

## Basler Kantonalbank

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**CREDIT RATING**

AA+/Stable/A-1+

**Outstanding Rating(s)**

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

**Credit Rating History**

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

**Sovereign Rating**

Swiss Confederation AAA/Stable/A-1+

**Related Entities**

**Basel-City (Canton of)**

Counterparty Credit AA+/Stable/A-1+

**Major Rating Factors**

**Strengths:**

- Statutory guarantee of the Canton of Basel-City;
- Good profitability at the group level;
- Solid asset quality and sound capitalization;
- Strong commitment of the canton's management to maintain the canton's healthy financial profile; and
- Wealthy economy of the canton, with cantonal income or GDP per capita at about double the Swiss average.

**Weaknesses:**

- Profitability gap between parent bank and subsidiary Bank Coop not yet sufficiently narrowed;
- Regional concentration risks; lending portfolio starkly exposed to real estate markets;
- Debt burden of the canton, which is somewhat high at about 95% of operating revenue; and

- Pension fund of the canton, where the coverage ratio has suffered from the 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+/Stable/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 (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 suffer losses.

The ratings on the canton are supported by its budgetary performance, which has shown a stabilizing trend in recent years, achieved through consolidation measures carried out during this period. The 2006 budget provides for further stabilization at this level. Actual figures for 2005 are expected to outperform the budgeted operating surplus of 4.4% of operating revenues and deficit after capital expenditures of 2.1% of total revenues. The canton benefits from a strong economy, which is exposed to the chemical and pharmaceutical industry, but has proven to be very robust in the past few years. The ratings on the canton are constrained by Basel-City's debt burden, which, at 95% of operating revenues at year-end 2004, is high compared with other Swiss cantons and international peers.

The canton's pension fund represents a significant liability, as Basel-City, like most other cantons, guarantees the fund's actuarial funding gap. At year-end 2004, underfunding represented 63% of the canton's operating revenue. Despite having increased its contribution rates to the fund, Basel-City has had to make onetime capital injections in recent years. A major reform of the pension fund is on the government's agenda, with the next step to reduce the underfunding of the fund expected in the near future.

With total consolidated assets of Swiss franc (SFr) 24.8 billion (\$19.5 billion) and adjusted common equity (ACE) of SFr2.0 billion at June 30, 2005, the BKB group ranks among the larger Swiss banking groups. Through the nationwide retail network of its subsidiary BC, BKB has been better able to geographically diversify its customer base and loan portfolio than most of its cantonal bank peers. Nevertheless, BKB's business is mainly focused on its wealthy home region where it has a strong market share in retail banking, mortgage lending, and lending to small and midsize enterprises (SMEs).

The group's good profitability is based on strong cost efficiency, particularly at the parent bank level, and satisfactory provisioning needs for its mortgage dominated loan portfolio. Revenues increasingly benefit from higher contributions from commission income, while interest margins remain under pressure from intense competition and lower treasury income. BC's operating performance is still lagging its parent, but Standard & Poor's expects that ongoing cost control, increased efforts to enhance cross-selling, and greater economies of scale should gradually allow the subsidiary to narrow the gap.

Standard & Poor's considers BKB group's asset quality to be solid, as characterized by low average LTV ratios, a high level of collateralization, and sound reserve coverage for problem loans.

As is typical of cantonal banks, BKB's—as well as BC's—funding is dominated by stable customer deposits. The group's capitalization is regarded as sound given its 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 that its debt burden will remain below 100% of operating revenues in the medium term. We expect that the canton will undertake further steps to improve its pension fund's financial profile.

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 short to medium term. In the event of changes to the cantonal law that would lead to a privatization of the bank, we believe that 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***

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 five years, Basel-City's population has stabilized at about 188,000 inhabitants. The city-canton's population is significantly older than the Swiss average. Basel-City's cantonal income or GDP per capita stood at about double the national average, helped by the high number of jobs, which attract commuters from outside the canton.

Driven by the chemical industry, Basel-City's economic performance is expected to have grown favorably to about 3%, well above the Swiss average in 2005. The chemical industry accounts for 38% of gross value-added in Basel-City. Basel's chemical industry is focused on pharmaceutical products and life sciences, which are sectors with high value-added and favorable growth perspectives. Financial services account for 12% of gross value-added, and have started to gain pace in recent years.

Basel-City's unemployment rates have improved slightly since their peak in 2004, but have remained above the national average over the past few years. Compared internationally, however, unemployment remains low, at 4.1% in 2005.

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

The canton has its own tax code and thereby 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. For example, in 2004, following a regional referendum, the canton had to reduce tax rates.

Basel-City's 2005 budgetary performance is expected to outperform the conservatively budgeted figures of an operating surplus of 4.4% of operating revenue and a deficit after capital spending of

2.1% of total revenue. Standard & Poor's expects the canton to achieve a balanced budget after capital spending. Despite stagnating tax revenues in recent years, the canton has been able to stabilize its budgetary performance through expenditure control and consolidation programs.

Furthermore, in 2005, the canton received SFr236 million from the Swiss National Bank from the sale of gold reserves. This is not reflected in the revenue figures, but will save interest costs in the future. Canton management has decided to use the entire amount to reduce its debt.

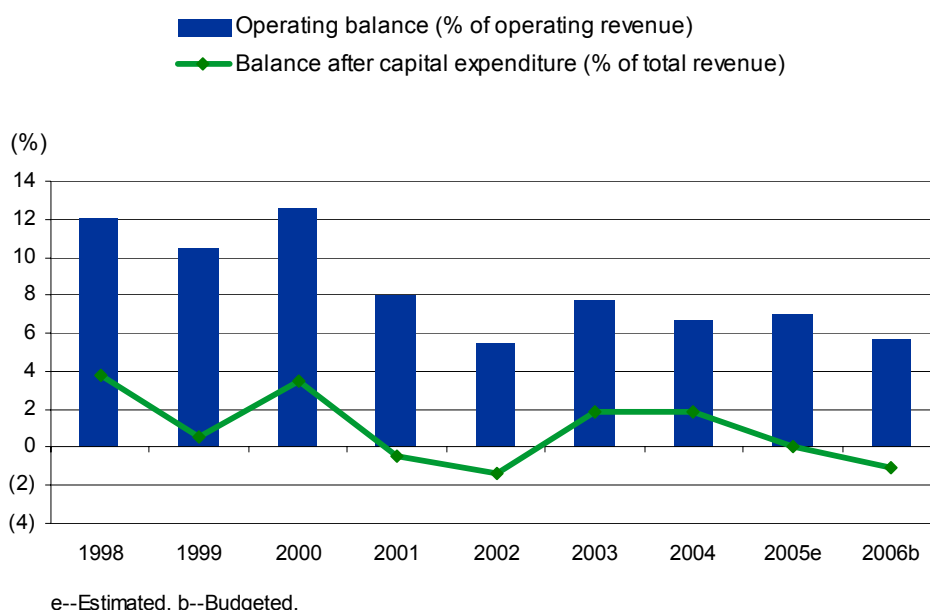
The 2006 budget plan provides for a slightly weaker budgetary performance compared with 2005 expected figures. Operating surpluses are budgeted at 5.7% of operating revenue, and deficits after capital spending are budgeted at 1.1% of total revenues. As seen in the past, the canton's management is budgeting conservatively.

The slight weakening in budgetary performance in the past is the result of pressure from several sides. Tax revenues have remained unchanging since 2000 and so the canton has had to implement several consolidation programs. On the expenditure side, rising health care and social costs have driven expenditures. Furthermore, higher payments to the pension fund have negatively affected the canton's budgetary performance in recent years.

The canton's medium-term financial planning until 2009 projects a budgetary performance that compares well with 2005 and 2006 budgets and expectations.

Chart 1

**Canton of Basel-City--Budgetary Performance**

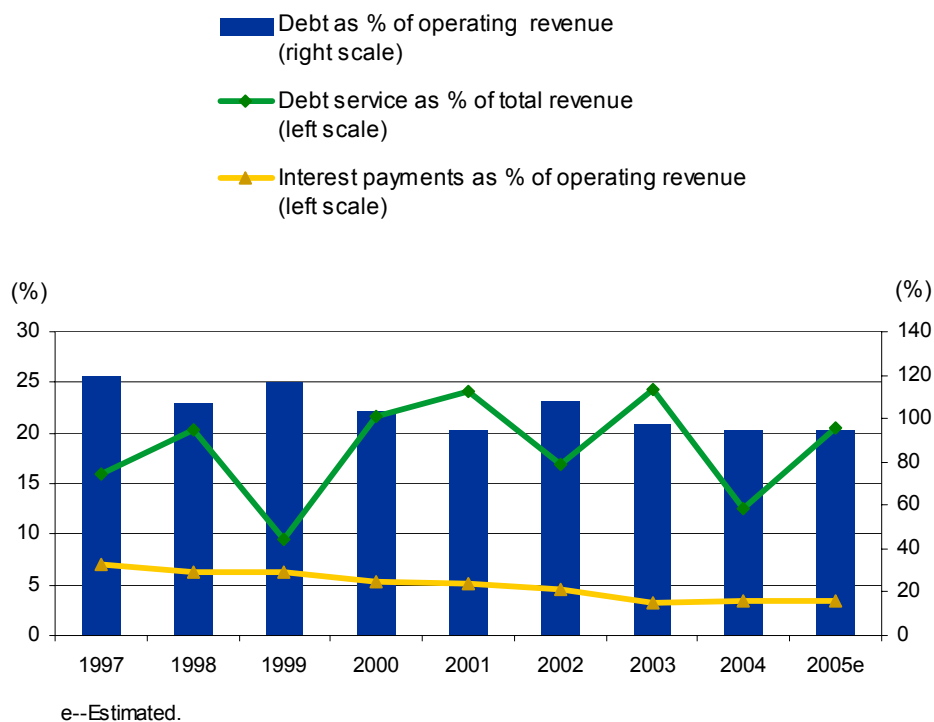


Basel-City's debt burden stood at 95.2% of operating revenues at year-end 2004. For year-end 2005 and the medium term Standard & Poor's expects a level of about 95% of operating revenues. Basel-City's liquidity position has traditionally been good. The cash flow from the SNB's gold sale significantly improved the canton's liquidity position in 2005. However, this will be used in the medium term to repay debt as it falls due.

The canton has quick and easy access to liquidity in the markets. At year-end 2004, liquid assets amounted to 50% 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 remains low at 72.3% by year-end 2004 (down from 92% at year-end 2000). The funding gap thereby amounted to 63% of the canton's annual operating revenue.

### Profile

In terms of total assets, the BKB group is one of the larger banking groups in Switzerland, with 55 branches (of which 33 were BC branches). BKB is domiciled in the urban Canton of Basel-City, which is one of Switzerland's wealthiest and economically strongest regions. BKB's acquisition of BC in 2000 has helped the bank to overcome the regional focus and enhance the diversification of its mortgage and SME focused lending operations. Nevertheless, while the nationwide retail presence through BC provides BKB with a unique position among its cantonal bank peers, the group still faces the challenge of closing the sizable profitability gap between BKB and its main subsidiary. At June 30, 2005, BC accounted for 44% of BKB's total consolidated assets, but only 24% of its net operating income. With a stake of 50.5%, BKB holds the majority of BC's capital and an equivalent share of voting rights. Other major shareholders are retailer group, Coop (10.4% of capital), and Swiss trade unions (6.1%). In accordance with a contractual agreement with Coop under which both parties have undertaken to vote in concert on all important issues, BKB holds more than 60% of BC's voting rights, therefore requiring BKB to fully consolidate BC.

BKB also has various smaller holdings in sector-supporting entities, including: Pfandbriefzentrale der Schweizer Kantonalbanken; Swisssanto, the sector's fund manager; RTC, the joint electronic data processing (EDP) center of nine cantonal banks; and Sourcag AG, a 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 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 2003, BKB has paid compensation on the guarantee (SFr4.3 million for fiscal year 2004), which depends on the regulatory capital requirement, provided the bank meets the 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 voting rights. Moreover, cantons are no longer obliged to guarantee their cantonal banks. At present, the canton has no intentions regarding fundamental changes in BKB's current legal status. Consequently, Standard & Poor's expects no change in the foreseeable future in either the bank's ownership or legal structure, or the cantonal guarantee.

### ***Strategy***

Standard & Poor's considers BKB's strategy to be consistent with the bank's medium-term goal to bring BC's profitability more into line with the good levels of the parent bank, which compare favorably within the peer group of rated cantonal banks. Based on its strong position in its home market, and building on its lending and mass-affluent banking expertise, BKB intends to raise revenues by pursuing cautious business growth and better exploiting its customer base, while maintaining strong efficiency and sound asset quality. While BC aims to intensify its customer relationships, drawing on the competencies of its parent, and to further streamline its activities toward a distribution bank, Standard & Poor's expects that closing the performance gap only via organic growth will be slow.

BC faces the challenge of enhancing its underdeveloped cross-selling capabilities against the background where most customers conduct their primary banking relationship with competitors. By improving the segmentation of its client base, and better meeting client demands through developing dedicated products for special target groups, BC is also aiming to increase its low nationwide market share. At the parent level, BKB largely focuses on SMEs in the corporate banking business to avoid concentration risks arising from exposures to the multinational companies domiciled in Basel. Mass-affluent banking is expected to continue to grow organically.

## ***Risk Management***

Standard & Poor's regards the BKB group's asset quality as solid. Cautious lending and conservative provisioning standards, along with the high collateralization of exposures and declining nonperforming loan exposures mitigates concerns arising from the regional concentration and the strong focus on real estate lending. Risk costs have not yet reached the extremely low levels seen at most other rated cantonal peers. However, due to lower provisioning needs for single-name exposures within the corporate loan portfolio mainly at the parent bank, the overall development has been positive in recent years. As the harmonization of underwriting criteria within the BKB group and resolute de-risking efforts at BC have made good progress, Standard & Poor's believes that BC has almost reached the asset quality level of its parent and therefore expects the improvement in the group's asset quality to be sustainable for the foreseeable future.

Due to BC'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 high wealth levels and a relatively diversified economy among SMEs, which are the main focus of BKB's corporate lending business. The majority of SME exposures are mortgage secured, thus mitigating concerns about their vulnerability to the relatively slow economic environment. The sectoral breakdown of the bank's portfolio reflects the largest share of loans to private individuals, which comprise about 50% of total lending. Exposure to SMEs, mainly real estate and manufacturing companies, play a more significant role when compared with other rated cantonal bank peers. Overall, real estate assets, whose values have developed relatively steadily in recent years, secure almost 80% of the group's total loan portfolio. At BC, the consistent de-risking approach has raised the ratio beyond the 90% mark, reflecting the significantly higher share of lower-risk residential mortgage exposures and the lower proportion of corporate exposures. The annual growth rates of the group's loan portfolio have slowed, reflecting BKB's already dominant market position in a saturated market, as well as the priority of qualitative over volume-driven growth across the group.

New loan-loss provisions (LLPs) at both BKB and BC continued to trend downward in 2004 and the first-half of 2005. The ratio of new LLPs-to-average customer loans on a group basis improved to 33 basis points (bps) at year-end 2004 from 39 bps in 2003, partly reflecting the absence of larger corporate failures. Standard & Poor's believes this level will be sustainable in coming years given the lower-risk culture that has been established across the group in the meantime. Problem loans are adequately provided for, and Standard & Poor's does not expect a significant change in coverage ratios.

The BKB group's liquidity position in general is 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 61% of liabilities at June 30, 2005. 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 adding 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. BC's risk management is not yet fully aligned and technically integrated into that of the parent, but 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 strict supervision with the help of an internal 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.

### ***Profitability***

Standard & Poor's regards the BKB group's profitability level as good, driven by the favorable cost efficiency at the parent bank, and as sustainable, given that it has been achieved without any sizable tailwind from the economic front or from real estate markets in recent years. Further improvements beyond the current ROE of 15% to a large extent will depend greatly on progress at BC, however. Standard & Poor's expects the performance gap of BC to narrow only gradually. To further improve the group's profitability, BC will have to significantly increase revenues and strengthen cross-selling capabilities, while maintaining cost-containment efforts and low provisioning needs.

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 addition to the more difficult environment for achieving additional income from treasury operations during the protracted low interest period, lower margins from growing competition on first ranking mortgages and lending to corporate customers with a favorable risk profile are adding to margin erosion. Standard & Poor's does not expect a short-term recovery in margins to be possible without compromising on its conservative underwriting and market risk standards.

If the significantly improved capital markets environment proves sustainable, commission income might increase its contribution to earnings in future years. In addition to mass-affluent banking in the city and surroundings of Basel, BKB is present at an additional private banking center in Zurich. Efforts to expand beyond its home region, for example to Geneva, where the language barrier proved to be difficult to overcome, have not yet lived up to expectations. Better segmentation to identify the most valuable customers and more standardized product offerings are necessary to raise the contribution of fee income at BC from its comparatively low basis to a sustainably higher level. BKB's low cost-to-income ratio to some extent also mirrors the limited size of its home market, Basel-City, and the above-average focus on corporate business with its generally better cost efficiency. Ongoing commitment to contain costs, including via cooperation agreements reached in the bank's EDP environment, should allow BKB to maintain its very favorable level, while BC is expected to increasingly make use of its catch-up potential regarding cost efficiency in the medium term. The ongoing alignment to a common set of risk and pricing standards within the group and adequate collateralization should contribute to a favorable development of LLPs, thus benefiting profits.

In fiscal-year 2003, BKB dissolved the Fund for General Banking Risk (FGBR) at the group level and since then has included it entirely under retained earnings. With regard to the quality of capital, this approach to show significantly higher net profits is considered as neutral, because in Standard & Poor's view the FGBR had the same risk-absorbing capacity as retained earnings.

## Capital

Standard & Poor's regards the BKB group's capitalization as sound, reflecting its low risk profile. Despite the expected significant rise in distribution in the future, Standard & Poor's does not believe that this will considerably constrain the group's ability to predominantly self-finance business growth through earnings retention. As BKB's capitalization is well in excess of regulatory minimum requirements, considerations on the part of the Swiss Federal Banking Commission to create a level playing field with nonguaranteed Swiss banks by phasing out the reduced capital requirement for guaranteed cantonal banks would have no material impact on BKB's capital strength.

Despite the 5% reduction in par value on the endowment and participation certificate capital both in 2004 and 2005, which provided holders of participation certificates with an additional tax-free distribution, capitalization continues to compare well by international standards. The ACE-to-risk-weighted-assets ratio increased to 12.3% at June 30, 2005, from 11% at year-end 2003. 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 17% of the ACE capital consists of minority interests—mainly from Bank Coop—this is not considered as a factor constraining financial flexibility given that the good profitability level allows the group to internally fund business growth.

Basel-City has approved endowment capital for BKB of SFr350 million, only SFr216 million of which is currently drawn. The bank would be able to draw on the difference at short notice if needed, increasing the bank's financial flexibility.

Table 1

<b>Balance Sheet Statistics</b>													
	—Year ended Dec. 31—						Breakdown as a % of assets (adj.)						
(Mil. SFr)	2005*	2004	2003	2002	2001	2000†	-	2005*	2004	2003	2002	2001	2000†
<b>Assets</b>													
Cash and money market instruments	186	229	192	365	919	1,181		0.75	0.96	0.85	1.60	4.14	5.63
Securities	2,329	2,300	2,219	1,786	1,909	2,072		9.39	9.68	9.77	7.80	8.60	9.88
Trading securities (marked to market)	729	583	635	349	367	403		2.94	2.46	2.80	1.53	1.65	1.92
Nontrading securities	1,600	1,717	1,583	1,436	1,543	1,669		6.45	7.23	6.97	6.28	6.95	7.96
Loans to banks (net)	2,437	2,130	1,759	1,899	2,036	621		9.83	8.97	7.75	8.30	9.17	2.96
Customer loans (gross)	18,275	17,740	17,013	17,103	16,009	15,772		73.70	74.70	74.91	74.76	72.12	75.16
Residential real estate loans	N.A.	11,696	10,939	10,358	9,553	8,972		N.A.	49.25	48.17	45.28	43.03	42.75
Total real estate loans	15,903	N.A.	N.A.	N.A.	N.A.	N.A.		64.14	N.A.	N.A.	N.A.	N.A.	N.A.
Commercial real estate loans	N.A.	3,644	3,395	3,540	3,353	2,843		N.A.	15.34	14.95	15.48	15.10	13.55
All other loans	2,372	2,401	2,680	3,204	3,103	3,957		9.57	10.11	11.80	14.00	13.98	18.86
Loan-loss reserves	N.A.	424	435	640	681	691		N.A.	1.79	1.92	2.80	3.07	3.29
Customer loans (net)	18,275	17,289	16,578	16,462	15,329	15,081		73.70	72.80	73.00	71.96	69.05	71.87
Earning assets	23,041	22,145	20,992	20,839	20,666	19,376		92.93	93.25	92.43	91.09	93.09	92.34

Table 1

<b>Balance Sheet Statistics</b>							<b>(cont.'d)</b>					
<b>(Mil. SFr)</b>	<b>—Year ended Dec. 31—</b>						<b>Breakdown as a % of assets (adj.)</b>					
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000¶</b>	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000¶</b>
Inv. in unconsolidated subsidiaries (financial co.)	87	85	78	91	87	69	0.35	0.36	0.35	0.40	0.39	0.33
Intangibles (nonservicing)	34	36	40	46	53	56	0.14	0.15	0.18	0.20	0.24	0.27
Fixed assets	181	178	270	286	290	302	0.73	0.75	1.19	1.25	1.30	1.44
Derivatives credit amount	1,019	808	736	936	N.A.	N.A.	4.11	3.40	3.24	4.09	N.A.	N.A.
Accrued receivables	117	95	103	116	118	103	0.47	0.40	0.45	0.51	0.53	0.49
All other assets	165	183	341	296	832	864	0.67	0.77	1.50	1.30	3.75	4.12
Total reported assets	24,829	23,785	22,751	22,924	22,253	21,041	100.14	100.15	100.18	100.20	100.24	100.27
Less nonservicing intangibles	(34)	(36)	(40)	(46)	(53)	(56)						
Adjusted assets	24,795	23,749	22,711	22,878	22,200	20,984	100.00	100.00	100.00	100.00	100.00	100.00
	<b>Breakdown as a % of liabilities + equity</b>											
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000¶</b>	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000¶</b>
<b>Liabilities</b>												
Total deposits	15,492	14,656	13,764	13,706	14,496	13,717	62.40	61.62	60.50	59.79	65.14	65.19
Noncore deposits	1,571	778	837	1,674	2,066	2,068	6.33	3.27	3.68	7.30	9.28	9.83
Core/customer deposits	13,922	13,878	12,927	12,032	12,430	11,649	56.07	58.35	56.82	52.49	55.86	55.37
Public sector or total pfandbriefe	N.A.	1,310	1,299	1,267	1,149	1,094	N.A.	5.51	5.71	5.53	5.16	5.20
Other borrowings	5,396	4,099	4,237	4,252	3,441	2,992	21.73	17.24	18.62	18.55	15.46	14.22
Other liabilities	1,832	1,693	1,595	1,995	1,577	1,774	7.38	7.12	7.01	8.70	7.09	8.43
Total liabilities	22,721	21,759	20,894	21,219	20,664	19,578	91.51	91.48	91.84	92.56	92.86	93.05
Total shareholders' equity	2,108	2,026	1,857	1,705	1,589	1,463	8.49	8.52	8.16	7.44	7.14	6.95
Minority interest-equity	338	324	328	333	326	287	1.36	1.36	1.44	1.45	1.47	1.36
Common shareholders' equity (reported)	1,770	1,702	1,529	1,371	1,263	1,176	7.13	7.16	6.72	5.98	5.67	5.59
Share capital and surplus	269	284	299	296	293	293	1.08	1.19	1.31	1.29	1.32	1.39
General banking risk reserves§	0	0	0	723	648	538	0.00	0.00	0.00	3.15	2.91	2.56
Reserves (incl. inflation revaluations)	1,411	1,217	1,055	330	299	308	5.68	5.12	4.64	1.44	1.34	1.46
Retained profits	91	201	174	23	23	37	0.36	0.84	0.77	0.10	0.10	0.17
Total liabilities and equity	24,829	23,785	22,751	22,924	22,253	21,041	100.00	100.00	100.00	100.00	100.00	100.00
Less revaluation reserve, intangibles	(34)	(36)	(40)	(46)	(53)	(56)						
Tangible total equity	2,075	1,990	1,816	1,659	1,536	1,406						
Tangible common equity	2,075	1,990	1,816	1,659	1,536	1,406						
Less equity in unconsolidated subsidiaries	(87)	(85)	(78)	(91)	(87)	(69)						
Adjusted common equity	1,988	1,905	1,738	1,568	1,449	1,338						

Table 1

<b>Balance Sheet Statistics</b>							<b>(cont.'d)</b>					
<b>(Mil. SFr)</b>	<b>—Year ended Dec. 31—</b>						<b>Breakdown as a % of assets (adj.)</b>					
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000¶</b>	<b>- 2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000¶</b>
Adjusted total equity	1,988	1,905	1,738	1,568	1,449	1,338						

\*Data as of June 30, 2005. 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

<b>Profit and Loss Statement Statistics</b>							<b>Adj. avg. assets (%)</b>						
<b>(Mil. SFr)</b>	<b>—Year ended Dec. 31—</b>						<b>Adj. avg. assets (%)</b>						
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000¶</b>	<b>- 2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000¶</b>	
<b>Profitability</b>													
Interest income		326	635	681	748	803	755	2.68	2.74	2.99	3.32	3.72	3.59
Interest expense		141	276	304	377	450	440	1.17	1.19	1.33	1.67	2.08	2.09
Net interest income		184	360	377	372	353	315	1.52	1.55	1.65	1.65	1.64	1.50
Operating noninterest income		154	278	269	248	242	321	1.27	1.20	1.18	1.10	1.12	1.52
Fees and commissions		96	170	156	142	156	200	0.79	0.73	0.69	0.63	0.72	0.95
Equity in earnings of unconsolidated subsidiaries		4	13	3	2	3	3	0.03	0.06	0.01	0.01	0.02	0.01
Trading gains		33	59	69	74	51	69	0.27	0.26	0.30	0.33	0.24	0.33
Other market-sensitive income		9	15	19	7	9	29	0.07	0.07	0.08	0.03	0.04	0.14
Other noninterest income		12	21	22	23	23	21	0.10	0.09	0.10	0.10	0.11	0.10
Operating revenues		338	638	646	620	595	636	2.79	2.75	2.84	2.75	2.76	3.02
Noninterest expenses		155	299	324	339	323	333	1.28	1.29	1.42	1.50	1.50	1.58
Personnel expenses		89	176	175	175	171	169	0.73	0.76	0.77	0.78	0.79	0.80
Other general and administrative expense		56	99	105	123	113	118	0.46	0.43	0.46	0.54	0.53	0.56
Depreciation and amortization-other		10	24	44	41	38	46	0.08	0.10	0.19	0.18	0.18	0.22
Net operating income before loss provisions		184	339	322	281	272	303	1.51	1.46	1.41	1.25	1.26	1.44
Credit-loss provisions (net new)		24	56	65	113	83	79	0.20	0.24	0.28	0.50	0.38	0.37
Net operating income after loss provisions		160	284	258	168	189	224	1.32	1.22	1.13	0.75	0.88	1.06
Nonrecurring/special income		1	13	2	14	12	224	0.01	0.06	0.01	0.06	0.05	1.06
General banking risk provisions§		0	0	0	75	79	109	0.00	0.00	0.00	0.33	0.37	0.52
Nonrecurring/special expense		0	0	1	5	21	229	0.00	0.00	0.00	0.02	0.10	1.09
Pretax profit		160	296	259	103	101	109	1.32	1.28	1.13	0.46	0.47	0.52
Tax expense/credit		9	18	13	14	13	15	0.08	0.08	0.06	0.06	0.06	0.07
Net income before minority interest		151	278	245	89	89	94	1.24	1.20	1.08	0.39	0.41	0.45
Net income before extraordinary items		151	278	245	89	89	94	1.24	1.20	1.08	0.39	0.41	0.45
Net income after extraordinary items		151	278	245	89	89	94	1.24	1.20	1.08	0.39	0.41	0.45
Core Earnings/assets (avg.adj.)		1.24	1.15	1.07	0.69	0.81	0.99						
		<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000¶</b>						
<b>Asset Quality</b>													
Nonperforming assets		N.A.	432	427	536	361	557						
Nonaccrual loans		N.A.	432	427	536	361	557						
Net charge-offs		N.A.	57	270	101	56	138						

Table 2

<b>Profit and Loss Statement Statistics</b>		<b>(cont. 'd)</b>										
<b>(Mil. SFr)</b>	<b>—Year ended Dec. 31—</b>						<b>Adj. avg. assets (%)</b>					
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000†</b>	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000†</b>
<b>Average balance sheet</b>												
Average customer loans	17,782	16,934	16,520	15,896	15,205	15,245						
Average earning assets	22,593	21,568	20,915	20,752	20,021	19,736						
Average assets	24,307	23,268	22,837	22,588	21,647	21,061						
Average total deposits	15,074	14,210	13,735	14,101	14,107	13,800						
Average interest-bearing liabilities	20,477	19,683	19,262	19,156	18,445	17,800						
Average common equity	1,736	1,615	1,450	1,317	1,219	1,092						
Average adjusted assets	24,272	23,230	22,794	22,539	21,592	21,033						
<b>Other data</b>												
Number of employees (end of period, actual)	N.A.	1,354	1,362	1,416	1,415	1,353						
Number of branches	N.A.	55	55	58	58	58						
Total assets under management	N.A.	2,315	2,233	2,097	2,270	2,359						
Assets under administration	N.A.	22,089	19,969	18,841	19,553	20,078						
Off-balance-sheet credit equivalents	N.A.	571	499	408	208	193						

\*Data as of June 30, 2005. 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 3

<b>Ratio Analysis</b>		<b>—Year ended Dec. 31—</b>					
		<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000†</b>
<b>ANNUAL GROWTH (%)</b>							
Customer loans (gross)		6.34	4.12	(0.52)	6.83	1.51	112.89
Loss reserves		N.A.	(2.47)	(32.05)	(5.97)	(1.47)	128.03
Adjusted assets		8.81	4.57	(0.73)	3.06	5.79	79.69
Customer deposits		0.64	7.36	7.43	(3.20)	6.70	95.13
Tangible common equity		8.49	9.56	9.49	8.01	9.22	39.34
Total equity		8.12	9.12	8.92	7.29	8.63	44.93
Operating revenues		6.03	(1.25)	4.32	4.07	(6.39)	87.91
Noninterest expense		3.54	(7.75)	(4.32)	4.81	(3.07)	76.51
Net operating income before provisions		8.22	5.29	14.73	3.19	(10.05)	102.28
Loan-loss provisions		(13.85)	(13.77)	(42.58)	35.79	5.14	520.47
Net operating income after provisions		12.55	10.07	53.01	(11.07)	(15.39)	63.49
Pretax profit		8.16	14.57	152.14	1.31	(7.03)	103.53
Net income		8.63	13.23	176.55	0.12	(5.81)	77.17
		<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000†</b>
<b>PROFITABILITY (%)</b>							
<b>Interest Margin Analysis</b>							
Net interest income (taxable equiv.)/avg. earning assets		1.63	1.67	1.80	1.79	1.76	1.60
Net interest spread		1.50	1.55	1.68	1.64	1.57	1.36
Interest income (taxable equiv.)/avg. earning assets		2.88	2.95	3.26	3.61	4.01	3.83

Table 3

<b>Ratio Analysis</b>	<b>(cont. 'd)</b>					
	<b>—Year ended Dec. 31—</b>					
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000†</b>
Interest income on loans/avg. total loans	2.99	3.11	3.45	3.91	4.53	4.26
Interest expense/avg. interest-bearing liabilities	1.38	1.40	1.58	1.97	2.44	2.47
<b>Revenue Analysis</b>						
Net interest income/revenues	54.42	56.38	58.34	59.99	59.33	49.60
Fee income/revenues	28.40	26.60	24.21	22.84	26.16	31.42
Market-sensitive income/revenues	12.53	11.67	13.63	13.11	10.09	15.33
Noninterest income/revenues	45.58	43.62	41.66	40.01	40.67	50.40
Personnel expense/revenues	26.29	27.63	27.05	28.27	28.78	26.50
Noninterest expense/revenues	45.73	46.83	50.13	54.65	54.27	52.41
Noninterest expense/revenues less investment gains	46.98	47.96	51.66	55.30	55.07	54.88
Expense less all amortizations/revenues	42.90	43.10	43.31	48.05	47.83	45.11
Net operating income before provision/revenues	54.27	53.17	49.87	45.35	45.73	47.59
Net operating income after provisions/revenues	47.18	44.45	39.88	27.19	31.82	35.20
New loan-loss provisions/revenues	7.09	8.73	9.99	18.16	13.92	12.39
Net nonrecurring/abnormal income/revenues	0.18	1.98	0.14	(10.63)	(14.81)	(18.07)
Pretax profit/revenues	47.36	46.43	40.02	16.56	17.01	17.13
Net income/revenues	44.60	43.53	37.97	14.32	14.89	14.80
Tax/pretax profit	5.82	6.23	5.12	13.50	12.48	13.61
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000†</b>
<b>Other Returns</b>						
Pretax profit/avg. risk assets (%)	2.00	1.87	1.64	0.66	0.68	0.96
Net income/avg. risk assets (%)	1.88	1.75	1.56	0.57	0.59	0.83
Revenues/avg. risk assets (%)	4.21	4.02	4.10	4.01	3.97	5.60
Net operating income before loss provisions/avg. risk assets (%)	2.29	2.14	2.05	1.82	1.82	2.66
Net operating income after loss provisions/avg. risk assets (%)	1.99	1.79	1.64	1.09	1.26	1.97
Net income before minority interest/avg. adjusted assets	1.24	1.20	1.08	0.39	0.41	0.45
Net income/employee (SFr)	N.A.	204,655	176,701	62,688	64,040	96,558
Personnel expense/employee (SFr)	N.A.	129,882	125,879	123,716	123,781	172,909
Personnel expense/branch (mil. SFr)	N.A.	3.21	3.09	3.02	2.95	4.38
Noninterest expense/branch (mil. SFr)	N.A.	5.43	5.73	5.84	5.57	8.66
Cash earnings/avg. tang. common equity (ROE) (%)	15.80	15.85	16.66	8.11	8.63	11.63
Core earnings/avg. tang. common equity (ROE) (%)	14.80	13.98	14.07	9.76	11.94	17.23
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000†</b>
<b>FUNDING AND LIQUIDITY (%)</b>						
Customer deposits/funding base	66.65	69.16	66.98	62.59	65.13	65.43
Total loans/customer deposits	148.77	142.99	145.22	157.92	145.17	140.72
Total loans/customer deposits + long-term funds	100.04	96.63	97.40	104.83	102.05	100.60
Customer loans (net)/assets (adj.)	73.70	72.80	73.00	71.96	69.05	71.87
	<b>2005*</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000†</b>
<b>CAPITALIZATION (%)</b>						
Adjusted common equity/adjusted assets	8.02	8.02	7.65	6.85	6.53	6.38

Table 3

<i>Ratio Analysis</i>	<i>(cont. 'd)</i>					
	<i>—Year ended Dec. 31—</i>					
	<i>2005*</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000†</i>
Adjusted common equity/risk assets	12.29	11.94	11.02	9.97	9.56	9.03
Adjusted common equity/customer loans (net)	10.88	11.02	10.48	9.52	9.45	8.87
Internal capital generation/prior year's equity	17.73	18.18	17.89	7.03	7.54	9.31
Tier 1 capital ratio	N.A.	12.63	11.27	10.05	9.60	8.54
Regulatory total capital ratio	N.A.	12.63	11.27	10.81	10.76	10.80
Adjusted total equity/adjusted assets	8.02	8.02	7.65	6.85	6.53	6.38
Adjusted total equity/risk assets	12.29	11.94	11.02	9.97	9.56	9.03
Adjusted total equity plus LLR (specific)/customer loans (gross)	10.88	13.15	12.77	12.91	13.30	12.86
	<i>2005*</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000†</i>
<b><i>ASSET QUALITY (%)</i></b>						
New loan-loss provisions/avg. customer loans (net)	0.27	0.33	0.39	0.71	0.54	0.52
Net charge-offs/avg. customer loans (net)	N.A.	0.33	1.63	0.63	0.37	0.91
Loan-loss reserves/customer loans (gross)	N.A.	2.40	2.56	3.74	4.25	4.38
Credit-loss reserves/risk assets	N.A.	2.66	2.76	4.07	4.49	4.66
Nonperforming assets (NPA)/customer loans	N.A.	2.44	2.51	3.14	2.25	3.53

\*Data as of June 30, 2005. 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. N.M.—Not meaningful.

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