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Research

Basler Kantonalbank

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CREDIT RATING

AA+/Negative/A-1+

Outstanding Rating(s)

Counterparty Credit	AA+/Negative/A-1+
Certificate of deposit	AA+/A-1+
Senior unsecured	
Local currency	AA+

Credit Rating History

Oct. 18, 2001	AA+/A-1+
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Sovereign Rating

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

Basel-City (Canton of)

Counterparty Credit	AA+/Negative/A-1+
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Major Rating Factors

Strengths:

- Statutory guarantee of the Canton of Basel-City;
- Satisfactory profitability at the parent bank level;
- Sound asset quality and capitalization; and
- Wealthy economy of the canton with per capita income at 34% above the Swiss average.

Weaknesses:

- Low profitability at subsidiary Bank Coop (not rated), which continues to represent a drag on group earnings;

- Regional concentration risks;
- Debt burden of the canton, which is somewhat high at 98% of operating revenue; and
- The canton's pension fund, the coverage ratio of which has suffered from weak performance of investment assets in 2001 and 2002.

■ 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+/Negative/A-1+), which legally obliges the canton to guarantee all liabilities incurred by the bank with the exception of the bank's capital participation certificates (Partizipationsscheine). The guarantee does not extend to the bank's subsidiaries, in particular Bank Coop (not rated). Although this guarantee does not stipulate a timely repayment, Standard & Poor's believes that, in order 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 suffer losses. Moreover, Standard & Poor's takes comfort from previous rescue operations within the Swiss cantonal banking sector, in which distressed banks were maintained as ongoing entities.

The ratings on the canton are supported by its budgetary performance, which has weakened since the end of the 1990s, but improved in 2003. For 2004 and 2005 the operating surplus is expected to be above 4% of operating revenue, and the deficit after capital spending should not exceed a moderate 3% of total revenue. Budgetary pressure has arisen from social welfare and health care expenditure, as well as from the canton's pension fund. The canton has undertaken consolidation measures aimed at stabilizing its budgetary performance in the next few years.

The canton benefits from a strong economy, which is exposed to the chemical industry, but has proven to be very robust in the past few years, after profound restructuring in the 1990s. The ratings on the canton are constrained by Basel-City's debt burden, which, at 98% of operating revenues at year-end 2003, is high compared with other Swiss cantons and international peers.

The canton's pension fund represents a significant liability, as Basel-City guarantees the fund's actuarial funding gap. At year-end 2003, underfunding represented 59% of the canton's operating revenue. As well as having to increase its contribution rates to the fund, Basel-City has had to make onetime capital injections.

With total consolidated assets of Swiss franc (SFr) 23.2 billion (\$18.6 billion) and adjusted common equity (ACE) of SFr1.8 billion at June 30, 2004, the BKB group ranks among the larger Swiss banking groups. Through its subsidiary, Bank Coop, it is one of the few cantonal banks with a nationwide retail network. Nevertheless, BKB's business is mainly focused on its home region where it has a strong market share in retail banking and mortgage lending.

The partial acquisition of Bank Coop in 2000 has helped diversify BKB's customer base and loan portfolio; however, this diversification has not substantially contributed to the group's profitability owing to Bank Coop's lagging performance. Standard & Poor's expects that ongoing restructuring efforts, which should permit greater economies of scale, will allow the group to restore profitability to more favorable pre-acquisition levels in the medium term.

Standard & Poor's considers BKB's asset quality to be sound, as characterized by low average LTV ratios, low provisioning requirements, and adequate reserve coverage for problem loans. As is typical of cantonal banks, BKB's funding is dominated by stable customer deposits. In addition to pressure on lending margins, Standard & Poor's expects growing disintermediation to increase the bank's funding costs in the medium term, however. The bank's capitalization is regarded as sound given its business and risk profile. Standard & Poor's does not expect that the Swiss regulator's plan to abolish capital relief currently enjoyed by guaranteed cantonal banks to significantly deteriorate BKB's capital.

■ Outlook

The negative outlook on BKB reflects that of its guarantor. The negative outlook on the canton reflects Standard & Poor's view that some of the improvement in budgetary performance was the result of onetime

rather than structural effects. Standard & Poor's acknowledges the consolidation measures undertaken, but is concerned that these may be insufficient to stabilize Basel-City's financial profile at a level that is consistent with its rating. The outlook also reflects the remaining uncertainties with regards to a profound reform of the canton's pension fund.

In this context, Standard & Poor's expects BKB to maintain its sound financial profile. Standard & Poor's also expects that neither the current guarantee mechanism and creditor protection for the bank, nor BKB's ownership structure will be materially altered in the short to medium term.

■ Economic Performance of the Canton

Basel-City is located in north-western Switzerland and consists of the City of Basel and two small municipalities. The canton's budget includes that of the City of Basel.

The canton's population has been declining since peaking at the end of the 1960s. Over the past four years, Basel-City's population has stabilized at around 188,900 inhabitants. The city-canton's population is significantly older than the Swiss average. Basel-City's per capita income stood at SFr63,000 in 2001, ranking it the second-wealthiest Swiss canton at 34% above the national average.

Driven by the chemical industry, Basel-City's economic performance compared favorably with the Swiss average in 2003, as its economy grew by a moderate 0.7%, compared with a 0.5% decline for Switzerland as a whole. The chemical industry accounts for 38% of gross value-added in Basel-City. After undergoing extensive restructuring, Basel's chemical industry today is focused on pharmaceutical products and life sciences, which are sectors with high value-added. Financial services account for 12% of gross value-added, but have gained pace only slightly after the decline in the first half of the 1990s.

Basel-City's unemployment rates have been increasing and have been slightly above the national average over the past four years. Compared internationally, however, unemployment remains low, at 4.2% in September 2004.

■ Financial Performance of the Canton

The canton has its own tax code and thereby full legislative power over its cantonal taxes. 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. Following a regional referendum, the canton had to reduce tax rates for 2004 and 2005.

Basel-City's 2003 budgetary performance was better than expected. The operating surplus came in at 7.7% of operating revenue, and the margin after capital spending was positive at 1.9% of total revenue (see Chart 1). The year-on-year improvement was brought about by sound growth in operating revenue, with the canton able to keep operating expenditure stable. Several onetime effects, such as the dissolution of specific funds, had a positive impact on the 2003 accounts.

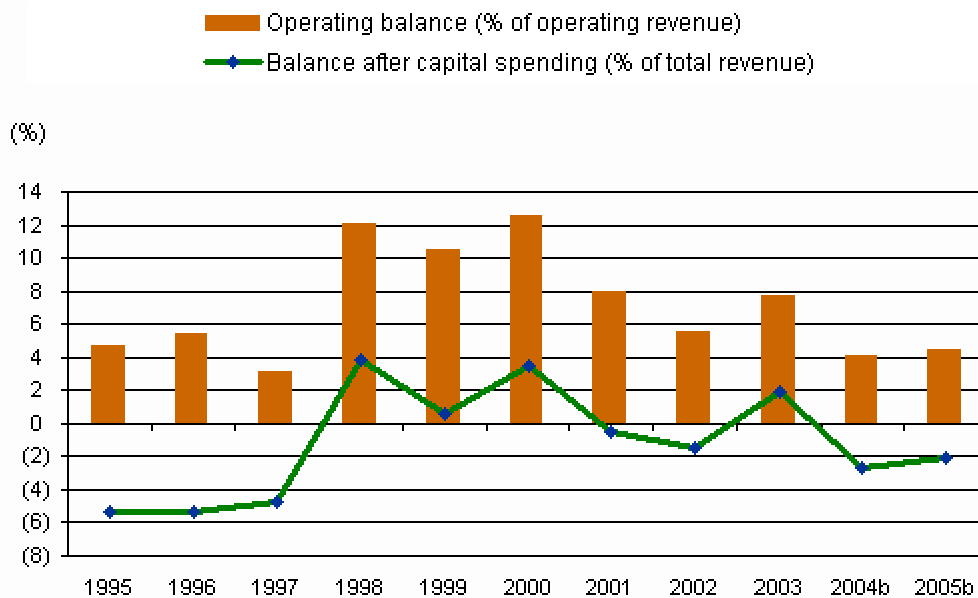
The 2004 and 2005 budgets provide for somewhat weaker budgetary performance compared with previous years. Operating surpluses are expected at slightly above 4% of operating revenue, and deficits after capital spending are budgeted to remain moderate. Operating performance is expected to be in line with the budget in 2004, while investment expenditure should be somewhat lower, so that Basel-City should close 2004 with a deficit after capital spending of less than 2% of total revenue.

The weakening in budgetary performance is the result of pressure from several sides. Tax revenues have been constrained by two decreases in the cantonal tax multiplier in 2004 and 2005. On the expenditure side, contributions to the pension fund have driven personnel costs. Health care and social welfare are further significant expenditure drivers.

Basel-City has initiated budgetary consolidation measures to offset the pressures. The headcount was reduced in 2003, and the canton plans further significant cutbacks in the next few years. Salaries for 2005 and 2006 have been frozen. Moreover, to offset the increase in social welfare payments, Basel-City has reduced benefit levels and tightened eligibility criteria.

Chart 1

Canton of Basel-City--Budgetary Performance

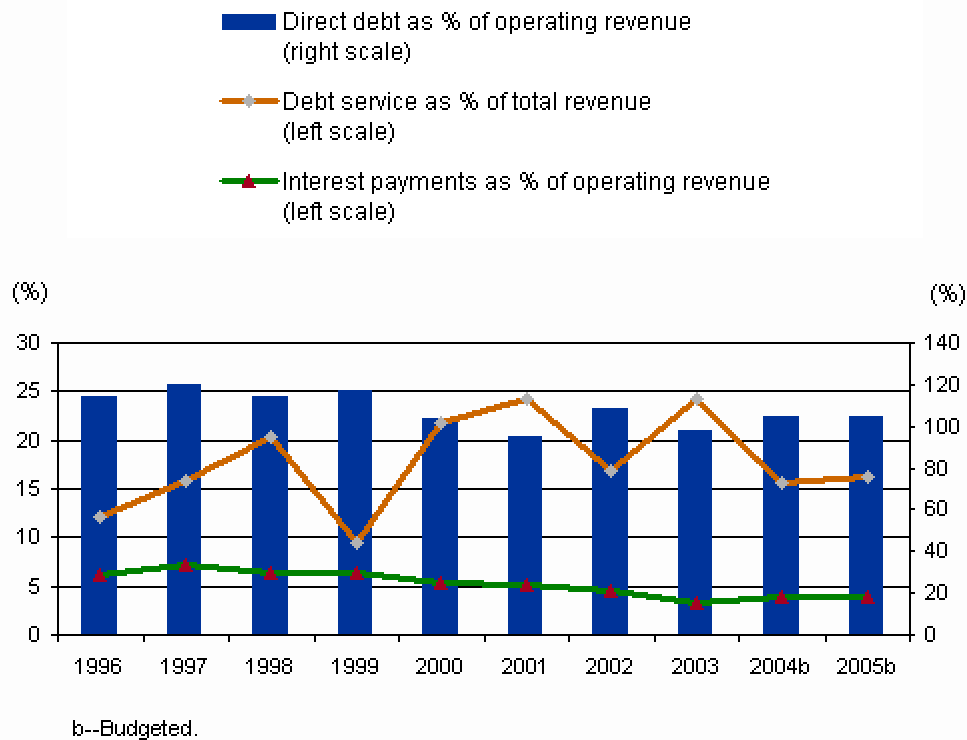


b--Budgeted.

Basel-City's debt burden stood at 98% of operating revenues at year-end 2003. Basel-City's liquidity position has traditionally been good, although the canton has deliberately reduced its liquidity over the past few months, owing to its quick and easy access to liquidity in the markets. At year-end 2003, liquid assets amounted to 85% of debt maturing in the next 12 months.

Chart 2

Canton of Basel-City--Debt Burden



Basel-City formally guarantees the pension fund's actuarial underfunding. Negative asset performance in 2001 and 2002 has resulted in a substantial drop in the funds coverage rate, which increased only slightly to 73% by year-end 2003. The funding gap thereby amounted to 59% of the canton's annual operating revenue.

Profile

The BKB group is one of the larger cantonal banking groups in Switzerland, with 55 branches (of which 33 were Bank Coop branches) and 1,362 staff (48% of which were employed by BKB) at year-end 2003. BKB is domiciled in the urban Canton of Basel-City, which borders Germany and is one of Switzerland's strongest economic regions. BKB's early focus on mass-affluent banking, as well as its acquisition of Bank Coop, has helped the bank to overcome the regional focus of its lending operations. Nevertheless, while the nationwide retail presence through Bank Coop provides BKB with a unique position among its cantonal bank peers, the group still faces the challenge of closing the significant profitability gap between the parent and the subsidiary bank. At June 30, 2004, Bank Coop accounted for about 43% of BKB's total consolidated assets, but only 21% of its net operating income. Since the creation of a uniform bearer share in May 2004, BKB holds a 49.1% capital stake and an equivalent share of voting rights in Bank Coop. Other major shareholders are retailer group, Coop (10.6% of capital), and Swiss trade unions (6.4%). Standard & Poor's expects BKB to raise its stake beyond the 50% level by year-end 2004. In accord with Coop, BKB already holds almost 60% of voting rights of Bank Coop, therefore requiring BKB to fully consolidate the subsidiary.

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

■ Ownership and Legal Status

BKB is wholly owned by the Canton of Basel-City, which is the guarantor for all 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 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. Generally speaking, 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. For the first time, BKB paid compensation on the guarantee for fiscal year 2003. The amount of future payments will depend on the regulatory capital requirement, provided the bank has the ability to maintain minimum capital requirements.

Under the revised banking law of October 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 33% of voting rights. Moreover, cantons are no longer obliged to guarantee their cantonal banks. The revised law also transferred regulatory supervision of cantonal banks to the Swiss Federal Banking Commission (EBK--Eidgenössische Bankenkommission). BKB also remains subject to supervision by the Bankrat, a mixture of a supervisory board and a supervisory authority. The Bankrat, which is empowered via the local canton's laws, reports to the bank's shareholder, the canton.

■ Strategy

Standard & Poor's considers BKB's strategy to be consistent with the bank's medium-term goal to raise the profitability of Bank Coop to a level in line with that of the parent bank. By leveraging its strong position in its home market, and building on its mortgage and corporate lending and mass-affluent banking competence, BKB also intends to further improve operating efficiency while maintaining its sound asset quality.

Standard & Poor's basically considers BKB's profitability level as sustainable, although further progress beyond the current ROE of 15% to a large extent will depend on the successful turnaround of Bank Coop. While both banks continue to exert a strict cost regime in their retail banking operations, profitability improvements are expected to result from stronger revenues. In this respect, Bank Coop's performance is lagging significantly behind its parent, reflecting underdeveloped cross-selling opportunities, and the fact that most customers have their primary banking relationship with competitors. BKB is aiming to correct this by better exploiting the existing client base by raising the number of services sold per customer. The bank is also aiming to increase market share either by providing preferential banking services for the employees of larger companies, or by better meeting client demands through dedicated service teams for special interest groups. In corporate banking, BKB only focuses on small and midsize enterprises (SMEs) to avoid concentration risks arising from large exposures to the multinational companies domiciled in Basel. Mass-affluent banking is expected to continue to grow organically. Bank Coop is expected to be further streamlined as a distribution bank, drawing on the competencies of its parent.

■ Asset Quality

Standard & Poor's regards the BKB group's asset quality as sound, reflecting in particular the positive development at the parent bank. Although Bank Coop still exhibits comparatively weaker asset quality, Standard & Poor's believes that the harmonization efforts of underwriting criteria within the BKB group have made good progress and will further positively affect the group's asset quality in the medium term.

Due to Bank Coop's nationwide presence, the BKB group's regional concentration in the canton of Basel has eased somewhat, but remains a dominating feature. This concentration risk is mitigated by the Basel region's well-diversified economy, which is one of the strongest in Switzerland. The sectoral breakdown of the bank's lending portfolio primarily reflects loans to private individuals (which comprise about 50% of lending), followed by exposure to SMEs, mainly real estate and manufacturing companies. Although the bank's SME portfolio is exposed to a currently slow economic environment, the majority of these exposures are mortgage-secured, thus mitigating concerns. The annual growth rates of BKB's portfolio have slowed, reflecting its already dominant market position in a saturated market, as well as the implementation of risk-

adjusted pricing.

New loan-loss provisions (LLPs) at both BKB and Bank Coop developed favorably in 2003, underpinned by sound asset quality and prudent underwriting standards. The ratio of new LLPs-to-average customer loans on a group basis improved significantly to 39 basis points (bps) at year-end 2003, mainly owing to the absence of larger corporate failures. Standard & Poor's regards the further improvement to about 30 bps at mid-year 2004 as difficult to sustain on a full-year basis. Problem loans are adequately provided for, and Standard & Poor's does not expect a significant change in coverage ratios.

■ Profitability

Standard & Poor's considers the BKB group's profitability as satisfactory, but does not expect the gap between the parent bank and Bank Coop to close in the short term. To improve the group's profitability, Standard & Poor's considers that Bank Coop will have to substantially increase its cross-selling and cost-containment efforts. Such efforts, combined with expected low provisioning needs, should contribute to improve profitability in the medium term.

While fee and market-sensitive income have reacted positively to the improved capital market performance, Standard & Poor's expects further pressure on credit margins in the protracted low interest environment. In addition to lower margins from growing competition on first ranking mortgages--particularly within Bank Coop--lending to corporate customers with a low risk profile is contributing to margin erosion. Standard & Poor's does not expect a short-term recovery in margins to be possible without being detrimental to the bank's risk profile.

In addition to at least stabilized fees and commissions, improvements in bottom-line profitability are expected to continue to be generated by BKB's ongoing commitment to contain costs, including through reaching cooperation agreements in the bank's EDP environment. If an improved economic and capital markets environment proves sustainable, Standard & Poor's expects further improvement in BKB group's cost-to-income ratio in the medium term. The ongoing alignment to a common set of risk and pricing standards within the group, good diversification of the loan portfolio, and adequate collateralization should also contribute to favorable development of LLPs, thus boosting net profit.

In 2003, BKB decided to dissolve the Fund for General Banking Risk (FGBR) on the group level and to include it entirely under retained earnings. As BKB had allocated a significant portion of operating income to the FGBR in the past, this change in disclosure has resulted in significantly higher net profits since year-end 2003.

■ Asset-Liability Management

BKB's liquidity position is generally satisfactory, helped by a comparatively high level of interbank lending and money market positions, as well as by a diversified securities portfolio of high quality, which can be "repo-ed". As is typical for cantonal banks, stable and relatively cheap customer deposits dominate the funding base, representing 57% of liabilities at June 30, 2004. Own issues, and, to a lesser extent, Pfandbrief issues complement the bank's funding resources.

Despite the improving capital market environment, investor uncertainty has not diminished completely, thus contributing to moderate growth in savings deposits. Standard & Poor's expects the effects of disintermediation to increase again in the medium term, when the concomitant shift in the bank's refinancing structure away from customer deposits could negatively impact funding costs.

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. 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 strict supervision with the help of an internal value-at-risk (VaR) model approved by the Swiss regulators (one-day holding period and 99% confidence interval). VaR limits are accompanied by profit-and-loss and volume limits.

■ Capital

Standard & Poor's regards BKB's capitalization as sound, reflecting the bank's risk profile, as well as BKB's ability to predominantly self-finance capital growth through earnings retention. BKB's regulatory capitalization is also in excess of the minimum required for guaranteed cantonal banks. The Swiss Federal Banking Commission is currently reviewing a plan under which the reduced capital requirement for guaranteed cantonal banks will be phased out, thus creating a level playing field with other nonguaranteed Swiss banks in terms of regulatory capital requirements. Standard & Poor's does not expect BKB's capitalization to deteriorate substantially in this event.

Despite the 5% reduction in par value on the endowment and participation certificates capital in April 2004, capitalization continues to compare well by international standards, as illustrated in an ACE-to-risk-weighted-assets ratio of 12.2% at June 30, 2004. The abolition of the FGBR in 2003 had no impact on capitalization as the entire fund was transferred to retained earnings.

The canton of Basel-City has approved endowment capital for BKB of SFr350 million, only SFr228 million of which is currently drawn. The bank therefore is able to draw on the difference at short notice if needed, increasing the bank's financial flexibility. Endowment capital consists of a range of liabilities to the canton on which the bank pays interest out of its net income. At year-end 2003, the maturity of these liabilities was relatively evenly spread over the period to 2011, with an average interest rate of about 4%. In addition to the profit distribution for fiscal-year 2003, the Basel-City received an amount of SFr3.4 million, representing the first-time compensation for the guarantee.

Table 1 Balance Sheet Statistics												
	--Year ended Dec. 31--						Breakdown as a % of assets (adj.)					
(Mil. SFr)	2004*	2003	2002	2001	2000¶	1999	2004*	2003	2002	2001	2000¶	1999
Assets												
Cash and money market instruments	211	192	365	919	1,181	276	0.91	0.85	1.60	4.14	5.63	2.36
Securities	2,587	2,219	1,786	1,909	2,072	1,841	11.16	9.77	7.80	8.60	9.88	15.77
Trading securities (marked to market)	870	635	349	367	403	540	3.75	2.80	1.53	1.65	1.92	4.62
Nontrading securities	1,716	1,583	1,436	1,543	1,669	1,301	7.40	6.97	6.28	6.95	7.96	11.14
Loans to banks (net)	1,745	1,759	1,899	2,036	621	1,375	7.53	7.75	8.30	9.17	2.96	11.77
Customer loans (gross)	17,407	17,013	17,103	16,009	15,772	7,408	75.09	74.91	74.76	72.12	75.16	63.44
Residential real estate loans	N.A.	10,939	10,358	9,553	8,972	3,598	N.A.	48.17	45.28	43.03	42.75	30.81
Total real estate loans	14,836	N.A.	N.A.	N.A.	N.A.	N.A.	64.00	N.A.	N.A.	N.A.	N.A.	N.A.
Commercial real estate loans	N.A.	3,395	3,540	3,353	2,843	1,726	N.A.	14.95	15.48	15.10	13.55	14.78
All other loans	2,571	2,680	3,204	3,103	3,957	2,084	11.09	11.80	14.00	13.98	18.86	17.85
Loan-loss reserves	469	435	640	681	691	303	2.02	1.92	2.80	3.07	3.29	2.59
Customer loans (net)	16,938	16,578	16,462	15,329	15,081	7,105	73.07	73.00	71.96	69.05	71.87	60.84
Earning assets	21,739	20,992	20,839	20,666	19,376	10,773	93.78	92.43	91.09	93.09	92.34	92.25
Inv. in unconsolidated subsidiaries (financial co.)	84	78	91	87	69	29	0.36	0.35	0.40	0.39	0.33	0.25
Intangibles (nonservicing)	38	40	46	53	56	0	0.16	0.18	0.20	0.24	0.27	0.00
Fixed assets	264	270	286	290	302	105	1.14	1.19	1.25	1.30	1.44	0.90
Derivatives credit amount	557	736	936	N.A.	N.A.	N.A.	2.40	3.24	4.09	N.A.	N.A.	N.A.
Accrued receivables	101	103	116	118	103	105	0.44	0.45	0.51	0.53	0.49	0.90
All other assets	224	341	296	832	864	538	0.97	1.50	1.30	3.75	4.12	4.61
Total reported assets	23,218	22,751	22,924	22,253	21,041	11,678	100.16	100.18	100.20	100.24	100.27	100.00
Less nonservicing intangibles	(38)	(40)	(46)	(53)	(56)	0						
Adjusted assets	23,180	22,711	22,878	22,200	20,984	11,678	100.00	100.00	100.00	100.00	100.00	100.00
Breakdown as a % of liabilities + equity												
	2004*	2003	2002	2001	2000¶	1999	2004*	2003	2002	2001	2000¶	1999
Liabilities												
Total deposits	14,573	13,764	13,706	14,496	13,717	7,623	62.77	60.50	59.79	65.14	65.19	65.28
Noncore deposits	1,348	837	1,674	2,066	2,068	1,653	5.81	3.68	7.30	9.28	9.83	14.15
Core/customer deposits	13,225	12,927	12,032	12,430	11,649	5,970	56.96	56.82	52.49	55.86	55.37	51.12
Public sector or total pfandbriefe	1,299	1,299	1,267	1,149	1,094	385	5.59	5.71	5.53	5.16	5.20	3.30
Other borrowings	4,036	4,237	4,252	3,441	2,992	1,658	17.38	18.62	18.55	15.46	14.22	14.20
Other liabilities	1,315	1,595	1,995	1,577	1,774	1,003	5.66	7.01	8.70	7.09	8.43	8.59
Total liabilities	21,223	20,894	21,219	20,664	19,578	10,669	91.41	91.84	92.56	92.86	93.05	91.36
Total shareholders' equity	1,995	1,857	1,705	1,589	1,463	1,009	8.59	8.16	7.44	7.14	6.95	8.64
Minority interest-equity	336	328	333	326	287	0	1.45	1.44	1.45	1.47	1.36	0.00
Common shareholders' equity (reported)	1,660	1,529	1,371	1,263	1,176	1,009	7.15	6.72	5.98	5.67	5.59	8.64
Share capital and surplus	284	299	296	293	293	273	1.22	1.31	1.29	1.32	1.39	2.34
General banking risk reserves§	0	0	723	648	538	437	0.00	0.00	3.15	2.91	2.56	3.74
Reserves (incl. inflation revaluations)§	1,220	1,055	330	299	308	291	5.25	4.64	1.44	1.34	1.46	2.49
Retained profits	156	174	23	23	37	8	0.67	0.77	0.10	0.10	0.17	0.07
Total liabilities and equity	23,218	22,751	22,924	22,253	21,041	11,678	100.00	100.00	100.00	100.00	100.00	100.00
Less revaluation reserve, intangibles	(38)	(40)	(46)	(53)	(56)	0						
Tangible total equity	1,957	1,816	1,659	1,536	1,406	1,009						
Tangible common equity	1,957	1,816	1,659	1,536	1,406	1,009						
Less equity in unconsolidated subsidiaries	(84)	(78)	(91)	(87)	(69)	(29)						
Adjusted common equity	1,873	1,738	1,568	1,449	1,338	980						
Adjusted total equity	1,873	1,738	1,568	1,449	1,338	980						

*Data as of June 30, 2004. Ratios annualized where appropriate. ¶First time consolidation of Coop Bank. §The FGBR was dissolved at the group level in 2003 and included entirely under retained earnings. SFr--Swiss franc. N.A.--Not available.

Table 2 Profit and Loss Statement Statistics													
	--Year ended Dec. 31--						Adj. avg. assets (%)						
(Mil. SFr)	2004*	2003	2002	2001	2000¶	1999	2004*	2003	2002	2001	2000¶	1999	
Profitability													
Interest income	315	681	748	803	755	355	2.75	2.99	3.32	3.72	3.59	3.16	
Interest expense	139	304	377	450	440	201	1.21	1.33	1.67	2.08	2.09	1.79	
Net interest income	177	377	372	353	315	154	1.54	1.65	1.65	1.64	1.50	1.37	
Operating noninterest income	150	269	248	242	321	184	1.31	1.18	1.10	1.12	1.52	1.65	
Fees and commissions	85	156	142	156	200	130	0.74	0.69	0.63	0.72	0.95	1.16	
Equity in earnings of unconsolidated subsidiaries	8	16	2	3	3	2	0.07	0.07	0.01	0.02	0.01	0.02	
Trading gains	36	69	74	51	69	36	0.32	0.30	0.33	0.24	0.33	0.32	
Other market-sensitive income	15	19	7	9	29	4	0.13	0.08	0.03	0.04	0.14	0.04	
Other noninterest income	6	9	23	23	21	12	0.06	0.04	0.10	0.11	0.10	0.11	
Operating revenues	327	646	620	595	636	338	2.85	2.84	2.75	2.76	3.02	3.02	
Noninterest expenses	149	324	339	323	333	189	1.30	1.42	1.50	1.50	1.58	1.68	
Personnel expenses	87	175	175	171	169	75	0.76	0.77	0.78	0.79	0.80	0.67	
Other general and administrative expense	49	105	123	113	118	104	0.43	0.46	0.54	0.53	0.56	0.93	
Depreciation and amortization-other	13	44	41	38	46	10	0.11	0.19	0.18	0.18	0.22	0.09	
Net operating income before loss provisions	178	322	281	272	303	150	1.55	1.41	1.25	1.26	1.44	1.33	
Credit loss provisions (net new)	23	65	113	83	79	13	0.20	0.28	0.50	0.38	0.37	0.11	
Net operating income after loss provisions	155	258	168	189	224	137	1.35	1.13	0.75	0.88	1.06	1.22	
Nonrecurring/special income	9	2	14	12	224	1	0.08	0.01	0.06	0.05	1.06	0.01	
General banking risk provisions	0	0	75	79	109	85	0.00	0.00	0.33	0.37	0.52	0.75	
Nonrecurring/special expense	N.A.	1	5	21	229	0	N.A.	0.00	0.02	0.10	1.09	0.00	
Pretax profit	165	259	103	101	109	54	1.43	1.13	0.46	0.47	0.52	0.48	
Tax expense/credit	8	13	14	13	15	0	0.07	0.06	0.06	0.06	0.07	0.00	
Net income before minority interest	156	245	89	89	94	53	1.36	1.08	0.39	0.41	0.45	0.47	
Net income before extraordinary	156	245	89	89	94	53	1.36	1.08	0.39	0.41	0.45	0.47	
Net income after extraordinary	156	245	89	89	94	53	1.36	1.08	0.39	0.41	0.45	0.47	
Core earnings	147	245	156	176	208	136	1.28	1.07	0.69	0.81	0.99	1.22	
	2004*	2003	2002	2001	2000¶	1999							
Asset Quality													
Nonperforming assets	N.A.	427	536	361	557	N.A.							
Nonaccrual loans	N.A.	427	536	361	557	N.A.							
Net charge-offs	N.A.	270	101	56	138	13							
Average balance sheet													
Average customer loans	16,758	16,520	15,896	15,205	15,245	6,892							
Average earning assets	21,365	20,915	20,752	20,021	19,736	10,288							
Average assets	22,984	22,837	22,588	21,647	21,061	11,210							
Average total deposits	14,168	13,735	14,101	14,107	13,800	7,279							
Average interest-bearing liabilities	19,604	19,262	19,156	18,445	17,800	9,269							
Average common equity	1,594	1,450	1,317	1,219	1,092	965							
Average adjusted assets	22,945	22,794	22,539	21,592	21,033	11,210							
Other data													
Number of employees (end of period, actual)	N.A.	1,362	1,416	1,415	1,353	596							
Number of branches	N.A.	55	58	58	58	19							
Total assets under management	N.A.	2,233	2,097	2,270	2,359	2,349							
Assets under administration	N.A.	19,969	18,841	19,553	20,078	19,422							
Off-balance-sheet credit equivalents	499	499	408	208	193	91							

*Data as of June 30, 2004. ¶First time consolidation of Coop Bank. Ratios annualized where appropriate. SFr--Swiss franc. Not available.

Table 3 Ratio Analysis						
	--Year ended Dec. 31--					
	2004*	2003	2002	2001	2000¶	1999
ANNUAL GROWTH (%)						
Customer loans (gross)	4.63	(0.52)	6.83	1.51	112.89	6.13
Loss reserves	15.73	(32.05)	(5.97)	(1.47)	128.03	0.09
Adjusted assets	4.13	(0.73)	3.06	5.79	79.69	8.71
Customer deposits	4.62	7.43	(3.20)	6.70	95.13	(3.47)
Tangible common equity	15.52	9.49	8.01	9.22	39.34	9.52
Total equity	14.92	8.92	7.29	8.63	44.93	9.52
Operating revenues	1.18	4.32	4.07	(6.39)	87.91	14.56
Noninterest expense	(8.26)	(4.32)	4.81	(3.07)	76.51	19.90
Net operating income before provisions	10.68	14.73	3.19	(10.05)	102.28	8.47
Loan-loss provisions	(28.42)	(42.58)	35.79	5.14	520.47	0.79
Net operating income after provisions	20.47	53.01	(11.07)	(15.39)	63.49	9.24
Pretax profit	27.21	152.14	1.31	(7.03)	103.53	13.61
Net income	27.22	176.55	0.12	(5.81)	77.17	13.95
	2004*	2003	2002	2001	2000¶	1999
PROFITABILITY (%)						
Interest Margin Analysis						
Net interest income (taxable equiv.)/avg. earning assets	1.65	1.80	1.79	1.76	1.60	1.50
Net interest spread	1.54	1.68	1.64	1.57	1.36	1.28
Interest income (taxable equiv.)/avg. earning assets	2.95	3.26	3.61	4.01	3.83	3.45
Interest income on loans/avg. total loans	3.15	3.45	3.91	4.53	4.26	3.83
Interest expense/avg. interest-bearing liabilities	1.42	1.58	1.97	2.44	2.47	2.16
Revenue Analysis						
Net interest income/revenues	54.02	58.34	59.99	59.33	49.60	45.50
Fee income/revenues	25.87	24.21	22.84	26.16	31.42	38.50
Market-sensitive income/revenues	15.77	13.63	13.11	10.09	15.33	11.86
Noninterest income/revenues	45.98	41.66	40.01	40.67	50.40	54.50
Personnel expense/revenues	26.68	27.05	28.27	28.78	26.50	22.07
Noninterest expense/revenues	45.45	50.13	54.65	54.27	52.41	55.79
Noninterest expense/revenues less investment gains	47.67	51.66	55.30	55.07	54.88	56.46
Expense less amortization of intangibles/revenues	45.45	50.13	54.65	54.27	52.41	55.79
Expense less all amortizations/revenues	41.61	43.31	48.05	47.83	45.11	52.73
Net operating income before provision/revenues	54.55	49.87	45.35	45.73	47.59	44.21
Net operating income after provisions/revenues	47.48	39.88	27.19	31.82	35.20	40.46
New loan-loss provisions/revenues	7.07	9.99	18.16	13.92	12.39	3.75
Net nonrecurring income/revenues	2.83	0.14	(10.63)	(14.81)	(18.07)	(24.64)
Pretax profit/revenues	50.31	40.02	16.56	17.01	17.13	15.81
Net income/revenues	47.74	37.97	14.32	14.89	14.80	15.69
Tax/pretax profit	5.12	5.12	13.50	12.48	13.61	0.76

Table 3 Ratio Analysis						
	2004*	2003	2002	2001	2000†	1999
Other Returns						
Pretax profit/avg. risk assets (%)	2.07	1.64	0.66	0.68	0.96	0.70
Net income/avg. risk assets (%)	1.97	1.56	0.57	0.59	0.83	0.70
Revenues/avg. risk assets (%)	4.12	4.10	4.01	3.97	5.60	4.45
Net operating income before loss provisions/avg. risk assets (%)	2.25	2.05	1.82	1.82	2.66	1.97
Net operating income after loss provisions/avg. risk assets (%)	1.96	1.64	1.09	1.26	1.97	1.80
Net income before minority interest/avg. adjusted assets	1.36	1.08	0.39	0.41	0.45	0.47
Net income/employee (SFr)	N.A.	176,701	62,688	64,040	96,558	90,403
Personnel expense/employee (SFr)	N.A.	125,879	123,716	123,781	172,909	127,169
Personnel expense/branch (mil. SFr)	N.A.	3.09	3.02	2.95	4.38	4.15
Noninterest expense/branch (mil. SFr)	N.A.	5.73	5.84	5.57	8.66	10.49
Cash earnings/avg. tang. common equity (ROE) (%)	17.88	16.66	8.11	8.63	11.63	6.58
Core earnings/avg. tang. common equity (ROE) (%)	15.61	14.07	9.76	11.94	17.23	14.12
	2004*	2003	2002	2001	2000†	1999
FUNDING AND LIQUIDITY (%)						
Customer deposits/funding base	66.43	66.98	62.59	65.13	65.43	61.76
Total loans/customer deposits	144.81	145.22	157.92	145.17	140.72	147.13
Total loans/customer deposits + long-term funds	97.83	97.40	104.83	102.05	100.60	100.34
Customer loans (net)/assets (adj.)	73.07	73.00	71.96	69.05	71.87	60.84
	2004*	2003	2002	2001	2000†	1999
CAPITALIZATION (%)						
Adjusted common equity/adjusted assets	8.08	7.65	6.85	6.53	6.38	8.39
Adjusted common equity/risk assets	11.72	11.02	9.97	9.56	9.03	12.38
Adjusted common equity/customer loans (net)	11.06	10.48	9.52	9.45	8.87	13.80
Internal capital generation/prior year's equity	20.43	17.89	7.03	7.54	9.31	5.73
Tier 1 capital ratio	10.97	11.27	10.05	9.60	8.54	12.15
Regulatory total capital ratio	10.97	11.27	10.81	10.76	10.80	12.15
Adjusted total equity/adjusted assets	8.08	7.65	6.85	6.53	6.38	8.39
Adjusted total equity/risk assets	11.72	11.02	9.97	9.56	9.03	12.38
Adjusted total equity plus LLR (specific)/customer loans (gross)	13.46	12.77	12.91	13.30	12.86	17.32
	2004*	2003	2002	2001	2000†	1999
ASSET QUALITY (%)						
New loan-loss provisions/avg. customer loans (net)	0.28	0.39	0.71	0.54	0.52	0.18
Net charge-offs/avg. customer loans (net)	N.A.	1.63	0.63	0.37	0.91	0.19
Loan-loss reserves/customer loans (gross)	2.70	2.56	3.74	4.25	4.38	4.09
Credit-loss reserves/risk assets	2.93	2.76	4.07	4.49	4.66	3.83
Nonperforming assets (NPA)/customer loans	N.A.	2.51	3.14	2.25	3.53	0.00

*Data as of June 30, 2004. Ratios annualized where appropriate. †First time consolidation of Coop Bank. SFr--Swiss franc. N.A.--Not available.

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