividends (not yet distributed)                   | (50.0)  | (104.6) | (96.2)  | (87.2)  | (99.8)  |
| Minus nonservicing intangibles                          | (5.1)   | (7.8)   | (30.1)  | (30.5)  | (36.6)  |
| Adjusted common equity                                  | 2,986.5 | 2,914.3 | 2,763.9 | 2,581.6 | 2,503.5 |
| Plus admissible preferred and hybrids                   | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Total Adjusted Capital                                  | 2,986.5 | 2,914.3 | 2,763.9 | 2,581.6 | 2,503.5 |
| Plus general reserves                                   | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Plus unrealized gains                                   | N/A     | N/A     | N/A     | 0.0     | 0.0     |
| Minus equity in unconsolidated subsidiaries             | (107.7) | (105.5) | (98.5)  | (85.9)  | (106.0) |
| Adjusted total equity                                   | 2,878.8 | 2,808.8 | 2,665.4 | 2,495.7 | 2,397.5 |

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

Table 6

| (Mil. CHF)  | --Year-ended Dec. 31-- |       |       |       |       |
|---|------------------------|-------|-------|-------|-------|
|   | 2011*                  | 2010  | 2009  | 2008  | 2007  |
| Net interest income                               | 187.4                  | 367.6 | 380.2 | 411.0 | 413.4 |
| Interest income                                   | 330.6                  | 665.1 | 697.0 | 863.1 | 805.0 |
| Interest expense                                  | 143.2                  | 297.5 | 316.9 | 452.1 | 391.7 |
| Operating noninterest income                      | 143.9                  | 311.4 | 355.8 | 254.8 | 323.3 |
| Fees and commissions                              | 93.4                   | 193.5 | 195.1 | 180.3 | 214.9 |
| Net brokerage commissions                         | 81.9                   | 173.2 | 176.1 | 165.8 | 206.5 |
| Trading gains                                     | 48.5                   | 95.6  | 143.7 | 67.4  | 75.1  |
| Other market-sensitive income                     | 0.1                    | 5.5   | 2.2   | (7.8) | 4.3   |
| Equity in earnings of unconsolidated subsidiaries | 3.4                    | 9.4   | 8.0   | 6.7   | 20.2  |
| Other noninterest income                          | (1.5)                  | 7.4   | 6.8   | 8.3   | 8.8   |
| Operating revenues                                | 331.4                  | 678.9 | 736.0 | 665.9 | 736.6 |
| Noninterest expenses                              | 183.2                  | 399.8 | 410.5 | 397.7 | 339.7 |
| Personnel expenses                                | 105.0                  | 212.7 | 214.3 | 211.6 | 198.7 |
| Other general and administrative expense          | 66.7                   | 155.8 | 175.0 | 145.1 | 123.3 |
| Preprovision operating income                     | 148.2                  | 279.1 | 325.4 | 268.2 | 396.9 |
| Credit loss provisions (net new)                  | 7.1                    | 17.1  | 27.9  | 29.4  | 30.4  |
| Operating income after loss provisions            | 141.0                  | 262.0 | 297.5 | 238.8 | 366.5 |
| Nonrecurring/special income                       | 1.9                    | 22.4  | 31.3  | 2.8   | 2.3   |
| Nonrecurring/special expense                      | 0.0                    | 31.2  | 40.1  | 33.2  | 45.2  |
| Impairment of intangibles                         | 0.0                    | 20.7  | 36.1  | 15.8  | 13.9  |
| Pretax profit                                     | 142.9                  | 232.4 | 252.6 | 192.6 | 309.7 |
| Tax expense/credit                                | 9.0                    | 16.1  | 13.7  | 19.9  | 29.4  |
| Net income (before minority interest)             | 133.9                  | 216.3 | 238.9 | 172.8 | 280.3 |
| Minority interest in consolidated subsidiaries    | 9.9                    | 21.4  | 16.2  | 27.2  | 35.8  |
| Net income before extraordinary                   | 124.2                  | 194.9 | 222.7 | 145.6 | 244.5 |
| Net income after extraordinary                    | 124.2                  | 194.9 | 222.7 | 145.6 | 244.5 |

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

Table 7

| Basler Kantonalbank Core Earnings Reconciliation Table |                        |        |        |       |       |
|--|------------------------|--------|--------|-------|-------|
|  | --Year-ended Dec. 31-- |        |        |       |       |
| (Mil. CHF)   | 2011*                  | 2010   | 2009   | 2008  | 2007  |
| Net income (before minority interest)                  | 133.9                  | 216.3  | 238.9  | 172.8 | 280.3 |
| Minus nonrecurring/special income                      | (1.9)                  | (22.4) | (31.3) | (2.8) | (2.3) |
| Plus nonrecurring/special expense                      | 0.0                    | 31.2   | 40.1   | 33.2  | 45.2  |
| Plus or minus tax impact of adjustments                | 0.1                    | (0.6)  | (0.5)  | (3.1) | (4.1) |
| Plus amortization/impairment of goodwill/intangibles   | 0.0                    | 20.7   | 36.1   | 15.8  | 13.9  |
| Core earnings  | 132.1                  | 245.3  | 283.3  | 215.8 | 333.0 |

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

Table 8

| Basler Kantonalbank Risk-Adjusted Capital Framework Data |           |                |                         |                        |                                  |  |
|--|-----------|----------------|-------------------------|------------------------|----------------------------------|--|
| (Mil. CHF)   | Exposure* | Basel II RWA   | Average Basel II RW (%) | Standard & Poor's RWA  | Average Standard & Poor's RW (%) |  |
| <b>Credit risk</b>                                       |           |                |                         |                        |                                  |  |
| Government and central banks                             | 526       | 5              | 1                       | 16                     | 3                                |  |
| Institutions   | 5,227     | 1,954          | 37                      | 796                    | 15                               |  |
| Corporate  | 6,061     | 4,195          | 69                      | 4,548                  | 75                               |  |
| Retail   | 19,342    | 9,017          | 47                      | 4,142                  | 21                               |  |
| Of which mortgage  | 18,201    | 7,956          | 44                      | 3,458                  | 19                               |  |
| Securitization   | 0         | 0              | 0                       | 0                      | 0                                |  |
| Other assets   | 1,309     | 1,031          | 79                      | 1,295                  | 99                               |  |
| Total credit risk  | 32,464    | 16,203         | 50                      | 10,797                 | 33                               |  |
| <b>Market risk</b>                                       |           |                |                         |                        |                                  |  |
| Equity in the banking book <sup>¶</sup>                  | 376       | 3,376          | 1,250                   | 3,182                  | 846                              |  |
| Trading book market risk                                 | --        | 809            | --                      | 2,427                  | --                               |  |
| Total market risk  | --        | 4,185          | --                      | 5,608                  | --                               |  |
| <b>Insurance risk</b>                                    |           |                |                         |                        |                                  |  |
| Total insurance risk                                     | --        | --             | --                      | 0                      | --                               |  |
| <b>Operational risk</b>                                  |           |                |                         |                        |                                  |  |
| Total operational risk                                   | --        | 1,289          | --                      | 1,475                  | --                               |  |
| (Mil. CHF)   |           | Basel II RWA   |                         | Standard & Poor's RWA  | % of Standard & Poor's RWA       |  |
| <b>Diversification adjustments</b>                       |           |                |                         |                        |                                  |  |
| RWA before diversification                               |           | 21,676         |                         | 17,881                 | 100                              |  |
| Total adjustments to RWA                                 |           | --             |                         | 1,091                  | 6                                |  |
| RWA after diversification                                |           | 21,676         |                         | 18,972                 | 106                              |  |
| (Mil. CHF)   |           | Tier 1 capital | Tier 1 ratio (%)        | Total adjusted capital | Standard & Poor's RAC ratio (%)  |  |
| <b>Capital ratio</b>                                     |           |                |                         |                        |                                  |  |
| Capital ratio before adjustments                         |           | 2,876          | 13.3                    | 2,945                  | 16.5                             |  |

Table 8

| Basler Kantonalbank Risk-Adjusted Capital Framework Data (cont.) |       |      |       |      |
|--|-------|------|-------|------|
| Capital ratio after adjustments§                                 | 2,876 | 14.2 | 2,945 | 15.5 |

\*Exposure at default. €Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's 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. Sources: Company data as of Dec. 31, 2010, Standard & Poor's.

## Related Research

- Bank Rating Analysis Methodology Profile, March 18, 2004
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

| Ratings Detail (As Of August 22, 2011)*    |                   |
|--|-------------------|
| <b>Basler Kantonalbank</b>                 |                   |
| Counterparty Credit Rating                 | AA+/Stable/A-1+   |
| Certificate Of Deposit                     | AA+/A-1+          |
| Senior Unsecured (6 Issues)                | AA+               |
| <b>Counterparty Credit Ratings History</b> |                   |
| 16-Jun-2009                                | AA+/Stable/A-1+   |
| 30-May-2008                                | AA+/Positive/A-1+ |
| 17-Jan-2006                                | AA+/Stable/A-1+   |
| <b>Sovereign Rating</b>                    |                   |
| Swiss Confederation (Unsolicited Ratings)  | AAA/Stable/A-1+   |
| <b>Related Entities</b>                    |                   |
| <b>Basel-City (Canton of)</b>              |                   |
| Issuer Credit Rating                       | AA+/Stable/A-1+   |
| Senior Unsecured (4 Issues)                | AA+               |

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

### Additional Contact:

Financial Institutions Ratings Europe; FIG\_Europe@standardandpoors.com

### Additional Contact:

Financial Institutions Ratings Europe; FIG\_Europe@standardandpoors.com

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